SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2003

OR

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

For the transition period from to

Commission file number: 0-24206

PENN NATIONAL GAMING, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2234473**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

825 Berkshire Blvd., Suite 200
Wyomissing, PA 19610
(Address of principal executive offices)

610-373-2400
(Registrant's telephone number including area code:)

Not Applicable
(Former name, former address, and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No o

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☒ No o

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

Title	**Outstanding as of August 8, 2003**
Common Stock, par value $.01 per share	39,565,534 Shares

This report contains information that are not statements of historical fact, but merely reflect our intent, belief or expectations regarding the anticipated effect of events, circumstances and trends. Such statements should be considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Although we believe that our expectations are based on reasonable assumptions within the bounds of our knowledge of our business and operations, there can be no assurance that actual results will not differ materially from our expectations. Meaningful factors which could cause actual results to differ from expectations include, but are not limited to, risks related to the following: successful completion of capital projects; the activities of our competitors; the existence of attractive acquisition candidates; our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for our new businesses; the passage of state or federal legislation that would expand, restrict, further tax or prevent gaming operations in the jurisdictions in which we operate; our dependence on key personnel; our inability to realize the benefits of the integration of Hollywood Casino Corporation or any other acquired entity; the maintenance of agreements with our horsemen and pari-mutuel clerks; adverse business and economic conditions; the impact of terrorism and other international hostilities and other factors as discussed in our other filings with the United States Securities and Exchange Commission. We do not intend to update publicly any forward-looking statements except as required by law.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Penn National Gaming, Inc. and Subsidiaries
Consolidated Balance Sheet
(In thousands, except share and per share data)

	December 31, 2002	June 30, 2003 (unaudited)
Assets		
Current assets:		
Cash and cash equivalents	$ 55,121	$ 94,198
Receivables	19,418	27,604
Prepaid income taxes	6,415	—
Prepaid expenses and other current assets	9,080	29,467
Deferred income taxes	4,405	28,408
Total current assets	94,439	179,677
Net property and equipment, at cost	450,886	752,156
Other assets:		
Investment in and advances to unconsolidated affiliate	16,152	16,667
Note receivable	—	1,000
Excess of cost over fair market value of net assets acquired	160,506	628,333
Management service contract (net of amortization of $4,206 and $5,461, respectively)	21,539	20,283
Deferred financing costs, net	10,463	30,411
Miscellaneous	11,495	10,840
Total other assets	220,155	707,534
	$ 765,480	$ 1,639,367
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 18	$ 15,994
Accounts payable	19,450	33,596

Accrued Liabilities:		
Expenses	21,973	37,829
Interest	18,041	32,693
Salaries and wages	17,351	26,233
Gaming, pari-mutuel, property and other taxes	9,282	25,283
Income taxes payable	—	11,102
Other current liabilities	6,867	10,282
Total current liabilities	92,982	193,012
Long term liabilities:		
Long-term debt, net of current maturities	375,000	1,133,530
Deferred income taxes	50,498	36,139
Other non-current liabilities	—	351
Total long-term liabilities	425,498	1,170,020
Commitments and contingencies		
Shareholders' 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 and 40,399,184, respectively	403	407
Treasury stock, at cost 849,400 shares	(2,379)	(2,379)
Additional paid-in capital	154,049	156,334
Retained earnings	96,584	125,244
Accumulated other comprehensive loss	(1,657)	(3,271)
Total shareholders' equity	247,000	276,335
	$ 765,480	$ 1,639,367

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

	Six Months Ended June 30,	
	2002	2003
Revenues		
Gaming	$ 233,019	$ 456,859
Racing	59,135	56,380
Management service fee	5,077	5,864
Food, beverage and other revenue	33,853	62,486
Gross revenues	331,084	581,589
Less: Promotional allowances.	(13,649)	(31,663)
Net revenues	317,435	549,926
Operating Expenses		
Gaming	130,542	247,637
Racing	43,051	40,921
Food, beverage and other expenses	20,199	44,965
General and administrative	55,715	94,610
Depreciation and amortization	16,454	30,149
Total operating expenses	265,961	458,282
Income from operations	51,474	91,644
Other income (expenses)		
Interest expense	(20,747)	(44,238)
Interest income	851	917
Earnings from joint venture	1,325	1,305
Other	(97)	(1,442)
Loss on change in fair values of interest rate swaps	(3,015)	(527)
Loss on early extinguishment of debt	(7,924)	(1,310)
Total other expenses	(29,607)	(45,295)
Income before income taxes	21,867	46,349
Taxes on income	8,569	17,689
Net income	$ 13,298	$ 28,660
Per share data		
Basic		
Net income	$ .37	$ .73

Diluted		
Net income	$ .35	$ .71
Weighted shares outstanding		
Basic	36,384	39,320
Diluted	37,877	40,413

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Income
(In thousands, except per share data)
(Unaudited)

	Three Months Ended June 30,	
	2002	2003
Revenues		
Gaming	$ 119,480	$ 273,006
Racing	31,196	30,659
Management service fee	2,678	3,165
Food, beverage and other revenue	17,637	38,105
Gross revenues	170,991	344,935
Less: Promotional allowances.	(6,894)	(19,967)
Net revenues	164,097	324,968
Operating Expenses		
Gaming	66,587	148,213
Racing	22,822	22,138
Food, beverage and other expenses	10,849	28,610
General and administrative	28,476	55,844
Depreciation and amortization	8,388	17,320
Total operating expenses	137,122	272,125
Income from operations	26,975	52,843
Other income (expenses)		
Interest expense	(9,955)	(27,886)
Interest income	392	482
Earnings from joint venture	550	719
Other	(80)	(1,340)
Loss on change in fair values of interest rate swaps	(3,015)	—
Total other expenses	(12,108)	(28,025)
Income before income taxes	14,867	24,818
Taxes on income	5,705	9,343
Net income	$ 9,162	$ 15,475
Per share data		
Basic	$ .24	$ .39
Diluted	$ .23	$ .38
Weighted shares outstanding		
Basic	38,710	39,343
Diluted	40,028	40,478

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity and Comprehensive Income
(Unaudited)
(In thousands, except share data)

	Common Stock		Treasury	Additional Paid-In	Retained	Accumulated Other Comprehensive Income		Comprehensive
	Shares	Amount	Stock	Capital	Earnings	(Loss)	Total	Income
Balance,	40,033,684	$ 403	$ (2,379)	$ 154,049	$ 96,584	$ (1,657)	$ 247,000	$ 31,791

December 31, 2002								
Exercise of stock options including tax benefit of $899	365,500	4	—	2,285	—	—	2,289	
Change in fair value of interest rate swap contracts, net of income tax benefit of $1,635	—	—	—	—	—	(2,669)	(2,669)	(2,669)
Amortization of interest rate swap agreement, net of income taxes of $417	—	—	—	—	—	774	774	—
Foreign currency translation adjustment	—	—	—	—	—	281	281	281
Net income for the period	—	—	—	—	28,660	—	28,660	28,660
Balance, June 30, 2003	40,399,184	$ 407	$ (2,379)	$ 156,334	$ 125,244	$ (3,271)	$ 276,335	$ 28,561

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2002	2003
Cash flows from operating activities		
Net income	$ 13,298	$ 28,660
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	16,454	30,149
Amortization of deferred financing costs charged to interest expense	1,082	1,876
Amortization of the unrealized loss on interest rate swap contracts charged to interest expense	482	774
Loss on disposal of fixed assets	360	1,250
Earnings from joint venture	(1,325)	(1,305)
Loss relating to early extinguishment of debt	5,906	1,310
Deferred income taxes	1,796	4,494
Accelerated vesting of stock options	434	—
Tax benefit from stock options exercised	2,740	899
Loss on change in value of interest rate swap contracts	3,015	527
Decrease (increase), net of businesses acquired in:		
Receivables	3,339	(2,811)
Prepaid income taxes	(1,700)	6,415
Prepaid expenses and other current assets	(154)	(10,631)
Miscellaneous other assets	(570)	10,312
Increase (decrease), net of businesses acquired in:		
Accounts payable	87	1,939
Accrued liabilities	1,883	(11,168)
Gaming, pari-mutuel, property and other taxes	(1,164)	2,919
Income taxes payable	(180)	11,102
Other current and non-current liabilities	(94)	(1,915)
Net cash provided by operating activities	45,689	74,796
Cash flows from investing activities		
Expenditures for property and equipment	(52,967)	(32,461)
Payments to terminate interest rate swap contract	—	(1,902)
Proceeds from sale of property and equipment	239	508
Acquisition of business, net of cash acquired	(7,114)	(264,081)
Cash in escrow	500	1,000
Distributions from joint venture	—	790
Net cash (used) in investing activities	(59,342)	(296,146)
Cash flows from financing activities		
Proceeds from exercise of options and warrants	10,072	1,390
Proceeds from sale of common stock	96,041	—
Proceeds from credit facility	179,252	700,000

Principal payments on long-term debt	(258,891)	(422,223)
(Increase) in unamortized financing cost	(3,266)	(19,021)
Net cash provided by financing activities	23,208	260,146
Effect of exchange rate fluctuations on cash	87	281
Net increase in cash and cash equivalents	9,642	39,077
Cash and cash equivalents, at beginning of period	38,378	55,121
Cash and cash equivalents, at end of period	$ 48,020	$ 94,198

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

1. Basis of Presentation

The consolidated financial statements are unaudited and include the accounts of Penn National Gaming, Inc. (“Penn”) and its subsidiaries (collectively, the “Company”). Investment in and advances to an unconsolidated affiliate that is 50% owned are accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation.

In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made that are necessary to present fairly the financial position of the Company as of June 30, 2003 and the results of its operations for the three and six month periods ended June 30, 2002 and 2003. The results of operations experienced for the three and six month periods ended June 30, 2003 are not necessarily indicative of the results to be experienced for the fiscal year ended December 31, 2003.

The statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The accompanying notes should therefore be read in conjunction with the Company’s December 31, 2002 annual consolidated financial statements.

2. Hollywood Casino Corporation

On March 3, 2003, the Company completed its acquisition of Hollywood Casino Corporation and acquired 100 percent of its outstanding common stock for approximately $397.9 million in cash, including acquisition costs of $50.8 million. The results of operations for Hollywood CasinoÒ are included in the consolidated financial statements from March 1, 2003. Hollywood Casino Corporation owns and operates distinctively themed casino entertainment facilities in major gaming markets in Aurora, Illinois, Tunica, Mississippi and Shreveport, Louisiana. As a result of the acquisition, the Company believes it is the seventh largest gaming company in the United States (based on gaming revenues). The acquisition expanded the Company’s customer base and provided increased geographic diversity. Under the terms of the purchase agreement, a wholly-owned subsidiary of the Company merged with and into Hollywood Casino, and Hollywood Casino stockholders received cash in the amount of $12.75 per share at closing or $328.1 million and holders of Hollywood Casino stock options received $19.0 million (representing the aggregate difference between $12.75 per share and their option exercise prices).

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

At March 3, 2003
(In thousands)

Current assets	$ 167,049
Property and equipment	299,519
Other assets, including deferred income taxes of $19,511	42,215
Goodwill	467,462
Total assets acquired	976,245
Current liabilities	(72,157)
Other liabilities	(8,466)
Debt, current and noncurrent	(497,674)
Total liabilities assumed	(578,297)
Net assets acquired	$ 397,948

3. Revenue Recognition

In accordance with gaming industry practice, the Company recognizes casino revenues as the net of gaming wins less losses. Net revenues exclude the retail value of complimentary rooms, and food and beverage furnished gratuitously to customers. These amounts, which are included in promotional allowances, were as follows:

	Three months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003
	(In thousands)		(In thousands)	
Rooms	$ 488	$ 2,941	$ 854	$ 4,276

Food and beverage	5,800	15,499	11,598	24,928
Other	606	1,527	1,197	2,459
Total promotional allowances	$ 6,894	$ 19,967	$ 13,649	$ 31,663

The estimated cost of providing such complimentary services, which is included in gaming expenses, was as follows:

	Three months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003
	(In thousands)		(In thousands)	
Rooms	$ 294	$ 2,182	$ 533	$ 3,245
Food and beverage	3,179	12,032	6,287	18,346
Other	373	1,231	689	1,921
Total cost of complimentary services	$ 3,846	$ 15,445	$ 7,509	$ 23,512

Racing revenues include the Company's share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, the Company's share of wagering from import and export simulcasting, as well as its share of wagering from its OTWs.

Revenues from the management service contract the Company has with Casino Rama (the "Casino Rama Management Contract") are based upon contractual terms and are recognized as those services are performed.

4. Earnings Per Share

The weighted average number of shares of common stock and common stock equivalents used in the computation of basic and diluted earnings per share are set forth in the table below. For the three and six month periods ended June 30, 2002 and 2003, the effect of all outstanding stock options have been included in the calculation of diluted earnings per share.

	Three months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003
	(In thousands)		(In thousands)	
Weighted average number of shares outstanding-Basic earnings per share	38,710	39,343	36,384	39,320
Dilutive effect of stock options	1,318	1,135	1,493	1,093
Weighted average number of shares outstanding-Diluted earnings per share	40,028	40,478	37,877	40,413

5. Stock-Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to the fair market value of the shares at the date of grant. The Company accounts for stock option grants using the intrinsic-value method in accordance with Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations. Under the intrinsic-value method, because the exercise price of the Company's employee stock options is more than or equals the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company accounts for the plan under the recognition and measurement principles of APB 25 and related Interpretations. No stock-based employee compensation cost is reflected in net income for options granted since all options granted under the plan had an exercise price equal to the fair market value of the underlying common stock on the date of grant. However, there are situations that may occur, such as the accelerated vesting of options, that require a current charge to income. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Financial Accounting Standards Board Statement No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123") to stock-based employee compensation.

	Three months ended June 30,		Six months ended June 30,	
	2002	2003	2002	2003
	(In thousands)		(In thousands)	
Net income, as reported	$ 9,162	$ 15,475	$ 13,298	$ 28,660
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	301	—	434	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	396	656	780	1,217
Pro forma net income	$ 9,067	$ 14,819	$ 12,952	$ 27,443
Earnings per share:				
Basic-as reported	$ .24	$ .39	$ .37	$ .73
Basic-pro forma	$ .23	$ .38	$ .36	$ .70
Diluted-as reported	$ .23	$ .38	$ .35	$ .71
Diluted-pro forma	$ .23	$ .37	$ .34	$ .68

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants:

	June 30	
	2002	2003
Risk-free interest rate	3.0%	3.0%
Volatility	50.0%	50.0%
Dividend yield	0.0%	0.0%
Expected life (years)	5	5

The effects of applying SFAS 123 in the above pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to 1995. Additional awards in future years are anticipated.

At the annual meeting shareholders held on May 22, 2003, the Company's Board of Directors and shareholders adopted and approved the 2003 Long Term Incentive Compensation Plan. The plan is effective June 1, 2003.

6. Certain Risks and Uncertainties

The Company's operations are dependent on its continued licensing by state gaming and racing commissions. The loss of a license, in any jurisdiction in which the Company operates, could have a material adverse affect on future results of operations.

The Company is dependent on each gaming and racing property's local market for a significant number of its patrons and revenues. If economic conditions in these areas deteriorate or additional gaming or racing licenses are awarded in these markets, the Company's results of operations could be adversely affected.

The Company is also dependant upon a stable gaming and admission tax structure in the states that it operates in. Any change in the tax structure could have a material adverse affect on future results of operations.

7. Property and Equipment

Property and equipment consist of the following:

	December 31, 2002	June 30, 2003
	(In thousands)	
Land and improvements	$ 88,885	$ 121,541
Building and improvements	289,782	515,858
Furniture, fixtures, and equipment	143,760	194,755
Transportation equipment	1,127	1,099
Leasehold improvements	14,657	15,912
Construction in progress	3,880	20,802
Total property and equipment	542,091	869,967
Less: accumulated depreciation and amortization	91,205	117,811
Property and equipment, net	$ 450,886	$ 752,156

Interest capitalized in connection with major construction projects was $1.6 million and $0.3 million for the year ended December 31, 2002 and for the six months ended June 30, 2003, respectively. Depreciation and amortization expense, for property and equipment, totaled $15.2 million and $28.9 million for the six months ended June 30, 2002 and June 30, 2003, respectively.

8. Supplemental Disclosures of Cash Flow Information

	Six months ended June 30,	
	2002	2003
	(In thousands)	
Cash payments of interest	$ 17,495	$ 21,109
Cash payments of income taxes	7,097	—
Hollywood Casino Corporation Acquisition:		
Cash Paid	—	397,948
Fair value of assets acquired, including cash acquired of $133,867	—	976,245
Fair value of liabilities assumed	—	578,297

9. Long-term Debt

Long-term debt is as follows:

	June 30,	
	2002	2003
	(In thousands)	
$800 million senior secured credit facility	$ —	$ 638,000
$200 million 11 1/8% senior subordinated notes. These notes are general unsecured obligations of the Company.	200,000	200,000
$175 million 8 7/8% senior subordinated notes. These notes are general unsecured obligations of the	175,000	175,000

Company.		
Hollywood Casino Shreveport non-recourse debt		
13% Shreveport First Mortgage Notes	—	150,000
13% Shreveport Senior Secured Notes	—	39,788
Less: Bond valuation allowance	—	(69,544)
Capital leases	—	16,262
Other notes payable	18	18
	375,018	1,149,524
Less: current maturities	18	15,994
	$ 375,000	$ 1,133,530

The following is a schedule of future minimum repayments of long-term debt as of June 30, 2003 (in thousands):

2003 (6 months)	$ 8,282
2004	16,070
2005	16,212
2006	136,593
2007	589,421
2008	205,246
Thereafter	177,700
Total minimum payments	$ 1,149,524

$800 Million Senior Secured Credit Facility

On March 3, 2003, the Company entered into an $800 million senior secured credit facility with a syndicate of lenders that replaced the Company's $350 million credit facility.

The credit facility is comprised of a $100 million revolving credit facility maturing on September 1, 2007, a $100 million Term A facility loan maturing on September 1, 2007 and a $600 million Term B facility loan maturing on September 1, 2007. The maturity dates will be extended to the fifth anniversary dates for the revolving and Term A loans and the sixth anniversary date for the Term B loan if the outstanding 11 1/8% Senior Subordinated Notes due 2008 are refinanced in full to a date that is at least seven years and 181 days after March 3, 2003. Up to $20 million of the revolving credit facility may be used for the issuance of standby letters of credit. In addition, up to an additional $20 million of the revolving credit facility may be used for short-term credit to be provided to the Company on a same-day basis. On March 3, 2003 the Company borrowed the entire Term A and Term B term loans to complete the purchase of Hollywood Casino Corporation and to call Hollywood Casino Corporation's $360 million senior secured notes.

At the Company's option, the revolving and the Term A credit facilities may bear interest at (1) the highest of ½ of 1% in excess of the federal funds effective rate or the base rate of interest that the Administrative Agent announces from time to time as its prime lending rate plus an applicable margin of up to 2.25%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 3.25%, in either case, with the applicable rate based on the Company's total leverage. The Term B credit facility may bear interest at (1) the highest of ½ of 1% in excess of the federal funds effective rate or the base rate of interest that the Administrative Agent announces from time to time as its prime lending rate plus an applicable margin of up to 3.00%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 4.00%, in either case, with the applicable rate based on the Company's total leverage.

At June 30, 2003, the Company had an outstanding balance of $ 638.0 million on term loans A and B and $92.6 million available to borrow under the revolving credit facility after giving effect to outstanding letters of credit of $7.4 million.

The terms of the Company's $800 million senior secured credit facility require the Company to satisfy certain financial covenants, including, but not limited to, leverage and fixed charges coverage ratios, and limitations on indebtedness, liens, investments and capital expenditures. At June 30, 2003, the Company was in compliance with all required financial covenants.

The $800 million senior secured credit facility is secured by substantially all of the assets of the Company, except for the assets of Hollywood Casino Shreveport, which serve as collateral for the notes of Hollywood Casino Shreveport. See "Hollywood Casino Shreveport Notes" below.

Hollywood Casino Corporation Notes and Cash in Escrow

On March 3, 2003, the date of closing for the Hollywood Casino Corporation (HWD:AMEX) acquisition, Hollywood Casino had outstanding long-term indebtedness of $310 million of 11.25% senior secured notes due 2007 and $50 million of floating rate senior secured notes, due 2006. As part of the closing, the Company placed $401 million in an escrow account to call the notes on May 1, 2003. The $401 million consisted of note principal of $360 million, accrued interest of $19 million and a note call premium of $22 million. This transaction was completed and the notes were retired on May 1, 2003.

Hollywood Casino - Aurora Capital Leases

Hollywood Casino-Aurora ("HCA") leases two parking garages under capital lease agreements. The first lease has an initial 30-year term ending in June 2023 with the right to extend the term under renewal options for an additional 67 years. Rental payments through June 2012 equal the City of Aurora's financing costs related to its general obligation bond issue used to finance the construction of the parking garage. The general obligation bond issue has an annual interest rate of approximately 5.6%. The second lease has an initial term ending in September 2026 with the right to extend the lease for up to 20 additional years. Rental payments during the first 15 years equal the lessor's debt service costs related to the industrial revenue bond issue used to finance a portion of the construction costs of the parking garage. The remaining construction costs were funded by HCA. In addition, HCA currently pays base rent equal to $17,000 per month for improvements made to the lessor's North Island Center banquet and meeting facilities. HCA is also responsible for additional

rent, consisting of costs such as maintenance costs, insurance premiums and utilities, arising out of its operation of both parking garages. At June 30, 2003, HCA had a long-term capital lease obligation of $16.3 million.

Hollywood Casino Shreveport Notes

Hollywood Casino Shreveport and Shreveport Capital Corporation are co-issuers of $150 million aggregate principal amount of 13% first mortgage notes due 2006 and $39 million aggregate principal amount of 13% senior secured notes due 2006 (the "Hollywood Shreveport Notes"). Hollywood Casino Shreveport is a general partnership that owns the casino operations. Shreveport Capital Corporation is a wholly-owned subsidiary of Hollywood Casino Shreveport formed solely for the purpose of being a co-issuer of the Hollywood Shreveport Notes.

The Hollywood Shreveport Notes are non-recourse to Penn and its subsidiaries (other than Hollywood Casino Shreveport, Shreveport Capital Corporation, HCS I, Inc., HCS II, Inc. and HWCC-Louisiana, Inc., collectively the "Shreveport Entities") and are secured by substantially all of the assets of the casino, and the partnership interests held by HCS I, Inc. and HCS II, Inc. and the stock held by HWCC-Louisiana, Inc.

The indentures governing the Hollywood Shreveport Notes require the issuers to make an offer to purchase the Hollywood Shreveport Notes at 101% of the principal amount thereof within ten days of the occurrence of a "Change of Control" as defined in the indentures. A "Change of Control" was deemed to have occurred under the indentures on March 3, 2003 as a result of the consummation of the merger of our wholly-owned subsidiary with and into Hollywood Casino Corporation. Hollywood Casino Shreveport determined that it did not have the liquidity to repurchase the Hollywood Shreveport Notes at 101% of their principal amount and, accordingly, could not make an offer to purchase the Hollywood Shreveport Notes as required under the indentures. As a result, a valuation allowance in the amount of $69.6 million was established to reduce the carrying amount to management's estimate of the fair value of the Hollywood Shreveport Notes, which is based on the fair value of the underlying collateral.

On March 14, 2003, Hollywood Casino Shreveport and Shreveport Capital Corporation were notified by an ad hoc committee of holders of the Hollywood Shreveport Notes that they had 60 days from receipt of the notice to cure the failure to offer to purchase the Hollywood Shreveport Notes or an event of default would have occurred under the indentures. Neither Hollywood Casino Shreveport nor Shreveport Capital Corporation made a Change of Control offer to purchase the Hollywood Shreveport Notes within the 60 days. There can be no assurance that the holders of the Hollywood Shreveport Notes will not pursue all rights and remedies that they may have under the indentures as a result of the event of default. Further, any action on the part of the noteholders may require the Shreveport Entities to seek the protection of the bankruptcy laws or other similar remedies. On August 1, 2003, interest payments of $12.3 million became due on the Hollywood Shreveport Notes. The managing general partner of Hollywood Casino Shreveport did not make that payment.

Interest Rate Swap Contracts

The Company has a policy designed to manage interest rate risk associated with its current and anticipated future borrowings. This policy enables the Company to use any combination of interest rate swaps, futures, options, caps and similar instruments. To the extent the Company employs such financial instruments pursuant to this policy, they are generally accounted for as hedging instruments. In order to qualify for hedge accounting, the underlying hedged item must expose the Company to risks associated with market fluctuations and the financial instrument used must be designated as a hedge and must reduce the Company's exposure to market fluctuations throughout the hedge period. If these criteria are not met, a change in the market value of the financial instrument is recognized as a gain or loss in the period of change. Net settlements pursuant to the financial instrument are included as interest expense in the period.

On March 27, 2003, the Company entered into interest rate swap agreements with a total notional amount of $375.0 million in accordance with the terms of the $800 million senior secured credit facility. There are three two-year swap contracts totaling $175 million with an effective date of March 27, 2003 and a termination date of March 27, 2005. Under these contracts, the Company pays a fixed rate of 1.92% and receives a variable rate based on the 90-day LIBOR rate. The Company also entered into three three-year swap contracts totaling $200 million with a termination date of March 27, 2006. Under these contracts, the Company pays fixed rates of 2.48% to 2.49% against a variable rate based on the 90-day LIBOR rate. The difference between amounts received and amounts paid under such agreements, as well as any costs or fees, is recorded as reduction of, or addition to, interest expense as incurred over the life of the swap. At June 30, 2003, the 90-day LIBOR rate was 1.0%.

The Company accounts for interest rate swaps as cash flow hedges whereby the fair value of the interest rate swap is reflected in other current liabilities in the accompanying consolidated balance sheet with the offset, net of income taxes and any hedge ineffectiveness, recorded as accumulated other comprehensive income (loss). The fair value of the interest rate swaps were not material as of June 30, 2003. Amounts in accumulated other comprehensive income are amortized as a yield adjustment of interest expense over the term of the related swaps, the term of the related hedge. Such amounts were not material during the year ended December 31, 2002 and the three month and six month periods ended June 30, 2003. Over the next twelve months, approximately $1.3 million, related to interest rate swaps existing at January 1, 2003, will be reclassified to income.

Termination of Interest Rate Swap Agreement

On March 3, 2003, in conjunction with the refinancing of the credit facility, the Company terminated its $36 million notional amount interest rate swap originally scheduled to expire in June 2004. The Company paid $1.9 million to terminate the swap agreement.

10. Segment Information

The Company currently operates in two segments: gaming and racing. The accounting policies for each segment are the same as those described in the "Summary of Significant Accounting Policies" section of the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

The table below presents information about reported segments (in thousands):

	Gaming(1)	Racing	Eliminations	Total
As of and for the six months ended June 30, 2003				
Revenue	$ 499,684	51,061	$ (819)(2)	$ 549,926
Income from operations	85,747	5,897		91,644
Depreciation and Amortization	28,413	1,736		30,149

Total Assets	2,729,745	99,852	(1,190,230)(3)	1,639,367
As of and for the six months ended June 30, 2002				
Revenue	$ 265,147	$ 53,246	$ (958)(2)	$ 317,435
Income from operations	44,945	6,529		51,474
Depreciation and Amortization	14,643	1,811		16,454
Total Assets	1,143,944	96,440	(509,591)(3)	730,793

(1) Reflects results of Bullwhackers Casino since the April 25, 2002 acquisition and Hollywood Casino since the March 3, 2003 acquisition, which the Company accounts for as of March 1, 2003.
(2) Primarily reflects intercompany transactions related to import/export simulcasting.
(3) Primarily reflects elimination of intercompany investments, receivables and payables.

11. Litigation

Penn and its subsidiaries are 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 consolidated financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

The following proceedings could result in costs, settlements or damages that materially impact the Company's consolidated financial condition or operating results. In each instance, the Company believes that it has meritorious defenses and/or counter-claims and intends to vigorously defend itself.

In August 2002, the lessor of the property on which Casino Rouge conducts a significant portion of its dockside operations filed a lawsuit against the Company in the 19th Judicial District Court for the Parish of East Baton Rouge, Louisiana seeking a declaratory judgment that the plaintiff is entitled to terminate the lease and/or void the Company's option to renew the lease due to certain alleged defaults by the Company or its predecessors-in-interest. The current term of the Company's lease expires in January 2004. The case is in the discovery phase at this time. A hearing date has been set for September, 2003.

In October 2002, in response to the Company's plans to relocate the river barge underlying the Boomtown Biloxi Casino to an adjacent property, the lessor of the property on which the Boomtown Biloxi Casino conducts a portion of its dockside operations, filed a lawsuit against the Company in the U.S. District Court for the Southern District of Mississippi seeking a declaratory judgment that (i) the Company must use the leased premises for a gaming use or, in the alternative, (ii) after the move, the Company will remain obligated to make the revenue based rent payments to plaintiff set forth in the lease. The plaintiff filed this suit immediately after the Mississippi Gaming Commission approved the Company's request to relocate the barge. Since such approval, the Mississippi Department of Marine Resources and the U.S. Army Corps of Engineers have also approved our plan to relocate the barge. The case is in the discovery phase at this time. A trial date has been set for February, 2004.

In April 2003, Planet Hollywood (Region IV) Inc. and Planet Hollywood International, Inc. filed a lawsuit against Hollywood Casino Corporation and certain of its subsidiaries in the U.S. District Court for the Northern District of Illinois seeking a declaratory judgment (i) that Planet Hollywood should be permitted to use certain of its restaurant-related trademarks in connection with, among other things, the potential future operation of a casino, (ii) that Hollywood Casino should be barred from asserting claims that such use by Planet Hollywood would constitute infringement or unfair competition by Planet Hollywood and (iii) that certain trademark registrations owned by Hollywood Casino should be cancelled. The trademark "Hollywood Casino" has been in use since 1993 and has been registered with the U.S. Patent and Trademark Office since 1994. The parties are currently filing and responding to preliminary pleadings. Discovery has not yet commenced.

12. Subsidiary Guarantors

Under the terms of the $800 million senior secured credit facility, all of the Company's domestic subsidiaries except for Onward Development, LLC, an inactive subsidiary, Tennessee Downs, Inc., an inactive subsidiary, HWCC-Louisiana, Inc., HWCC-Shreveport, Inc. HCS I, Inc, HCS II Inc., HCS-Golf Course, LLC, Hollywood Casino Shreveport and Shreveport Capital Corporation and their respective subsidiaries, if any, ("Subsidiary Non-Guarantors"), are guarantors under the agreement. Summarized financial information as of and for the six months ended June 30, 2003 for Penn, the Subsidiary Guarantors and Subsidiary Non-guarantors is as follows:

	Penn	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
As of June 30, 2003					
Condensed Consolidating Balance Sheet (In thousands)					
Current assets	$ 8,421	$ 137,002	$ 35,446	$ (1,192)	$ 179,677
Net property and equipment, at cost	1,784	635,020	115,352	—	752,156
Other assets	1,212,475	679,287	4,814	(1,189,042)	707,534
Total	$ 1,222,680	$ 1,451,309	$ 155,612	$ (1,190,234)	$ 1,639,367
Current liabilities	$ 50,789	$ 107,709	$ 35,698	$ (1,196)	$ 193,000
Long-term liabilities	1,001,204	1,204,054	120,605	(1,155,843)	1,170,020
Shareholder's equity	170,687	139,546	(691)	(33,195)	276,347
Total	$ 1,222,680	$ 1,451,309	$ 155,612	$ (1,190,234)	$ 1,639,367

Six Months ended June 30, 2003					
Condensed Consolidating Statement of Income (In thousands)					
Total revenues	$ —	$ 498,411	$ 52,334	$ (819)	$ 549,926
Total operating expenses	9,572	400,641	48,888	(819)	458,282
Income from operations	(9,572)	97,770	3,446	—	91,644
Other income (expense)	29,916	(64,454)	(10,757)	—	(45,295)
Income before income taxes	20,344	33,316	(7,311)	—	46,349
Taxes on income	7,722	12,502	(2,807)	272	17,689
Net income (loss)	$ 12,622	$ 20,814	$ (4,504)	$ (272)	$ 28,660
Three Months ended June 30, 2003					
Condensed Consolidating Statement of Income (In thousands)					
Total revenues	$ —	$ 288,516	$ 36,924	$ (472)	$ 324,968
Total operating expenses	4,973	231,925	35,699	(472)	272,125
Income from operations	(4,973)	56,591	1,225	—	52,843
Other income (expense)	19,991	(39,934)	(8,082)	—	(28,025)
Income before income taxes	15,018	16,657	(6,857)	—	24,818
Taxes on income	5,496	6,210	(2,635)	272	9,343
Net income (loss)	$ 9,522	$ 10,447	$ (4,222)	$ (272)	$ 15,475
Condensed Consolidating Statement of Cash Flows (In thousands)					
Net cash provided by operating activities	$ 37,511	$ 28,964	$ 8,321	$ —	$ 74,796
Net cash provided by (used in) investing activities	(659,283)	363,206	(69)	—	(296,146)
Net cash provided by (used in) financing activities	620,369	(359,776)	(447)	—	260,146
Effect of exchange rate fluctuations on cash	125	156	—	—	281
Net increase (decrease) in cash and cash equivalents	(1,278)	32,550	7,805	—	39,077
Cash and cash equivalents at beginning of period	3,339	38,430	13,352	—	55,121
Cash and cash equivalents at end of period	$ 2,061	$ 70,980	$ 21,157	$ —	$ 94,198

13. Unaudited Pro Forma Financial Information

Unaudited pro forma financial information for the three and six months ended June 30, 2002 and 2003, as though the Hollywood Casino acquisition had occurred on January 1, 2002, is as follows:

	Three months ended June 30,		Six months ended June30,	
	2002	2003	2002	2003
	(In thousands)		(In thousands)	
Revenues	$ 287,724	$ 324,968	$ 564,246	$ 631,173
Net income	$ 13,022	$ 15,475	$ 26,032	$ 30,155
Net income per common share				
Basic	$ 0.34	$ 0.39	$ 0.72	$ 0.77
Diluted	$ 0.33	$ 0.38	$ 0.69	$ 0.75
Weighted shares outstanding				
Basic	38,710	39,343	36,384	39,320
Diluted	40,028	40,478	37,877	40,413

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

Overview

The following discussion of our financial condition and results of operations should be read in conjunction with our Consolidated Financial Statements and the related notes thereto included elsewhere in this report and in our Annual Report on Form 10-K for the year ended December 31, 2002.

We derive substantially all of our revenues from gaming and racing operations. Since September 1997, our gaming revenues have accounted for an increasingly larger share of our total revenues. Our acquisition of Hollywood Casino Corporation (HWD:AMEX) in the first quarter of 2003 has impacted and will continue to impact our revenue mix between gaming and pari-mutuel revenues on a prospective basis. Our pari-mutuel revenues have been derived from wagering on our live races, wagering on import simulcasts at our racetracks and OTWs and through telephone account wagering, and fees from wagering on export simulcasting of our races at out-of-state locations. Our other revenues have been derived from admissions, program sales, food and beverage sales, concessions and certain other ancillary activities.

Critical Accounting Policies

Financial Reporting Release No. 60, which was recently released by the Securities and Exchange Commission, requires all companies to include a discussion of critical accounting policies or methods used in the preparation of financial statements. Our significant accounting policies are described in Note 1 of the Notes to the Consolidated Financial Statements in our Annual Report on Form 10-K for the year ended December 31, 2002. The significant accounting policies that we believe are the most critical to aid in fully understanding our reported financial results include the following:

Revenue recognition

In accordance with common industry practice, our casino revenues are the net of gaming wins less losses. Racing revenues include our share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, and our share of wagering from import and export simulcasting as well as our share of wagering from our OTWs. The vast majority of wagers for both businesses are in the form of cash and we do not grant credit to our customers to a significant extent. Our receivables consist principally of amounts due from simulcasting of our races to other racetracks and their OTWs. We also have receivables due under our management service contract with Casino Rama for management fees and for expenses, primarily salaries and wages, payable in accordance with our contract. Historically, we have not experienced any significant bad debts from uncollected receivables.

Valuation of long-lived tangible and intangible assets, including goodwill

As a result of our acquisition of Hollywood Casino, goodwill increased significantly. Two issues arise with respect to these assets that require significant management estimates and judgment: a) the valuation in connection with the initial purchase price allocation and b) the ongoing evaluation for impairment.

In connection with this acquisition, a valuation was completed to determine the allocation of the purchase price. Upon completion of the valuation process, approximately $467.5 million was allocated to goodwill. The purchase price allocation process requires management to make estimates and judgments as to the remaining useful lives of the assets purchased. If growth rates, operating margins, or useful lives, among other assumptions, differ from the estimates and judgments used in the purchase price allocation, the amounts recorded in the financial statements could result in a possible impairment of goodwill.

At June 30, 2003, we had a net property and equipment balance of $752.2 million, representing 45.9% of total assets. We depreciate property and equipment on a straight-line basis over their estimated useful lives. The estimated useful lives are based on the nature of the assets as well as our current operating strategy. Future events such as property expansions, new competition and new regulations, could result in a change in the manner in which we are using certain assets requiring a change in the estimated useful lives of such assets. In assessing the recoverability of the carrying value of property and equipment, we must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, we may be required to record impairment loss for these assets. Such an impairment loss would be recognized as a non-cash component of operating income.

Accounting for income taxes

We account for income taxes in accordance with FASB Statement No. 109, “Accounting for Income Taxes” (“SFAS 109”), which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The realizability of the deferred tax assets is evaluated by assessing the likelihood of realization and by adjusting the amount of the valuation allowance, if necessary. The factors used to assess the likelihood of realization are the forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. We have used tax-planning strategies to realize or renew net deferred tax assets in order to avoid the potential loss of future tax benefits.

In addition, we operate within multiple taxing jurisdictions and are subject to audit in each jurisdiction. These audits can involve complex issues that may require an extended period of time to resolve. In our opinion, adequate provisions for income taxes have been made for all periods.

Recent Accounting Standards

In January 2003, FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities” (“Interpretation No. 46”), which clarifies the application of Accounting Research Bulletin No. 51, “Consolidated Financial Statements,” to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Interpretation No. 46 is applicable immediately for variable interest entities created after January 31, 2003. For variable interest entities created prior to January 31, 2003, the provisions of Interpretation No. 46 are applicable no later than July 1, 2003. We do not expect Interpretation No. 46 to have any effect on the consolidated financial statements.

Results of Operations

Three months ended June 30, 2003 compared to three months ended June 30, 2002

The following is a summary of the results of operations by property level for the three months ended June 30, 2002 and 2003:

	Revenues		EBITDA(1)	
	2002	2003	2002	2003
Charles Town Racesä	$ 60,653	$ 84,774	$ 16,404	$ 24,303
Casino Rouge	25,398	26,259	6,317	7,146
Casino Magic-Bay St. Louis	24,090	26,616	4,806	5,654

Boomtown Biloxi	18,530	18,621	3,785	4,028
Bullwhackers (2)	4,841	6,539	999	824
Casino Rama Management Contract	2,678	3,165	2,487	2,930
Pennsylvania Racing/OTWs	28,427	27,646	4,278	4,255
Hollywood Casino-Aurora (3)	—	69,146	—	18,963
Hollywood Casino-Tunica (3)	—	28,914	—	4,777
Hollywood Casino-Shreveport (3)	—	33,760	—	3,346
Earnings from Pennwood Racing, Inc (New Jersey)	—	—	550	719
Corporate eliminations (4)	(525)	(472)	—	—
Corporate overhead	5	—	(3,514)	(5254)
Total	$ 164,097	$ 324,968	$ 36,112	$ 71,691

(1) EBITDA is income from operations excluding charges for depreciation and amortization and gain/loss on disposal of assets, and is inclusive of earnings from joint venture. EBITDA does not represent net income or cash flows from operations as those terms are defined by GAAP. EBITDA does not necessarily indicate whether cash flows will be sufficient to fund cash needs. A reconciliation of GAAP income for operations to EBITDA follows this table.

(2) Bullwhackers was acquired by Penn National Gaming on April 25, 2002.

(3) Hollywood Casino – Aurora, Hollywood Casino – Tunica and Hollywood Casino-Shreveport were acquired by Penn National Gaming, Inc. on March 3, 2003 and accounted for as of March 1, 2003.

(4) For intracompany transactions related to import/export simulcasting.

Reconciliation of Income From Operations (GAAP) To EBITDA (in thousands):

	Income from operations	Depreciation and Amortization	(Gain)/loss on disposal of assets	Earnings from joint venture	EBITDA
Three months ended June 30, 2003					
Charles Town Races	$ 20,036	$ 3,782	$ 485	$ —	$ 24,303
Casino Rouge	5,453	1,542	151	—	7,146
Casino Magic – Bay St. Louis	3,223	2,412	19	—	5,654
Boomtown Biloxi	2,672	1,312	44	—	4,028
Bullwhackers (1)	599	230	(5)	—	824
Casino Rama Management Contract	2,930	—	—	—	2,930
Pennsylvania Racing/OTWs	3,378	877	—	—	4,255
Earnings from Pennwood Racing, Inc.	—	—	—	719	719
Hollywood Casino – Aurora (2)	16,571	2,392	—	—	18,963
Hollywood Casino – Tunica (2)	3,084	1,628	65	—	4,777
Hollywood Casino – Shreveport (2)	946	2,400	—	—	3,346
Corporate overhead	(6,049)	745	50	—	(5,254)
Total	**$ 52,843**	**$ 17,320**	**$ 809**	**$ 719**	**$ 71,691**
Three months ended June 30, 2002					
Charles Town Races	$ 14,396	$ 1,965	$ 43	$ —	$ 16,404
Casino Rouge	4,842	1,475	—	—	6,317
Casino Magic – Bay St. Louis	2,733	1,983	90	—	4,806
Boomtown Biloxi	2,475	1,244	66	—	3,785
Bullwhackers (1)	892	110	(3)	—	999
Casino Rama Management Contract	2,487	—	—	—	2,487
Pennsylvania Racing/OTWs	3,374	904	—	—	4,278
Earnings from Pennwood Racing, Inc.	—	—	—	550	550
Hollywood Casino – Aurora (2)	—	—	—	—	—
Hollywood Casino – Tunica (2)	—	—	—	—	—
Hollywood Casino – Shreveport (2)	—	—	—	—	—
Corporate overhead	(4,224)	707	3	—	(3,514)
Total	**$ 26,975**	**$ 8,388**	**$ 199**	**$ 550**	**$ 36,112**

(1) Bullwhackers was acquired by Penn National Gaming on April 25, 2002.

(2) Hollywood Casino – Aurora, Hollywood Casino – Tunica and Hollywood Casino – Shreveport were acquired by Penn National Gaming, Inc. on March 3, 2003 and accounted for as of March 1, 2003.

EBITDA or earnings before interest, taxes, depreciation and amortization, loss on change in fair value of interest rate swaps and gain/loss on disposal of assets and inclusive of earnings from joint venture, is not a measure of performance or liquidity calculated in accordance with generally accepted accounting principles. EBITDA information is presented solely as a supplemental disclosure because management believes that it is a widely used measure of such performance in the gaming industry. EBITDA should not be construed as an alternative to operating income, as an indicator of our operating performance, or as an alternative to cash flows from operating activities, as a measure of liquidity, or as any other measure of performance determined in accordance with generally accepted accounting principles. We have significant uses of cash flows, including capital expenditures, interest payments, taxes and debt principal repayments, which are not reflected in EBITDA. It should also be noted that other gaming companies that report EBITDA information may calculate EBITDA in a different manner than us.

Revenues for the three months ended June 30, 2003 increased by $160.9 million, or 98.0%, to $325.0 million in 2003 from $164.1 million in 2002. The three new Hollywood Casino facilities contributed $131.8 million of the $160.9 million increase in revenues in the second quarter. Revenues increased at Charles Town by $24.1 million due to the addition of 710 slot machines since the second quarter of 2002. The remaining properties had a net revenue increase of approximately $5.0 million.

Operating expenses for the three months ended June 30, 2003 increased by $135.0 million, or 98.5%, to $272.1 million in 2003 from $137.1 million in 2002. The operating expenses for the three new Hollywood Casino facilities accounted for $111.2 million of the $135.0 million increase in operating expenses in the second quarter. At Charles Town operating expenses increased by $18.5 million as a result of adding approximately 30,000 square feet of gaming space and 710 slot machines to the facility. The remaining properties had a net increase in operating expenses of approximately $5.3 million.

Depreciation and amortization expense for the three months ended June 30, 2003 increased by $8.9 million from the corresponding period in 2002 as a result of the Hollywood Casino acquisition and capital expenditures in 2002 of $88.9 million. The Hollywood Casino facilities had depreciation and amortization expense of $6.4 million. At Charles Town depreciation and amortization increased by $1.8 million due to the addition of gaming space and slot machines. The increase in depreciation and amortization of $0.4 million at Casino Magic – Bay St. Louis was primarily the result of the completion of the Bay Tower Hotel project in May 2002. The other properties accounted for the remaining $0.3 million increase.

EBITDA for the three months ended June 30, 2003 increased by $35.6 million, or 98.5%, to $71.7 million in 2003 from $36.1 million in 2002. The EBITDA contribution from the three Hollywood Casino facilities accounted for $27.1 million of the EBITDA increase, Charles Town, as a result of its expansion since the first quarter 2002, increased its EBITDA by $7.9 million. The other properties had a net increase in EBITDA of $2.3 million. Income from operations for the three months ended June 30, 2003 increased by $25.8 million, or 95.9%, to $52.8 million in 2003 from $27.0 million in 2002. The Hollywood Casino properties and Charles Town, as a result of its expansion accounted for $20.6 million and $5.6 million of the increase in income from operations, respectively. The other properties accounted for a $1.4 million increase. Corporate expenses increased by $1.8 million due to the addition of Hollywood and corporate management, Pennsylvania slot legislation and office expense in Wyomissing.

Interest expense for the three months ended June 30, 2003 increased $17.9 million, or 180.1%, from the corresponding period in 2002 due primarily to additional borrowings of approximately $700.0 million in March 2003 to finance the Hollywood Casino acquisition and the interest expense associated with the Shreveport bond issues.

Other expenses for the three months ended June 30,2003 increased by $1.3 million compared to 2002. Included in other expenses was a $0.5 million write off on an option to purchase a racetrack and $0.7 million for expenses incurred at Shreveport for discussions and negotiations with the Noteholder Group. The remaining expenses were for foreign currency translation losses.

Charles Town Entertainment Complex

Revenues for the three months ended June 30, 2003 increased by $24.1 million, or 39.7%, to $84.8 million in 2003 from $60.7 million in 2002. Gaming revenues increased by $23.3 million, or 44.5%, to $75.7 million in 2003 from $52.4 million in 2002. This revenue growth was primarily a result of an increase in the average number of slot machines from 2,002 in the second quarter of 2002 to 2,704 in the second quarter of 2003, the addition of 30,000 square feet of gaming space and a 1,500 car parking garage to accommodate more customers and a marketing program that is focused on creating awareness in the market place. We have currently defined our target markets as the area within a 75-mile radius of Charles Town, West Virginia and have been successful in increasing mid-week, drive-in play as well as weekend play. The success of the marketing program and the additional gaming capacity has resulted in an increase in our win per machine per day to $308 in 2003 from $288 in 2002. Racing revenues increased by $0.1 million, or 2.2%, to $5.7 million in 2003 from $5.6 million in 2002.

Total operating expenses for the three months ended June 30, 2003 increased by $16.2 million, or 36.6%, to $60.5 million in 2003 from $44.3 million in 2002. The increase was primarily due to an increase in gaming related taxes of $13.6 million, attributed to the increased gaming revenues. Salaries, wages and benefits increased by $1.9 million primarily due to costs of additional staffing levels to accommodate the expanded gaming floor and increased customer volumes compared to staffing levels in the prior period. Total other costs increased primarily due to an increase in operating expenses, insurance, property taxes, utilities and other costs associated with the expanded capacity of the facility. Total marketing expenses increased $0.3 million as a result of television advertising and in-house signage. Depreciation and amortization expense increased by $1.8 million due to the addition of 710 gaming machines and the completion of $50.4 million of capital projects in 2002. Income from operations increased by $5.6 million or 39.2% to $20.0 million in 2003 from $14.4 million in 2002.

On July 1, 2003, we completed construction on and opened Phase II of the Charles Town expansion project. The new gaming area consolidates the entire gaming floor by joining the original gaming floor in the main building, Slot City™ and the OK Corral and added 723 slot machines. With the additional 723 slot machines, we now operate 3,450 slot machines at our facility. By year-end, we will add an additional 50 slot machines, bringing the total number of slot machines to 3,500.

Casino Rouge

Revenues for the three months ended June 30, 2003 increased by $0.9 million, or 3.5%, to $26.3 million in 2003 from $25.4 million in 2002. Gaming revenues for the three months ended June30, 2003 increased by $0.8 million, or 3.3%, to $25.7 million in 2003 from $24.9 million in 2002 due to attracting customers with higher gaming profiles, improved slot product and more focused marketing programs. We also added 54 new slot machines to our gaming floor bringing the total number of machines to 1,088 from 1.034 in the second quarter of 2002. The win per machine per day remained constant at $230 for both periods. Food, beverage and other revenues for the three months ended June 30, 2003 increased by $0.2 million, or 8.8%, to $2.3 million in 2003 from $2.1 million in 2002 as a result of Dockers Grill being opened this year and increased casino beverage service this year.

Total operating expenses for the three months ending June 30, 2003 increased by $0.2 million, or 1.2%, to $20.8 million in 2003 from $20.6 million in 2002. Gaming expenses increased by $0.3 million, or 2.7%, due to the tax effect of the increased gaming revenues and increases to player marketing and

giveaway costs. Other operating expenses were down approximately $0.1 million while general and administrative expenses and depreciation and amortization expenses for the period were approximately the same as the prior year. Income from operations increased by $0.6 million, or 12.6%, to $5.4 million in 2003 from $4.8 million in 2002.

Casino Magic-Bay St. Louis

Revenues for the three months ended June 30, 2003 increased by $2.5 million, or 10.5%, to $26.6 million in 2003 from $24.1 million in 2002. Gaming revenues for the three months ended June 30, 2003 increased by $1.8 million, or 8.3%, to $23.0 million in 2003 from $21.2 million in 2002. The primary reason for the increase in gaming revenues over the prior year is the impact of the new 291 room Bay Tower Hotel, which opened in June 2002. In addition, we had several successful promotions during the second quarter of 2003, including several sold-out performances and functions. Slot coin-in for the three months ended June 30, 2003 increased $24.2 million, or 9.0%, to $294.9 million in 2003 from $270.7 million in 2002. Table drop increased by $0.1 million, or 0.4%, to $17.5 million in 2003 from $17.4 million in 2002. Hotel, food and beverage and other revenue for the three months ended June 30, 2003 increased by a combined $0.7 million, or 26.5%, to $3.6 million in 2003 from $2.9 million in 2002. The main reason for this increase was the June 2002 opening of the Bay Tower Hotel and a new restaurant.

Total operating expenses for the three months ended June 30, 2003 increased by $1.7 million, or 8.7%, to $21.0 million in 2003 from $19.3 million in 2002. Gaming and related expenses (including marketing expenses) for the three months ended June 30, 2003 increased by $1.2 million, or 9.7%, to $13.2 million in 2003 from $12.0 million in 2002. Gaming taxes on the additional $1.8 million of casino revenue accounted for $0.2 million of the increased gaming expenses. Increased marketing expenditures, primarily entertainment expenses, and expenses relating to giveaways, and VIP function-related expenses accounted for the majority of the balance of increased gaming and related costs. Non-gaming expenses for the three months ended June 30, 2003 increased by $0.6 million, or 27.6%, to $2.9 million in 2003 from $2.3 million in 2002, due to the additional costs associated with operating the new hotel, restaurant, spa and convention facilities. Administrative expenses for the three months ended June 30, 2003 decreased by $0.1 million, or 2.4%, to $4.8 million in 2003 from $4.9 million in 2002. Last year, administrative expenses included $0.8 million in pre-opening expenses for the new hotel complex. Depreciation and amortization expense was $0.4 million higher as a result of the completion of $22.5 million of capital projects in 2002. Income from operations increased by $0.5 million, or 17.9%, to $3.2 million in 2003 from $2.7 million in 2002.

Boomtown Biloxi

Revenues for the three months ended June 30, 2003, as compared to the three months ended June 30, 2002, increased by $0.1 million, or 0.5%, to $18.6 million from $18.5 million. Gaming revenues for the three months ended June 30, 2003 increased $0.2 million, or 1.4%, to $16.5 million in 2003 from $16.3 million in 2002. This variance is attributable to marketing programs being adjusted to focus on more profitable customers with higher margins. Food and beverage revenues for the three months ended June 30, 2003 decreased by $0.1 million, or 6.3%, to $1.6 million in 2003 from $1.7 million in 2002. Food and beverage revenues decreased due to increased competition and a change in marketing strategy to an emphasis on customers rather than consumers. Other revenues of $0.5 million, primarily related to family fun center and gift shop sales, were approximately the same as last year.

Total operating expenses for the three months ended June 30, 2003 decreased by $0.1 million, or 1.0%, to $14.6 million in 2003 from $14.7 million in 2002. Gaming expenses for the three months ended June 30, 2003 decreased by $0.3 million, or 3.8%, to $7.5 million in 2003 from $7.8 million in 2002. This is primarily due to lower slot participation costs. Food and beverage expenses for the three months ended June 30, 2003 were $1.8 million, which was approximately the same as in 2002. Administrative expenses for the three months ended June 30, 2003 increased by $0.2 million, or 5.0%, to $5.0 million in 2003 from $4.8 million in 2002. This is primarily due to an increase in property and liability insurance. Income from operations increased by $0.2 million, or 8.0%, to $2.7 million in 2003 from $2.5 million in 2002.

Bullwhackers

The acquisition of Bullwhackers was completed on April 25, 2002. Comparisons of a three-month period in 2003 to a two-month period in 2002 would not be meaningful and are not discussed. For the second quarter of 2003, Bullwhackers had revenues of $6.5 million consisting mainly of gaming revenue from slot machines, operating expenses of $5.9 million and income from operations of $0.6 million for the period.

The property did not do as well as expected due to an interior renovation project that was suppose to be completed in the first quarter lasting well into the second quarter. The project required the closing of gaming areas while construction was going on, reductions in the number of slot machines available for play and constant movement of machines to newly renovated areas. The disruptions to our customers resulted in lost slot play. A major benefit to the renovations was the opening of “Penny Heaven” in the mezzanine of Bullwhackers Casino. “Penny Heaven” contains 93 penny slot machines, which is the largest number of penny games in the Blackhawk market, and is very popular with our guests. In addition, the new games are ticket-in, ticket-out, (“TITO”) ready which should result in future cost savings. During the first quarter, we had 28 days of inclement weather that closed or partially closed the casino and road construction on the main highway into Blackhawk that had an affect on revenue. The management team is also reviewing staffing schedules to ensure that staffing matches business levels more closely.

Casino Rama

Management service fees earned under the Casino Rama Management Contract for the three months ended June 30, 2003 increased by $0.5 million, or 18.2%, to $3.2 million from $2.7 million in 2002. Total revenue increased at Casino Rama by 6.0% in 2003 compared to 2002. The increase in revenue was a result of marketing programs that focused on trip frequency, recent visits, the entertainment center and the opening of a hotel in June 2002.

Pennsylvania Racing Operations

Net revenues for the three months ended June 30, 2003 decreased by $0.8 million, or 2.7%, to $27.6 million in 2003 from $28.4 million in 2002. Restrictions placed on telephone and internet wagering account activity by various state gaming regulations resulted in call center revenue declining by $.4 million this quarter compared to 2002. Wagering at Penn’s facilities on live and simulcast races accounted for the remaining revenue decrease and was caused by a 7.1% decrease in attendance in 2003 compared to 2002.

Operating expenses for the three months ended June 30, 2003 decreased by $0.8 million, or 2.8%, to $24.3 million in 2003 from $25.1 million in 2002. The majority of this decrease is related to lower revenues, which decreased the associated direct costs of purses, simulcast and pari-mutuel tax

expenses.

Hollywood Casino Corporation

The acquisition of Hollywood Casino Corporation was completed on March 3, 2003, but for accounting purposes was effective as of March 1, 2003. For the period from April 1, 2003 to June 30, 2003, the Hollywood Casino facilities in Aurora, Tunica and Shreveport had net revenues of $131.8 million consisting mainly of gaming revenues. Operating expenses totaled $111.2 million and consisted of gaming expense ($64.6 million), food, beverage and other expenses ($17.3 million), general and administrative expenses ($22.8 million) and depreciation and amortization ($6.4 million). Income from operations for the three months ended June 30, 2003 was $20.6 million.

Effective July 1, 2003, the state of Illinois increased the graduated gaming tax rate structure by increasing certain tax rates, adding new tax brackets and raising the highest marginal tax rate from 50% to 70%. This highest marginal tax rate applies to a licensee's annual gaming revenues in excess of $250 million. Gaming tax expenses recorded in the second quarter reflect a weighted average rate, based upon anticipated annual revenues as well as the new tax structure that goes into effect on July 1. Additionally, the State increased the admission tax from $3 to $5 per person. No impact from the admission tax increase has been reflected in the accompanying financial statement. We are taking steps to mitigate the Illinois tax increase through a variety of methods including employee reduction, marketing and promotional program reductions, other cost reductions and the adoption of admission fees. This quarter reflects $1.0 million in pre-tax one-time cost for severance packages, legal and other professional cost for implementation of the cost savings.

New Jersey Joint Venture

We have an investment in Pennwood Racing, Inc., which operates Freehold Raceway in New Jersey. Our 50% share of Pennwood's net income was $0.7 million in the three months ended June 30, 2003, compared to $0.5 million in 2002, and was recorded as other income on the income statement. The increase in the joint venture's net income was due to an increase in revenue from the Atlantic City casinos and a decrease in the state racing commission program costs allocated to the tracks. This offset a small increase in racing operations expenses.

Corporate Overhead Expenses

Corporate overhead expenses for the three months ended June 30, 2003 increased by $1.8 million, or 49.2%, to $5.3 million in 2003 from $3.5 million in 2002. During the second quarter, we incurred expenses of approximately $0.4 million for Pennsylvania slot legislation, $0.5 million for Hollywood Casino corporate overhead expenses and $0.6 million for additional staffing and office expense in Wyomissing compared to 2002.

Results of Operations

Six months ended June 30, 2003 compared to six months ended June 30, 2002

The following is a summary of the results of operations by property level for the six months ended June 30, 2002 and 2003:

	Revenues		EBITDA(1)	
	2002	2003	2002	2003
Charles Town Racesä	$ 117,602	$ 155,258	$ 30,924	$ 43,367
Casino Rouge	52,332	55,328	13,761	16,191
Casino Magic-Bay St. Louis	47,031	53,201	9,748	11,864
Boomtown Biloxi	38,234	37,537	7,948	8,386
Bullwhackers (2)	4,841	12,624	999	1,266
Casino Rama Management Contract	5,077	5,864	4,681	5,424
Pennsylvania Racing/OTWs	53,246	51,064	7,862	7,162
Hollywood Casino-Aurora (3)	—	93,937	—	26,397
Hollywood Casino-Tunica (3)	—	39,462	—	6,992
Hollywood Casino-Shreveport (3)	—	46,470	—	6,122
Earnings from Pennwood Racing, Inc (New Jersey)	—	—	1,325	1,305
Corporate eliminations (4)	(957)	(819)	—	—
Corporate overhead	29	—	(7,579)	(9,736)
Total	$ **317,435**	$ **549,926**	$ **69,669**	$ **124,740**

(1) EBITDA is income from operations excluding charges for depreciation and amortization and gain/loss on disposal of assets, and is inclusive of earnings from joint venture. EBITDA does not represent net income or cash flows from operations as those terms are defined by GAAP. EBITDA does not necessarily indicate whether cash flows will be sufficient to fund cash needs. A reconciliation of GAAP income for operations to EBITDA follows this table.

(2) Bullwhackers was acquired by Penn National Gaming on April 25, 2002.

(3) Hollywood Casino – Aurora, Hollywood Casino – Tunica and Hollywood Casino – Shreveport were acquired by Penn National Gaming, Inc. on March 3, 2003 and accounted for as of March 1, 2003.

(4) For intracompany transactions related to import/export simulcasting.

Reconciliation of Income From Operations (GAAP) To EBITDA (in thousands):

	Income from operations	Depreciation and Amortization	(Gain)/loss on disposal	Earnings from joint venture	EBITDA

			of assets		
Six months ended June 30, 2003					
Charles Town Races	$ 35,233	$ 7,379	$ 755	$ —	$ 43,367
Casino Rouge	12,970	3,070	151	—	16,191
Casino Magic – Bay St. Louis	6,715	4,805	344	—	11,864
Boomtown Biloxi	5,681	2,598	107	—	8,386
Bullwhackers (1)	793	432	41	—	1,266
Casino Rama Management Contract	5,424	—	—	—	5,424
Pennsylvania Racing/OTWs	5,429	1,736	(3)	—	7,162
Earnings from Pennwood Racing, Inc.	—	—	—	1,305	1,305
Hollywood Casino – Aurora (2)	23,142	3,255	—	—	26,397
Hollywood Casino – Tunica (2)	4,721	2,204	67	—	6,992
Hollywood Casino – Shreveport (2)	2,931	3,191	—	—	6,122
Corporate overhead	(11,395)	1,479	180	—	(9,736)
Total	**$ 91,644**	**$ 30,149**	**$ 1,642**	**$ 1,305**	**$ 124,740**
Six months ended June 30, 2002					
Charles Town Races	$ 26,763	$ 4,031	$ 130	$ —	$ 30,924
Casino Rouge	10,888	2,852	21	—	13,761
Casino Magic – Bay St. Louis	5,867	3,779	102	—	9,748
Boomtown Biloxi	5,347	2,454	147	—	7,948
Bullwhackers (1)	892	110	(3)	—	999
Casino Rama Management Contract	4681	—	—	—	4,681
Pennsylvania Racing/OTWs	6,051	1,811	—	—	7,862
Earnings from Pennwood Racing, Inc.	—	—	—	1,325	1,325
Hollywood Casino – Aurora (2)	—	—	—	—	—
Hollywood Casino – Tunica (2)	—	—	—	—	—
Hollywood Casino – Shreveport (2)	—	—	—	—	—
Corporate overhead	(9,015)	1,417	19	—	(7,579)
Total	**$ 51,474**	**$ 16,454**	**$ 416**	**$ 1,325**	**$ 69,669**

(1) Bullwhackers was acquired by Penn National Gaming on April 25, 2002.
(2) Hollywood Casino – Aurora, Hollywood Casino – Tunica and Hollywood Casino – Shreveport were acquired by Penn National Gaming, Inc. on March 3, 2003 and accounted for as of March 1, 2003.

EBITDA or earnings before interest, taxes, depreciation and amortization, loss on change in fair value of interest rate swaps and gain/loss on disposal of assets and inclusive of earnings from joint venture, is not a measure of performance or liquidity calculated in accordance with generally accepted accounting principles. EBITDA information is presented solely as a supplemental disclosure because management believes that it is a widely used measure of such performance in the gaming industry. EBITDA should not be construed as an alternative to operating income, as an indicator of our operating performance, or as an alternative to cash flows from operating activities, as a measure of liquidity, or as any other measure of performance determined in accordance with generally accepted accounting principles. We have significant uses of cash flows, including capital expenditures, interest payments, taxes and debt principal repayments, which are not reflected in EBITDA. It should also be noted that other gaming companies that report EBITDA information may calculate EBITDA in a different manner than us.

Effective July 1, 2003, the state of Illinois increased the graduated gaming tax rate structure by increasing certain tax rates, adding new tax brackets and raising the highest marginal tax rate from 50% to 70%. This highest marginal tax rate applies to a licensee's annual gaming revenues in excess of $250 million. Gaming tax expenses recorded in the second quarter reflect a weighted average rate, based upon anticipated annual revenues as well as the new tax structure that goes into effect on July 1. Additionally, the State increased the admission tax from $3 to $5 per person. No impact from the admission tax increase has been reflected in the accompanying financial statement. We are taking steps to mitigate the Illinois tax increase through a variety of methods including employee layoffs, marketing and promotional program reductions, other cost reductions and the adoption of admission fees. This quarter reflects $1.0 million in pre-tax one-time cost for severance packages, legal and other professional cost for implementation of the cost savings.

Revenues for the six months ended June 30, 2003 increased by $232.5 million, or 73.2%, to $549.9 million in 2003 from $317.4 million in 2002. The three new Hollywood Casino facilities contributed $179.9 million of the $232.5 million increase in revenues in the second quarter. Revenues increased at Charles Town by $37.7 million due to the addition of 710 slot machines since the first quarter of 2002. Bullwhackers revenues increased by $7.8 million due to six months of operations in 2003 compared to 2 months in 2002. The remaining properties had a revenue increase of approximately $ 7.1 million.

Operating expenses for the six months ended June 30, 2003 increased by $192.3 million, or 72.3%, to $458.3 million in 2003 from $266.0 million in 2002. The operating expenses for the three new Hollywood Casino facilities accounted for $149.1 million of the $192.3 million increase in operating expenses in the second quarter. At Charles Town operating expenses increased by $29.2 million as a result of adding approximately 30,000 square feet of gaming space and 710 slot machines to the facility. Bullwhackers expenses increased by $7.9 million due to six months of operations in 2003 compared to 2 months in 2002. The remaining properties had a net expense increase of approximately $ 6.1 million.

Depreciation and amortization expense for the six months ended June 30, 2003 increased by $13.7 million or 83.2% from the corresponding period in 2002 as a result of the Hollywood Casino acquisition and capital expenditures in 2002 of $88.9 million. The Hollywood Casino facilities had depreciation and amortization expense of $8.6 million. At Charles Town depreciation and amortization increased by $3.3 million due to the addition of gaming space and slot machines. The increase in depreciation and amortization of $1.0 million at Casino Magic – Bay St. Louis was primarily the result of the completion of the Bay Tower Hotel project in May 2002. The other properties accounted for the remaining $0.7 million increase.

EBITDA for the six months ended June 30, 2003 increased by $55.1 million, or 79.1%, to $124.7 million in 2003 from $69.7 million in 2002. The EBITDA contribution from the three Hollywood Casino facilities accounted for $39.5 million of the EBITDA increase, Charles Town, as a result of its

expansion since the first quarter 2002, increased its EBITDA by $12.4 million. The other properties had a net increase in EBITDA of $3.2 million. Income from operations for the six months ended June 30, 2003 increased by $40.1 million, or 77.9%, to $91.6 million in 2003 from $51.5 million in 2002. The Hollywood Casino properties and Charles Town, as a result of its expansion accounted for $30.8 million and $8.5 million of the increase in income from operations, respectively. The other properties accounted for a $5.3 million increase. Corporate expenses increased by $2.1 million due to the addition of operations management and legal staff.

Interest expense for the six months ended June 30, 2003 increased $23.5 million, or 113.2%, from the corresponding period in 2002 due primarily to additional borrowings of approximately $700.0 million in March 2003 to finance the Hollywood Casino acquisition and the interest expense associated with the Shreveport bond issues.

Other expenses for the six months ended June 30,2003 increased by $1.3 million compared to 2002. Included in other expenses was a $0.5 million write off on an option to purchase a racetrack and $0.7 million for expenses incurred at Shreveport for discussions and negotiations with the Noteholder Group. The remaining expenses were for foreign currency translation losses.

In March 2003, we expensed prepayment fees of $1.3 million relating to the early extinguishment of debt.

Charles Town Entertainment Complex

Revenues for the six months ended June 30, 2003 increased by $37.7 million, or 32.1%, to $155.3 million in 2003 from $117.6 million in 2002. Gaming revenues increased by $37.6 million, or 37.0%, to $139.3 million in 2003 from $101.7 million in 2002. This revenue growth was primarily a result of an increase in the average number of slot machines from 2,001 in the six months of 2002 to 2,707 in the six months of 2003, the addition of 30,000 square feet of gaming space and a 1,500 car parking garage to accommodate more customers and a marketing program that is focused on creating awareness in the market place. We have currently defined our target markets as the area within a 75-mile radius of Charles Town, West Virginia and have been successful in increasing mid-week, drive-in play as well as weekend play. The success of the marketing program and the additional gaming capacity has resulted in an increase in our win per machine per day to $284 in 2003 from $281 in 2002. Racing revenues decreased by $0.8 million, or 7.1%, to $10.0 million in 2003 from $10.8 million in 2002. The decrease in racing revenues was due to inclement weather conditions in January and February in the mid-atlantic region that caused a decrease in attendance and wagering and the loss of 18 live race days. Other revenues increased by $0.8 million due to the opening of the new food court in July 2002.

Total operating expenses for the six months ended June 30, 2003 increased by $29.2 million, or 32.1%, to $120.0 million in 2003 from $90.8 million in 2002. The increase was primarily due to an increase in gaming related taxes of $21.4 million, attributed to the increased gaming revenues. Salaries, wages and benefits increased by $2.8 million primarily due to costs of additional staffing levels to accommodate the expanded gaming floor and increased customer volumes compared to staffing levels in the prior period. Total other costs increased primarily due to an increase in operating expenses, insurance, property taxes, utilities and other costs associated with the expanded capacity of the facility. Total marketing expenses increased $0.4 million as a result of television advertising and in-house signage. Depreciation and amortization expense increased by $3.3 million due to the addition of 710 gaming machines and the completion of $50.4 million of capital projects in 2002. Income from operations increased by $8.5 million or 31.6% to $35.2 million in 2003 from $26.7 million in 2002.

On July 1, 2003, we completed construction on Phase II of the Charles Town expansion project and opened this area to the public. The new gaming area consolidates the entire gaming floor by joining the original gaming floor in the main building, Slot City and the OK Corral and adds 750 gaming machines. By year-end, we will add another 50 machines to the gaming floor bring the total number of gaming machines to 3,500.

Casino Rouge

Revenues for the six months ended June 30, 2003 increased by $3.0 million, or 5.7%, to $55.3 million in 2003 from $52.3 million in 2002. Gaming revenues for the six months ended June30, 2003 increased by $3.0 million, or 5.8%, to $54.3 million in 2003 from $51.3 million in 2002 due to attracting customers with higher gaming profiles, improved slot product and more focused marketing programs. We also added 54 new slot machines to our gaming floor bringing the total number of machines to 1,088 from 1.034 in the second quarter of 2002. The win per machine per day increased to $241 in 2003 from $236 in 2002. Food, beverage and other revenues for the six months ended June 30, 2003 increased by $0.3 million, or 7.0%, to $4.6 million in 2003 from $4.3 million in 2002 as a result of Dockers Grill opening this year and increased casino beverage service this year.

Total operating expenses for the six months ended June 30, 2003 increased by $0.9 million, or 2.2%, to $42.3 million in 2003 from $41.4 million in 2002. Gaming expenses increased by $0.8 million, or 2.7%, due to the tax effect of the increased gaming revenues and increases to player marketing and giveaway costs. Other operating expenses increased by approximately $0.1 million, including general and administrative expenses and depreciation and amortization expenses. Income from operations increased by $2.1 million or 19.1% to $13.0 million in 2003 from $10.9 million in 2002.

Casino Magic-Bay St. Louis

Revenues for the six months ended June 30, 2003 increased by $6.2 million, or 13.1%, to $53.2 million in 2003 from $47.0 million in 2002. Gaming revenues for the six months ended June30, 2003 increased by $4.5 million, or 10.7%, to $46.1 million in 2003 from $41.6 million in 2002. The primary reason for the increase in gaming revenues over prior year is the impact of the new 291 room Bay Tower Hotel, which was opened in June 2002. In addition, we had several successful promotions during the second quarter of 2003, including several sold-out performances and functions. Slot coin-in for the six months ended June 30, 2003 increased $60.2 million, or 11.4%, to $588.3 million in 2003 from $528.1 million in 2002. Table drop increased by $0.6 million, or 1.8%, to $35.0 million in 2003 from $35.6 million in 2002. Hotel, food and beverage and other revenue for the six months ended June 30, 2003 increased by a combined $1.7 million, or 31.8%, to $7.1 million in 2003 from $5.4 million in 2002. The main reason for this increase was the June 2002 opening of the Bay Tower Hotel and a new restaurant.

Total operating expenses for the six months ended June 30, 2003 increased by $5.3 million, or 12.9%, to $46.5 million in 2003 from $41.2 million in 2002. Gaming and related expenses (including marketing expense) for the six months ended June 30, 2003 increased by $2.3 million, or 9.7%, to $26.2 million in 2003 from $23.9 million in 2002. Gaming taxes on the additional $4.5 million of casino revenue accounted for $0.6 million of the increased gaming expenses. Increased marketing expenditures, primarily entertainment expenses, and expenses relating to giveaways, and VIP function-related expenses accounted for the majority of the balance of increased gaming and related costs. Non-gaming expenses for the six months ended June 30, 2003

increased by $1.3 million, or 31.1%, to $5.6 million in 2003 from $4.3 million in 2002, due to the additional costs associated with operating the new hotel, restaurant, spa and convention facilities. Administrative expenses for the six months ended June 30, 2003 increased by $0.4 million, or 4.4%, to $9.5 million in 2003 from $9.1 million in 2002. Last year, administrative expenses included $1.2 million in pre-opening expenses for the new hotel complex. Depreciation and amortization expense was $1.0 million higher as a result of the completion of $22.5 million of capital projects in 2002. Income from operations increased by $0.8 million, or 14.4%, to $6.7 million in 2003 from $5.9 million in 2002.

Boomtown Biloxi

Revenues for the six months ended June 30, 2003, as compared to the six months ended June 30, 2002, decreased by $0.7 million, or 1.8%, to $37.5 million from $38.2 million. Gaming revenues for the six months ended June 30, 2003 increased $0.4 million, or 1.0%, to $33.3 million in 2003 from $33.7 million in 2002. This variance is attributable to marketing programs being adjusted to focus on more profitable customers with higher margins. Food and beverage revenues for the six months ended June 30, 2003 decreased by $0.3 million, or 8.5%, to $3.2 million in 2003 from $3.5 million in 2002. Food and beverage revenues decreased due to increased competition and a change in marketing strategy to an emphasis on customers rather than consumers. Other revenues of $1.0 million, primarily related to family fun center and gift shop sales, were approximately the same as last year.

Total operating expenses for the six months ended June 30, 2003 decreased by $1.0 million, or 2.7%, to $31.8 million in 2003 from $32.8 million in 2002. Gaming expenses for the six months ended June 30, 2003 decreased by $1.2 million, or 7.1%, to $15.2 million in 2003 from $16.4 million in 2002. This is primarily due to lower slot participation costs. Food and beverage expenses for the six months ended June 30, 2003 decreased by $0.2 million to $3.5 million from $3.7 million in 2002. Administrative expenses for the six months ended June 30, 2003 increased by $0.4 million, or 3.6%, to $10.0 million in 2003 from $9.6 million in 2002. This is primarily due to an increase in property and liability insurance. Income from operations increased by $0.3 million, or 6.2%, to $5.7 million in 2003 from $5.4 million in 2002.

Bullwhackers

The acquisition of Bullwhackers was completed on April 25, 2002. Comparisons of a six-month period in 2003 to a two-month period in 2002 would not be meaningful and are not discussed. For the six months ended June 30, 2003, Bullwhackers had revenues of $12.6 million consisting mainly of gaming revenue from slot machines, operating expenses of $11.8 million and income from operations of $0.8 million for the period.

The property did not do as well as expected due to an interior renovation project that was suppose to be completed in the first quarter lasting well into the second quarter. The project required the closing of gaming areas while construction was going on, reductions in the number of slot machines available for play and constant movement of machines to newly renovated areas. The disruptions to our customers resulted in lost slot play. A major benefit to the renovations was the opening of “Penny HeavenÔ” in the mezzanine of Bullwhackers Casino. “Penny Heaven” contains 93 penny slot machines, which is the largest number of penny games in the Blackhawk market, and is very popular with our guests. In addition, the new games are TITO ready which should result in future cost savings. During the first quarter, we had 28 days of inclement weather that closed or partially closed the casino and road construction on the main highway into Blackhawk that had an affect on revenue. The management team is also reviewing staffing schedules to ensure that staffing matches business levels more closely.

Casino Rama

Management service fees earned under the Casino Rama Management Contract for the six months ended June 30, 2003 increased by $0.8 million, or 15.5%, to $5.9 million from $5.1 million in 2002. The increase in fees earned was a result of successful marketing programs that focused on trip frequency, recent visits and the entertainment center at Casino Rama that resulted in increased property revenues. Revenue at Casino Rama also increased due to opening of a hotel in June 2002.

Pennsylvania Racing Operations

Revenues for the six months ended June 30, 2003 decreased by $2.2 million, or 4.1%, to $51.1 million in 2003 from $53.3 million in 2002. Restrictions placed on telephone and internet wagering account activity by various state gaming regulations resulted in call center revenue declining by $0.5 million in 2003 compared to 2002. Nine live race days at Penn National Race Course and one live race day at Pocono Downs were cancelled in 2003 due to adverse weather conditions and many others were affected in both attendance and wagering whereas in 2002 there were no cancellations. As a result, wagering at our facilities for the period decreased by $5.9 million, or 2.8%, to $197.8 in 2003 from $203.7 in 2002 and attendance decreased by 7.8% compared to last year. The weather conditions also affected our export simulcast revenue as wagering on our export signals fell $11.2 million, or 10.4% to $96.3 million in 2003 from $107.5 million in 2002.

Operating expenses for the six months ended June 30, 2003 decreased by $1.6 million, or 3.3%, to $45.6 million in 2003 from $47.2 million in 2002. The majority of this decrease is related to lower revenues, which decreased the associated direct costs of purses, simulcast and pari-mutuel tax expenses. Income from operations decreased by $0.6 million or 10.3% to $5.4 million in 2003 from $6.0 million in 2002.

Hollywood Casino Corporation

The acquisition of Hollywood Casino Corporation was completed on March 3, 2003, but for accounting purposes was effective as of March 1, 2003. For the period from March 1, 2003 to June 30, 2003, the Hollywood Casino facilities in Aurora, Tunica and Shreveport had net revenues of $179.9 million consisting mainly of gaming revenues. Operating expenses totaled $149.1 million and consisted of gaming expense ($87.1 million), food, beverage and other expenses ($23.4 million), general and administrative expenses ($29.9 million) and depreciation and amortization ($8.6 million). Income from operations for the six months ended June 30, 2003 was $30.8 million.

New Jersey Joint Venture

We have an investment in Pennwood Racing, Inc., which operates Freehold Raceway in New Jersey. Our 50% share of Pennwood's net income was $1.3 million for the six months ended June 30, 2003, and 2002, and was recorded as other income on the income statement. Freehold Raceway ran six fewer live race days in 2003 compared to 2002 and experienced declines in live racing handle, simulcast wagering and attendance at the facility. The decrease in the racing revenues were offset by an increase in revenue from the Atlantic City casinos, a decrease in the state racing commission program costs allocated to the tracks and a decrease in direct racing expenses.

Corporate Overhead Expenses

Corporate overhead expenses for the six months ending June 30, 2003 increased by $2.1 million, or 28.3%, to $9.7 million in 2003 from $7.6 million in 2002. During the period, we incurred expenses of approximately $0.6 million for Pennsylvania slot legislation, $0.7 million for Hollywood Casino corporate overhead expenses and $0.8 million for additional staffing and office expense in Wyomissing compared to 2002.

Liquidity and Capital Resources

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

Net cash provided by operating activities was $74.8 million for the six months ended June 30, 2003. This consisted of net income of $28.7 million, non-cash reconciling items of $40.0 million and net increases in current liability accounts along with net decreases in current asset accounts of $6.1 million, net of assets and liabilities acquired in the Hollywood Casino acquisition.

Cash flows used in investing activities totaled $296.1 million for the six months ended June 30, 2003. Expenditures for property, plant, and equipment totaled $32.5 million. This primarily consisted of $15.0 million on the Charles Town Phase II project, $7.5 million on Bullwhackers renovations, and $9.4 million for maintenance capital expenditures. Payments made to terminate an interest rate swap contract totaled $1.9 million. Proceeds from the sale of property and equipment were $0.5 million. The aggregate purchase price for the Hollywood Casino acquisition, net of cash acquired was $264.1 million. Cash in escrow decreased by $1.0 million as a result of closing on the Bullwhackers land lease. Proceeds from New Jersey joint venture distribution were $.8 million.

Cash flows from financing activities provided net cash flow of $260.1 million for the six months ended June 30, 2003. Proceeds from the exercise of stock options totaled $1.4 million. Aggregate proceeds from the $800 million credit facility were $700 million. Payment on long-term debt totaled $422.2 million, which consisted of a $62.2 million payment on the $800 million credit facility and a $360 million payment for the early extinguishment of the Hollywood Casino Corporation senior secured notes. Net payments for deferred financing fees were $19.0 million.

Capital Expenditures

The following table summarizes our planned capital expenditures, other than maintenance capital expenditures, by property for the fiscal year ended December 31, 2003 (in thousands):

	Year Ending December 31, 2003	Expenditures Through June 30, 2003	Balance To Expend
Property			
Charles Town Entertainment Complex	$ 24,000	$ 14,987	$ 9,013
Boomtown Biloxi	24,000	299	23,701
Bullwhackers Casino	10,000	7,454	2,546
Corporate	600	291	309
Totals	$ 58,600	$ 23,031	$ 35,569

The Charles Town facility added 38,300 square feet of gaming space, which houses 723 additional slot machines, expands the food court and provides space for an entertainment facility. Cost of the construction and related activities was estimated at $24.0 million, of which we have contracts in the amount of $6 million still remaining at June 30, 2003. The additional gaming space was opened to the public on July 1, 2003. There is still work to complete in the food court area and entertainment facility during the third quarter of 2003.

In January 2002, we signed an option to purchase approximately 4 acres of land adjacent to our Boomtown Biloxi property for $4.0 million. The purchase is contingent upon receiving certain governmental and third-party consents, authorizations, approvals and licenses which we expect could occur in 2003. If successful, we expect to use the land for additional parking for our Boomtown Biloxi facility and to develop the property in the event that we move the boat.

In 2002, we began refurbishing the Bullwhackers facade and interior. We expect to spend an additional $4.0 million, which includes the purchase of $1.0 million of slot machines and related equipment, in 2003 on this project. As of June 30, 2003, we have completed the purchase of the slot machines and opened "Penny Heaven" in the mezzanine of the Bullwhackers Casino. Renovations are continuing in other areas of the facility. This project is scheduled for completion in the third quarter of 2003. On April 24, 2003, we completed the purchase of the land lease for Bullwhackers Casinos for $6.1 million including closing costs. The purchase will save approximately $1 million per year in rent expense based on current operating performance.

In 2003, we are expanding our corporate offices to provide additional workstation and office space due to increased personnel. The first portion of this project was completed in the second quarter of 2003.

For 2003, we expect to expend approximately $30 million for maintenance capital expenditures at our properties, including the Hollywood Casino properties. As of June 30, 2003 we have spent $9.4 million of the $30 million budgeted.

We expect to use cash generated from operations and cash available under the revolver portion of our senior secured credit facility to fund our anticipated capital expenditure and maintenance capital expenditures in 2003. See "Outlook" below.

Senior Secured Credit Facility

On March 3, 2003, we entered into a $800 million senior secured credit facility with a syndicate of lenders that replaced our $350 million credit facility.

The credit facility is comprised of a $100 million revolving credit facility maturing on September 1, 2007, a $100 million Term A facility loan maturing on September 1, 2007 and a $600 million Term B Facility loan maturing on September 1, 2007. The maturity dates will be extended to the fifth anniversary dates for the revolving and Term A loans and the sixth anniversary date for the Term B loan if the outstanding 11 1/8% Senior Subordinated Notes due 2008 are refinanced in full to a date that is at least seven years and 181 days after March 3, 2003. Up to $20 million of the revolving credit facility may be used for the issuance of standby letters of credit. In addition, up to $20 million of the revolving credit facility also may be used for short-term credit to be provided to the Company on a same-day basis. On March 3, 2003 we borrowed the entire Term A and Term B term loans to complete the purchase of Hollywood Casino and to call Hollywood Casino's $360 million senior secured notes.

At the our option, the revolving and the Term A credit facilities may bear interest at (1) the highest of ½ of 1% in excess of the federal funds effective rate or the base rate of interest that the Administrative Agent announces from time to time as its prime lending rate plus an applicable margin of up to 2.25%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 3.25%, in either case, with the applicable rate based on the Company's total leverage. The Term B credit facility may bear interest at (1) the highest of ½ of 1% in excess of the federal funds effective rate or the base rate of interest that the Administrative Agent announces from time to time as its prime lending rate plus an applicable margin of up to 3.00%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 4.00%, in either case, with the applicable rate based on the Company's total leverage.

At June 30, 2003, we had an outstanding balance of $638.0 million on term loans A and B and $92.6 million to borrow under the revolving credit facility after giving effect to outstanding letters of credit of $7.4 million.

The terms of the Company's $800 million senior secured credit facility require the Company to satisfy certain financial covenants, such as leverage and fixed charges coverage ratios, and limitations on indebtedness, liens, investments and capital expenditures. At June 30, 2003, we were in compliance with all required financial covenants.

11 1/8% Senior Subordinated Notes due 2008

On March 12, 2001, we completed a private offering of $200 million of our 11 1/8% senior subordinated notes due 2008. The net proceeds of the 11 1/8% notes were used, in part, to finance our acquisition of Casino Rouge and the Casino Rama Management Contract, including the repayment of certain existing indebtedness at Casino Rouge. Interest on the 11 1/8% notes is payable on March 1 and September 1 of each year.

The 11 1/8% notes mature on March 1, 2008. As of June 30, 2003, all of the principal amount of the 11 1/8% notes is outstanding.

We may redeem all or part of the 11 1/8% notes on or after March 1, 2005 at certain specified redemption prices. Prior to March 1, 2004, we may redeem up to 35% of the 11 1/8% notes from proceeds of certain sales of our equity securities. The 11 1/8% notes also are subject to redemption requirements imposed by state and local gaming laws and regulations.

The 11 1/8% notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of our current and future wholly-owned domestic subsidiaries. The 11 1/8% notes rank equally with our future senior subordinated debt and junior to our senior debt, including debt under our senior credit facility. In addition, the 11 1/8% notes will be effectively junior to any indebtedness of our non-U.S. or unrestricted subsidiaries, none of which have guaranteed the 11 1/8% notes.

The 11 1/8% notes and guarantees were originally issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended. On July 30, 2001, we completed an offer to exchange the 11 1/8% notes and guarantees for 11 1/8% notes and guarantees registered under the Securities Act of 1933, as amended, having substantially identical terms.

8 7/8% Senior Subordinated Notes due 2010

On February 28, 2002, we completed a public offering of $175,000,000 of our 8 7/8% senior subordinated notes due 2010. Interest on the 8 7/8% notes is payable on March 15 and September 15 of each year, beginning September 15, 2002. The 8 7/8% notes mature on March 15, 2010. As of June 30, 2003, all of the principal amount of the 8 7/8% notes is outstanding. We used the net proceeds from the offering, totaling approximately $170.1 million after deducting underwriting discounts and related expenses, to repay term loan indebtedness under the $350 million credit facility.

We may redeem all or part of the 8 7/8% notes on or after March 15, 2006 at certain specified redemption prices. Prior to March 15, 2005, we may redeem up to 35% of the 8 7/8% notes from proceeds of certain sales of our equity securities. The 8 7/8% notes also are subject to redemption requirements imposed by state and local gaming laws and regulations.

The 8 7/8% notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of our current and future wholly-owned domestic subsidiaries. The 8 7/8% notes rank equally with our future senior subordinated debt, including the 11 1/8% senior subordinated notes, and junior to our senior debt, including debt under our senior credit facility. In addition, the 8 7/8% notes will be effectively junior to any indebtedness of our non-U.S. or unrestricted subsidiaries, none of which have guaranteed the 8 7/8% notes.

Hollywood Casino Shreveport Notes

Hollywood Casino Shreveport and Shreveport Capital Corporation are co-issuers of $150 million aggregate principal amount of 13% first mortgage notes due 2006 and $39 million aggregate principal amount of 13% senior secured notes due 2006 (the "Hollywood Shreveport Notes"). Hollywood Casino Shreveport is a general partnership that owns the casino operations. Shreveport Capital Corporation is a wholly-owned subsidiary of Hollywood Casino Shreveport formed solely for the purpose of being a co-issuer of the Hollywood Shreveport Notes.

The Hollywood Shreveport Notes are non-recourse to Penn and its subsidiaries (other than Hollywood Casino Shreveport, Shreveport Capital Corporation, HCS I, Inc., HCS II, Inc. and HWCC-Louisiana, Inc., collectively the "Shreveport Entities") and are secured by substantially all of the assets of the casino, and the partnership interests held by HCS I, Inc. and HCS II, Inc. and the stock held by HWCC-Louisiana, Inc.

The indentures governing the Hollywood Shreveport Notes require the issuers to make an offer to purchase the Hollywood Shreveport Notes at 101% of the principal amount thereof within ten days of the occurrence of a "Change of Control" as defined in the indentures. A "Change of Control" was deemed to have occurred under the indentures on March 3, 2003 as a result of the consummation of the merger of our wholly-owned subsidiary with and into Hollywood Casino Corporation. Hollywood Casino Shreveport determined that it does not have the liquidity to repurchase the Hollywood Shreveport Notes at 101% of their principal amount and, accordingly, could not make an offer to purchase the Hollywood Shreveport Notes as required under the indentures. As a result, a valuation allowance in the amount of $69.6 million was established to reduce the carrying amount to management's estimate of the fair value of the Hollywood Shreveport Notes, which is based on the fair value of the underlying collateral.

On March 14, 2003, the Hollywood Casino Shreveport and Shreveport Capital Corporation were notified by an ad hoc committee of holders of the Hollywood Shreveport Notes that they have 60 days from receipt of the notice to cure the failure to offer to purchase the Hollywood Shreveport Notes or an event of default will have occurred under the indentures. Neither Hollywood Casino Shreveport nor Shreveport Capital Corporation made an offer to purchase the Hollywood Shreveport Notes and an event of default occurred under the indentures on May 13, 2003. There can be no assurance that the holders of the Hollywood Shreveport Notes will not pursue all rights and remedies that they may have under the indentures as a result of the event of default. Further, any action on the part of the noteholders may require the Shreveport Entities to seek the protection of the bankruptcy laws or other similar remedies. On August 1, 2003, interest payments of $12.3 million became due on the Hollywood Shreveport Notes. The managing general partner of Hollywood Casino Shreveport did not make that payment.

Hollywood Casino Corporation Notes

On March 3, 2003, the date of closing for the Hollywood Casino acquisition, Hollywood Casino had outstanding long-term indebtedness of $310 million of 11.25% senior secured notes due 2007 and $50 million of floating rate senior secured notes, due 2006. As part of the closing, we placed $401 million in an escrow account to call the notes on May 1, 2003. The $401 million consisted of note principal of $360 million, accrued interest of $19 million and a note call premium of $22 million. This transaction was completed and the notes were retired on May 1, 2003.

Hollywood Casino-Aurora Capital Leases

Hollywood Casino-Aurora ("HCA") leases two parking garages under capital lease agreements. The first lease has an initial 30-year term ending in June 2023 with the right to extend the term under renewal options for an additional 67 years. Rental payments through June 2012 equal the City of Aurora's financing costs related to its general obligation bond issue used to finance the construction of the parking garage. The general obligation bond issue has an annual interest rate to approximately 5.6%. The second lease has an initial term ending in September 2026 with the right to extend the lease for up to 20 additional years. Rental payments during the first 15 years equal the lessor's debt service costs related to the industrial revenue bond issue used to finance a portion of the construction costs of the parking garage. The remaining construction costs were funded by HCA. In addition, HCA currently pays base rent equal to $17,000 per month for improvements made to the lessor's North Island Center banquet and meeting facilities. HCA is also responsible for additional rent, consisting of costs such as maintenance costs, insurance premiums and utilities, arising out of its operation of both parking garages. At June 30, 2003, HCA had a long-term capital lease obligation of $16.3 million.

Commitments and Contingencies

—Contractual Cash Obligations

As discussed above, we completed our purchase of Hollywood Casino and refinanced our senior secured credit facility. As of August 8, 2003, there was no indebtedness outstanding under the credit facility and there was approximately $92.6 million available for borrowing under the revolving credit portion of the credit facility (after giving effect to outstanding letters of credit). The following table is as of June 30, 2003 and reflects our new senior secured credit facility:

		Payments Due By Period			
(in thousands)	**Total**	**July 1, 2003 to December 31, 2003**	**2004 - 2005**	**2006 - 2007**	**2008 and After**
$ 800 million senior secured credit facility. This credit facility is secured by substantially all of the assets of the Company					
Term A	$ 40,240	$ 4,236	$ 16,943	$ 19,061	$ —
Term B	597,760	2,996	11,984	582,780	—
Hollywood Casino Corporation					
11.25% senior secured notes, due 2007					
Floating rate senior secured notes, due 2006					
Hollywood Shreveport non-recourse debt					
13% Shreveport First Mortgage Notes and 13% Shreveport Senior Secured Notes	189,000	—	—	189,000	—
Interest	86,400	12,342	49,372	24,686	—
11 1/8% senior subordinated notes due 2008 (1)					
Principal	200,000	—	—	—	200,000

Interest	111,250	11,125	44,500	44,500	11,125
8 7/8% senior subordinated notes due 2010 (2)					
Principal	175,000	—	—	—	175,000
Interest	108,720	7,766	31,063	31,063	38,828
Operating leases	22,520	2,812	6,845	3,638	9,225
Total	$ 1,530,890	$ 41,277	$ 160,707	$ 894,728	$ 434,178

(1) The $200.0 million aggregate principal amount of 11 1/8% notes matures on March 1, 2008. Interest payments of approximately $11.1 million are due on each March 1 and September 1 until March 1, 2008.

(2) The $175.0 million aggregate principal amount of 8 7/8% notes matures on March 15, 2010. Interest payments of approximately $7.8 million are due on each March 15 and September 15 until March 15, 2010.

—Other Commercial Commitments

The following table presents our material commercial commitments as of June 30, 2003 for the following future periods:

		Amount of Commitment Expiration Per Period			
(in thousands)	**Total Amounts Committed**	**2003**	**2004 - 2005**	**2006 - 2007**	**2008 and After**
Revolving Credit Facility (1)	$ —	$ —	$ —	$ —	$ —
Letters of Credit (1)	7,414	7,414	—	—	—
Guarantees of New Jersey Joint Venture Obligations (2)	9,199	383	8,816	—	—
Total	$ 16,613	$ 7,797	$ 8,816	$ —	$ —

(1) The available balance under the revolving portion of the $100 million senior secured credit facility is diminished by outstanding letters of credit.

(2) In connection with our 50% ownership interest in Pennwood Racing, our joint venture in New Jersey, we have entered into a debt service maintenance agreement with Pennwood's lender to guarantee up to 50% of Pennwood's $23.0 million term loan. Our obligation as of June 30, 2003 under this guarantee is approximately $9.2 million.

Outlook

Based on our current level of operations, and anticipated revenue growth, we believe that cash generated from operations and amounts available under our credit facility will be adequate to meet our anticipated debt service requirements, capital expenditures and working capital needs for the foreseeable future. We cannot assure you, however, that our business will generate sufficient cash flow from operations, that our anticipated revenue growth will be realized, or that future borrowings will be available under our credit facility or otherwise will be available to enable us to service our indebtedness, including the credit facility and the notes, to retire or redeem our outstanding indebtedness when required or to make anticipated capital expenditures. In addition, if we consummate significant acquisitions in the future, our cash requirements may increase significantly and we may need to refinance all or a portion of our debt on or before maturity. Our future operating performance and our ability to service or refinance our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On December 20, 2000, we entered into an interest rate swap with a notional amount of $100 million and a termination date of December 22, 2003. Under this agreement, we pay a fixed rate of 5.835% against a variable interest rate based on the 90-day LIBOR rate. On August 3, 2001, we entered into an interest rate swap with a notional amount of $36 million with a termination date of June 30, 2004. Under this agreement, we paid a fixed rate of 4.8125% against a variable interest rate based on the 90-day LIBOR rate. On March 3, 2003, we terminated our $36 million notional amount interest rate swap originally scheduled to expire in June 2004. We paid $1.9 million to terminate the swap agreement.

We have a policy designed to manage interest rate risk associated with our current and anticipated future borrowings. This policy enables us to use any combination of interest rate swaps, futures, options, caps and similar instruments. To the extent we employ such financial instruments pursuant to this policy, they are accounted for as hedging instruments. In order to qualify for hedge accounting, the underlying hedged item must expose us to risks associated with market fluctuations and the financial instrument used must be designated as a hedge and must reduce our exposure to the market in fluctuations throughout the hedge period. If these criteria are not met, a change in the market value of the financial instrument is recognized as a gain or loss in the period of change. Interest paid or received pursuant to the financial instrument is included as interest expense in the period.

On March 27, 2003, we entered into forward interest rate swap agreements with a total notional amount of $375.0 million in accordance with the terms of the $800 million senior secured credit facility. There are three two-year swap contracts totaling $175 million with an effective date of March 27, 2003 and a termination date of March 27, 2005. Under these contracts, we pay a fixed rate of 1.92% against a variable rate based on the 90-day LIBOR rate. We also entered into three three-year swap contracts totaling $200 million with a termination date of March 27, 2006. Under these contracts, we pay a fixed rate of 2.48% to 2.49% against a variable rate based on the 90-day LIBOR rate. The difference between amounts received and amounts paid under such agreements, as well as any costs or fees, is recorded as reduction of, or addition to, interest expense as incurred over the life of the swap or similar financial instrument. At June 30, 2003, the 90-day LIBOR rate was 1.00%.

ITEM 4. CONTROLS AND PROCEDURES

Our management, under the supervision and with the participation of the principal executive officer and principal financial officer, have evaluated the effectiveness of our controls and procedures related to our reporting and disclosure obligations as of June 30, 2003, which is the end of the period covered by this Quarterly Report on Form 10-Q. Based on that evaluation, the principal executive officer and principal financial officer have concluded that these

disclosure controls and procedures are sufficient to provide that (a) material information relating to us, including our consolidated subsidiaries, is made known to these officers by other employees of us and our consolidated subsidiaries, particularly material information related to the period for which this periodic report is being prepared; and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the rules and forms of the Securities and Exchange Commission.

There were no changes that occurred during the fiscal quarter covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonable likely to materially affect, our internal controls over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information in response to this Item is incorporated by reference to the information set forth in "Note 11. Litigation" in the Notes to Consolidated Financial Statements in Part I of this Quarterly Report on Form 10-Q.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

As discussed in Note 9 of the Notes to Consolidated Financial Statements and the Liquidity and Capital Resources Section of Management's Discussion and Analysis of Financial Condition and Results of Operations, following the March 3, 2003 consummation of the merger of our wholly-owned subsidiary with and into Hollywood Casino Corporation, Hollywood Casino Shreveport and Shreveport Capital Corporation were required under the indentures governing the Hollywood Shreveport Notes, of which there were aggregate of $189 million outstanding, to make an offer to purchase the Hollywood Shreveport Notes. On March 14, 2003, the Hollywood Casino Shreveport and Shreveport Capital Corporation were notified by an ad hoc committee of holders of the Hollywood Shreveport Notes that they have 60 days from receipt of the notice to cure the failure to offer to purchase the Hollywood Shreveport Notes or an event of default will have occurred under the indentures. Neither Hollywood Casino Shreveport nor Shreveport Capital Corporation made a Change of Control offer to purchase the Hollywood Shreveport Notes within the 60 days. There can be no assurance that the holders of the Hollywood Shreveport Notes will not pursue all rights and remedies that they may have under the indentures as a result of the event of default. Further, any action on the part of the noteholders may require the Shreveport Entities to seek the protection of the bankruptcy laws or other similar remedies. On August 1, 2003, interest payments of $12.3 million became due on the Hollywood Shreveport Notes. The managing general partner of Hollywood Casino Shreveport did not make that payment.

The Hollywood Shreveport Notes are non-recourse to Penn and its subsidiaries (other than Hollywood Casino Shreveport, Shreveport Capital Corporation, HCS I, Inc., HCSII, Inc. and HWCC-Louisiana, Inc.) and are secured by substantially all of the assets of the casino, and the partnership interests held by HCS I, Inc. and HCS II, Inc. and the stock held by HWCC-Louisiana, Inc.

ITEM 4. SUMMISION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) Our Annual Meeting of Shareholders was held on May 22, 2003**.**

(b) David A. Handler and John M. Lacquemin were elected at the Meeting. The following directors' terms continued after the meeting: Peter Carlinio, Harold Cramer and Robert Levy.

(c) Certain matters voted upon at the Meeting and the votes cast with respect to such matters are as follows:

(i) Election of Directors:

Name	Votes For	Votes Witheld
David A. Handler	28,068,761	10,151,357
John M. Jacquemin	28,072,493	10,147,625

(ii) Ratification of the appointment of BDO Seidman, LLP, as independent auditors of our books, records and accounts for the year ending December 31, 2003:\

Votes For	Votes Against	Abstain
28,517,408	9,696,876	5,834

(iii) Approval of our 2003 Long Term Incentive Compensation Plan:

Votes For	Votes Against	Abstain
18,389,832	12,758,391	1,288,110

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

Exhibit	Description of Exhibit
3.5	Amended and Restated Bylaws of Penn National Gaming, Inc., Effective as of May 22, 2003.
3.6	Specimen – Common Stock Certificate of Penn National Gaming, Inc.

10.1	Employment agreement dated June 10, 2003 between the Company and Leonard DeAngelo
31.1	CEO Certification pursuant to rule 13a-14(a And 15d-14(a of the Securities Exchange Act of 1934)
31.2	CFO Certification pursuant to rule 13a-14(a And 15d-14(a of the Securities Exchange Act of 1934)
32.1	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.

(b) Reports on Form 8-K

Report	Item(s) No.	Date of Report	Date Filed or Furnished
Form 8-K	7 and 9	May 1, 2003	Furnished May 1, 2003
Form 8-K/A	2 and 7	March 3, 2003	Filed May 12, 2003
Form 8-K	5	May 14, 2003	Filed May 14, 2003
Form 8-K	9	June 10, 2003	Furnished June 12, 2003

SIGNATURES

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

PENN NATIONAL GAMING, INC.

August 13, 2003

By: /s/ William J. Clifford
William J. Clifford
Senior Vice President-Finance
and Chief Financial Officer

AMENDED AND RESTATED BYLAWS
OF
PENN NATIONAL GAMING, INC.
(a Pennsylvania Corporation)

Effective as of May 22, 2003

ARTICLE I

Offices

Section 1.01. Registered Office. The registered office of the corporation in the Commonwealth of Pennsylvania shall be at Wyomissing Professional Center, 825 Berkshire Boulevard, Suite 203, Wyomissing, Pennsylvania 19610, until otherwise established by an amendment to the Articles of Incorporation (as amended, the "Articles") or by the board of directors and a record of such change is filed with the Department of State in the manner provided by law.

Section 1.02. Other Offices. The corporation may also have offices at such other places within or without the Commonwealth of Pennsylvania as the board of directors may from time to time appoint or the business of the corporation may require.

ARTICLE II

Notice – Waivers – Meetings Generally

Section 2.01. Manner of Giving Notice.

(a) General Rule. Whenever written notice is required to be given to any person under the provisions of the Business Corporation Law or by the Articles or these Bylaws, it may be given to the person: (i) by personal delivery, (ii) by facsimile number, e-mail or other electronic communication to his or her facsimile number or address for e-mail or other electronic communications supplied by him or her to the corporation for the purpose of notice, or (iii) by sending a copy thereof by first class or express mail, postage prepaid, or by telegram (with messenger service specified), telex or TWX (with answerback received) or courier service, charges prepaid, to the address (or to the telex or TWX number) of the person appearing on the books of the corporation or, in the case of notice to be given to a director, to the address (or to the telex or TWX number) supplied by the director to the corporation for the purpose of notice. If the notice is sent by mail, telegraph or courier service, it shall be deemed to have been given to the person entitled thereto when deposited in the United States mail or with a telegraph office or courier service for delivery to that person or, in the case of telex or TWX, when dispatched.

Notice given by facsimile transmission, e-mail or other electronic communication shall be deemed to have been given to the person entitled thereto when sent. A notice of meeting shall specify the place, day and hour of the meeting and any other information required by any other provision of the Business Corporation Law, the Articles or these Bylaws.

(b) Adjourned Shareholder Meetings. When a meeting of shareholders is adjourned, it shall not be necessary to give any notice of the adjourned meeting or of the business to be transacted at an adjourned meeting, other than by announcement at the meeting at which the adjournment is taken, unless the board fixes a new record date for the adjourned meeting, in which event the notice shall be given in accordance with this section.

Section 2.02. Notice of Meetings of Board of Directors. Notice of a regular meeting of the board of directors need not be given. Notice of every special meeting of the board of directors shall be given to each director personally, by telephone, telex, TWX, facsimile, e-mail or other electronic communication, or in writing at least 24 hours (in the case of notice by telephone, telex, TWX, facsimile transmission, e-mail or other electronic communication) or 48 hours (in the case of notice by telegraph, courier service or express mail) or five days (in the case of notice by first class mail) before the time at which the meeting is to be held. Every such notice shall state the time and place of the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the board need be specified in a notice of a meeting.

Section 2.03. Notice of Meetings of Shareholders.

(a) General Rule. Written notice of every meeting of the shareholders shall be given by, or at the direction of, the secretary or other authorized person to each shareholder of record entitled to vote at the meeting (and, in case of a meeting called to consider a merger, consolidation, share exchange or division, to each shareholder of record not entitled to vote at the meeting) at least (i) ten days prior to the day named for a meeting called to consider a fundamental change under Chapter 19 of the Business Corporation Law of 1988 or (ii) five days prior to the day named for the meeting in any other case. If the secretary neglects or refuses to give notice of a meeting, the person or persons calling the meeting may do so. In the case of a special meeting of shareholders, the notice shall specify the general nature of the business to be transacted.

(b) Notice of Action by Shareholders on Bylaws. In the case of a meeting of shareholders that has as one of its purposes action on these Bylaws, written notice shall be given to each shareholder that the purpose, or one of the purposes, of the meeting is to consider the adoption, amendment or repeal of these Bylaws. There shall be included in, or enclosed with, the notice a copy of the proposed amendment or a summary of the changes to be effected thereby.

Section 2.04. Waiver of Notice.

(a) Written Waiver. Whenever any written notice is required to be given under the provisions of the Business Corporation Law, the Articles or these Bylaws, a waiver thereof in writing, signed by the person or persons entitled to the notice, whether before or after

the time stated therein, shall be deemed equivalent to the giving of the notice. Except as provided in the next sentence, neither the business to be transacted at, nor the purpose of, a meeting need be specified in the waiver of notice of the meetings. In the case of a special meeting of shareholders, the waiver of notice shall specify the general nature of the business to be transacted at the meeting.

(b) Waiver by Attendance. Attendance of a person at any meeting shall constitute a waiver of notice of the meeting except where a person attends a meeting for the express purpose of objecting, at the beginning of the meeting, to the transaction of any business because the meeting was not lawfully called or convened.

Section 2.05. Modification of Proposal Contained in Notice. Whenever the language of a proposed resolution is included in a written notice of a meeting required to be given under the provisions of the Business Corporation Law or the Articles or these Bylaws, the meeting considering the resolution may without further notice adopt it with such clarifying or other amendments as do not enlarge its original purpose.

Section 2.06. Exception to requirement of Notice.

(a) General Rule. Whenever any notice or communication is required to be given to any person under the provisions of the Business Corporation Law or by the Articles or these Bylaws or by the terms of any agreement or other instrument or as a condition precedent to taking any corporate action and communication with that person is then unlawful, the giving of the notice or communication to that person shall not be required.

(b) Shareholders Without Forwarding Addresses. Notice or other communications need not be sent to any shareholder with whom the corporation has been unable to communicate for more than 24 consecutive months because communications to the shareholder are returned unclaimed or the shareholder has otherwise failed to provide the corporation with a current mail or e-mail address or facsimile, telex or TWX number. Whenever the shareholder provides the corporation with a current mail or e-mail address or facsimile, telex or TWX number, the corporation shall commence sending notices and other communications to the shareholder in the same manner as to other shareholders.

Section 2.07. Use of Conference Telephone and Similar Equipment.

(a) Any director may participate in meetings of the board of directors by conference telephone, similar communications equipment or other electronic technology by means of which all persons participating in the meeting can hear each other. Directors so participating will be deemed present at the meeting.

(b) Shareholders may participate in any shareholders' meeting by conference telephone, similar communications equipment or other electronic means, including, without limitation, the Internet. Shareholders so participating will be deemed present at the meeting.

ARTICLE III

Shareholders

Section 3.01. Place of Meeting. All meetings of the shareholders of the corporation shall be held at the registered office of the corporation, such other place within or without the Commonwealth of Pennsylvania as may be designated by the board of directors in the notice of a meeting, or by means of the Internet or other electronic communications technology in a fashion pursuant to which the shareholders have the opportunity to read or hear the proceedings substantially concurrently with their occurrence, vote on matters submitted to the shareholders and pose questions to the directors of the corporation.

Section 3.02. Annual Meeting. The board of directors may fix and designate the date and time of the annual meeting of the shareholders, but if no such date and time is fixed and designated by the board, the meeting for any calendar year shall be held on the fourth Thursday in May in such year, if not a legal holiday under the laws of Pennsylvania, and, if a legal holiday, then on the next succeeding business day, not a Saturday, at an appropriate time and place designated by the board of directors, and at said meeting the shareholders then entitled to vote shall elect directors and shall transact such other business as may properly be brought before the meeting. If the annual meeting shall not have been called and held within six months after the designated time, any shareholder may call the meeting at any time thereafter.

Section 3.03. Special Meetings. Special meetings of the shareholders may be called at any time by the chairman of the board of directors or by any two or more directors. The shareholders of the corporation shall be entitled to call a special meeting of shareholders only to the extent, if any, expressly provided in the Articles.

Section 3.04. Quorum and Adjournment.

(a) General Rule. A meeting of shareholders of the corporation duly called shall not be organized for the transaction of business unless a quorum is present. The presence, in person, by proxy or by means of electronic technology, including, without limitation, the Internet, of shareholders entitled to cast at least a majority of the votes that all shareholders are entitled to cast on a particular matter to be acted upon at the meeting shall constitute a quorum for the purposes of consideration and action on the matter. Shares of the corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the board of directors of this corporation, as such, shall not be counted in determining the total number of outstanding shares for quorum purposes at any given time.

(b) Withdrawal of a Quorum. The shareholders present at a duly organized meeting can continue to do business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

(c) Adjournments Generally. Any regular or special meeting of the shareholders, including one at which directors are to be elected, which cannot be organized because a quorum has not attended, may be adjourned for such period and to such place as a majority of the shareholders present and entitled to vote shall direct.

(d) Electing Directors at Adjourned Meeting. Those shareholders entitled to vote who attend a meeting called for the election of directors that has been previously adjourned for lack of a quorum, although less than a quorum as fixed in this section, shall nevertheless constitute quorum for the purpose of electing directors.

(e) Other Action in Absence of Quorum. Those shareholders entitled to vote who attend a meeting of shareholders that has been previously adjourned for one or more periods aggregating at least 15 days because of an absence of a quorum, although less than a quorum as fixed in this section, shall nevertheless constitute a quorum for the purpose of acting upon any matter set forth in the original notice of the meeting if the notice states that those shareholders who attend the adjourned meeting shall nevertheless constitute a quorum for the purpose of acting upon the matter.

Section 3.05. Action by Shareholders.

(a) Except as otherwise provided in the Business Corporation Law or the Articles or these Bylaws, whenever any corporate action is to be taken by vote of the shareholders of the corporation, it shall be authorized by a majority of the votes cast at a duly organized meeting of shareholders by the holders of shares entitled to vote thereon. Except when acting by consent, as permitted by the Articles and subsection (b), the shareholders of the corporation may act only at a duly organized meeting.

(b) Except as provided in the next sentence, any action required or permitted to be taken at a meeting of the shareholders or a class of shareholders may be taken without a meeting upon the consent of shareholders who would have been entitled to cast the minimum number of votes that would be necessary to authorize the action at a meeting at which all shareholders entitled to vote thereon were present and voting

Section 3.06. Organization. At every meeting of the shareholders, the chairman of the board of directors, or, in the case of vacancy in office or absence of the chairman of the board of directors, one of the following persons present in the order stated: a person appointed by the chairman of the board of directors to act as the presiding officer, the president, the vice presidents in their order of rank and seniority, or a person chosen by vote of the shareholders present, shall act as the presiding officer. The secretary or, in the absence of both the secretary and assistant secretaries, a person appointed by the presiding officer, shall act as secretary of the meeting.

Section 3.07. Voting Rights of Shareholders. Except as otherwise provided in the Articles or by law, the holders of Common Stock shall have the exclusive voting power, and every holder of Common Stock shall be entitled to one vote for every share of Common Stock standing in the name of the shareholder on the books of the corporation.

Section 3.08. Voting and Other Action by Proxy.

(a) General Rule.

(1) Every shareholder entitled to vote at a meeting of shareholders may authorize another person to act for the shareholder by proxy.

(2) The presence of, or vote or other action at a meeting of shareholders by a proxy of a shareholder shall constitute the presence of, or vote or action by the shareholder.

(3) Where two or more proxies of a shareholder are present, the corporation shall, unless otherwise expressly provided in the proxy, accept as the vote of all shares represented thereby the vote cast by a majority of them and, if a majority of the proxies cannot agree whether the shares represented shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among those persons.

(b) Minimum Requirements. Every proxy shall be executed or authenticated by a shareholder in writing or by the duly authorized attorney-in-fact of the shareholder and filed with or transmitted to the secretary of the corporation or his or her designated agent.

A shareholder or his or her duly authorized attorney-in-fact may execute or authenticate a writing or transmit an electronic message authorizing another person to act for him or her by proxy. A telegram, telex, cablegram, datagram, e-mail, Internet communication or other means of electronic transmission from a shareholder or attorney-in-fact, or a photographic, facsimile or similar reproduction of a writing executed by a shareholder or attorney-in-fact may be treated as properly executed or authenticated for purposes of this subsection and shall be so treated if it sets forth or utilizes a confidential and unique identification number of other mark furnished by the corporation to the shareholder for the purposes of a particular meeting or transaction.

A proxy, unless coupled with an interest, shall be revocable at will, notwithstanding any other agreement or any provision in the proxy to the contrary, but the revocation of a proxy shall not be effective until notice thereof has been given to the secretary of the corporation or its designated agent in writing or by electronic transmission. An unrevoked proxy shall not be valid after three years from the date of its execution, authentication or transmission unless a longer time is expressly provided therein. A proxy shall not be revoked by the death of incapacity of the maker unless, before the vote is counted or the authority is exercised, written notice of the death or incapacity is given to the secretary of the corporation or its designated agent.

(c) Expenses. The corporation shall pay the reasonable expenses of solicitation of votes or proxies of shareholders by or on behalf of the board of directors or its nominees for election to the board, including solicitation by professional proxy solicitors and otherwise.

Section 3.09. Voting by Fiduciaries and Pledgees. Shares of the corporation standing in the name of a trustee or other fiduciary and shares held by an assignee for the benefit of creditors or by a receiver may be voted by the trustee, fiduciary, assignee or receiver. A shareholder whose

shares are pledged shall be entitled to vote the shares until the shares have been transferred into the name of the pledgee, or a nominee of the pledgee, but nothing in this section shall affect the validity of a proxy given to a pledgee or nominee.

Section 3.10. Voting by Joint Holders of Shares.

(a) General Rule. Where shares of the corporation are held jointly or as tenants in common by two or more persons, as fiduciaries or otherwise:

(1) if only one or more of such persons is present in person or by proxy, all of the shares standing in the names of such persons shall be deemed to be represented for the purpose of determining a quorum and the corporation shall accept as the vote of all the shares the vote cast by a joint owner or a majority of them; and

(2) if the persons are equally divided upon whether the shares held by them shall be voted or upon the manner of voting the shares, the voting of the shares shall be divided equally among the persons without prejudice to the rights of the joint owners or the beneficial owners thereof among themselves.

(b) Exception. If there has been filed with the secretary of the corporation a copy, certified by an attorney at law to be correct, of the relevant portions of the agreement under which the shares are held or the instrument by which the trust or estate was created or the order of court appointing them or of an order of court directing the voting of the shares, the persons specified as having such voting power in the document latest in date of operative effect so filed, and only those persons, shall be entitled to vote the shares but only in accordance therewith.

Section 3.11. Voting by Corporations.

(a) Voting by Corporate Shareholders. Any corporation that is a shareholder of this corporation may vote at meetings of shareholders of this corporation by any of its officers or agents, or by proxy appointed by any officer or agent, unless some other person, by resolution of the board of directors of the shareholder corporation or by a provision of its Articles or bylaws, a copy of which resolution or provision certified to be correct by one of its officers has been filed with the secretary of this corporation, is appointed its general or special proxy in which case the person so appointed shall be entitled to vote the shares.

(b) Controlled Shares. Shares of this corporation owned, directly or indirectly, by it and controlled, directly or indirectly, by the board of directors of this corporation, as such, shall not be voted at any meeting and shall not be counted in determining the total number of outstanding shares for voting purposes at any given time.

Section 3.12. Determination of Shareholders of Record.

(a) Fixing Record Date. The board of directors may fix a time prior to the date of any meeting of shareholders as a record date for the determination of the shareholders entitled to notice of, or to vote at, the meeting. Except in the case of an adjourned meeting, the record date shall be not more than 90 days prior to the date of the meeting of shareholders. Only shareholders of record on the date so fixed shall be entitled to notice of and to vote at any such meeting notwithstanding any transfer of shares on the books of the corporation after any record date fixed as provided in this subsection. The board of directors may similarly fix a record date for the determination of shareholders of record for any other purpose. When a determination of

shareholders of record has been made as provided in this section for purposes of a meeting, the determination shall apply to any adjournment thereof unless the board fixes a new record date for the adjourned meeting.

(b) Determination When a Record Date is Not Fixed. If a record date is not fixed:

(1) the record date for determining shareholders entitled to notice of or to vote at a meeting of shareholders shall be at the close of business on the day next preceding the day on which notice is given, or, if notice is waived, at the close of business on the day immediately preceding the day on which the meeting is held; and

(2) the record date for determining shareholders for any other purpose shall be at the close of business on the day on which the board of directors adopts the resolution relating thereto.

(c) Certification by Nominee. The board of directors may adopt a procedure whereby a shareholder of the corporation may certify in writing to the corporation that all or a portion of the shares registered in the name of the shareholder are held for the account of a specified person or persons. Upon receipt by the corporation of a certification complying with the procedure, the persons specified in the certification shall be deemed, for the purposes set forth in the certification, to be the holders of record of the number of shares specified in place of the shareholder making the certification.

Section 3.13. Voting Lists.

(a) General Rule. The officer or agent having charge of the transfer books for shares of the corporation shall make a complete list of the shareholders entitled to vote at any meeting of shareholders, arranged in alphabetical order, with the address of and the number of shares held by each. The list shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any shareholder during the whole time of the meeting for the purposes thereof except that, if the corporation has 5,000 or more shareholders, in lieu of the making of the list the corporation may make the information therein available at the meeting by any other means.

(b) Effect of List. Failure to comply with the requirements of this section shall not affect the validity of any action taken at a meeting prior to a demand at the meeting by any shareholder entitled to vote thereat to examine the list. The original share register or transfer book, or a duplicate

thereof kept in the Commonwealth of Pennsylvania, shall be prima facie evidence as to who are the shareholders entitled to examine the list or share register or transfer book or to vote at any meeting of shareholders.

Section 3.14. Presiding Officer. There shall be a presiding officer at every meeting of the shareholders. Unless the Board of Directors designates otherwise, the presiding officer shall be the chairman of the board of directors. The presiding officer shall have the authority to determine the order of business and to establish rules for the conduct of each shareholders' meeting; provided that the presiding officer shall be fair to the shareholders in

adopting such rules for and in conducting the meeting. The presiding officer shall announce at the meeting when the polls close for each matter voted upon. If no announcement is made, the polls shall be deemed to have closed upon the final adjournment of the meeting. After the polls close, no ballots, proxies or votes, nor any revocations or changes thereto, may be accepted.

Section 3.15. Judges of Election.

(a) Appointment. In advance of any meeting of shareholders of the corporation, the board of directors may appoint one or more judges of election, who need not be shareholders, to act at the meeting or any adjournment thereof. If judges of election are not so appointed, the presiding officer of the meeting may, and on the request of any shareholder shall, appoint judges of election at the meeting. The number of judges shall be one or three. A person who is a candidate for an office to be filled at the meeting shall not act as a judge.

(b) Vacancies. In case any person appointed as a judge fails to appear or fails or refuses to act, the vacancy may be filled by appointment made by the board of directors in advance of the convening of the meeting or at the meeting by the presiding officer thereof.

(c) Duties. The judges of election shall determine the number of shares outstanding and the voting power of each, the shares represented at the meeting, the existence of a quorum, and the authenticity, validity and effect of proxies, receive votes or ballots, hear and determine all challenges and questions in any way arising in connection with nominations by shareholders or the right to vote, count and tabulate all votes, determine the result and do such acts as may be proper to conduct the election or vote with fairness to all shareholders. The judges of election shall perform their duties impartially, in good faith, to the best of their ability and as expeditiously as is practical. If there are three judges of election, the decision, act or certificate of a majority shall be effective in all respects as the decision, act or certificate of all.

(d) Report. On request of the presiding officer of the meeting or of any shareholder, the judges shall make a report in writing of any challenge or question or matter determined by them, and execute a certificate of any fact found by them. Any report or certificate made by them shall be prima facie evidence of the facts stated therein.

Section 3.16. Minors as Security Holders. The corporation may treat a minor who holds shares or obligations of the corporation as having capacity to receive and to empower others to receive dividends, interest, principal and other payments or distributions, to vote or express consent or dissent and to make elections and exercise rights relating to such shares or obligations unless, in the case of payments or distributions on shares, the corporate officer responsible for maintaining the list of shareholders or the transfer agent of the corporation or, in the case of payments or distributions on obligations, the treasurer or paying officer or agent has received written notice that the holder is a minor.

Section 3.17. Proposal of Amendments to the Articles. The shareholders of the corporation shall be entitled to propose an amendment to the Articles only to the extent, if any, expressly provided in the Articles.

ARTICLE IV

Board of Directors

Section 4.01. Powers; Personal Liability.

(a) General Rule. Unless otherwise provided by statute, all powers vested by law in the corporation shall be exercised by or under the authority of, and the business and affairs of the corporation shall be managed under the direction of, the board of directors.

(b) Personal Liability of Directors.

(1) A director shall not be personally liable, as such, for monetary damages for any action taken, or any failure to take any action, unless:

(i) the director has breached or failed to perform the duties of his or her office under Subchapter B of Chapter 17 of the Business Corporation Law (or any successor provision(s)); and

(ii) the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness.

(2) The provisions of paragraph (1) shall not apply to the responsibility or liability of a director pursuant to any criminal statute, or the liability of a director for the payment of taxes pursuant to local, state or federal law.

Section 4.02. Qualifications and Selection of Directors.

(a) Qualifications. Each director of the corporation shall be a natural person of full age who need not be a resident of the Commonwealth of Pennsylvania or a shareholder of the corporation.

(b) Notice of Certain Nominations Required. Nominations for election of directors may be made by any shareholder entitled to vote for the election of directors if written notice (the "Notice") of the shareholder's intent to nominate a director at the meeting is given by the shareholder and received by the secretary of the corporation in the manner and within the time specified in this section. The Notice shall be delivered to the secretary of the corporation not less than 120 days nor more than 150 days prior to the date fixed in accordance with Section 3.02 for the annual meeting of shareholders or in the case of a special meeting of shareholders at which directors are to be elected, not later than the earlier of the seventh day following the day on which notice of the meeting was first mailed to shareholders or the fourth day prior to the meeting. In lieu of delivery to the secretary, the Notice may be mailed to the secretary by certified mail, return receipt requested, but shall be deemed to have been given only upon actual receipt by the secretary. The requirements of this subsection shall not apply to a nomination for directors made to the shareholders by the board of directors.

(c) Contents of Notice. The Notice shall be in writing and shall contain or be accompanied by:

(1) the name and residence address of the nominating shareholder;

(2) a representation that the shareholder is a holder of record of voting stock of the corporation and intends to appear in person or by proxy at the meeting to nominate the person or persons specified in the Notice;

(3) such information regarding each nominee as would have been required to be included in a proxy statement filed pursuant to Regulation 14A of the rules and regulations established by the Securities and Exchange Commission under the Securities Exchange Act of 1934 (or pursuant to any successor act or regulation) had proxies been solicited with respect o such nominee by the management or board of directors of the corporation.

(4) a description of all arrangements or understandings among the shareholder and each nominee and any other person or persons (naming such person or persons) pursuant to which the nomination or nominations are to be made by the shareholder; and

(5) the consent of each nominee to serve as a director of the corporation if so elected.

(d) Determination of Compliance. If a judge or judges of election shall not have been appointed pursuant to these Bylaws, the presiding officer may, if the facts warrant, determine and declare to the meeting that any nomination made at the meeting was not made in accordance with the procedures of this section and, in such event, the nomination shall be disregarded. Any decision by the presiding officer made in good faith shall be conclusive and binding upon all shareholders of the corporation for any purpose.

(e) Election of Directors. Except as otherwise provided in these Bylaws, directors of the corporation shall be elected by the shareholders. In elections for directors, voting need not be by ballot, except upon demand made by a shareholder entitled to vote at the election and before the voting begins. The shareholders of the corporation (except holders of Preferred Stock when the right to elect directors accrues to them) shall not have the right to cumulate their votes for the election of directors of the corporation. The candidates receiving the highest number of votes from each class or group of classes, if any, entitled to elect directors separately up to the number of directors to be elected by the class or group of classes shall be elected. If at any meeting of shareholders, directors of more than one class are to be elected, each class of directors shall be elected in a separate election.

(f) Director Emeritus.

(1) The board of directors may appoint any former director of the corporation or of any predecessor corporation as a director emeritus to serve in an advisory capacity to the board for such period of time as the board wishes to avail itself of the services, knowledge and experience of such former director.

(2) Such director emeritus may upon invitation by the board of directors attend meetings of the board of directors and its committees and, if requested by the board, may participate in the proceedings of the board of directors, but shall not vote on or give written consent to any matters before the board.

(3) Director emeriti shall be compensated for such services as may be determined by the board of directors.

Section 4.03. Number and Term of Office.

(a) Number. The number of directors of the corporation constituting the whole board and the number of directors constituting each class of directors as provided by subsection (d) shall be fixed solely by resolution of the board of directors.

(b) Term of Office. Each director shall hold office until the expiration of the term for which he or she was selected and until a successor has been selected and qualified or until his or her earlier death, resignation or removal. A decrease in the number of directors shall not have the effect of shortening the term of any incumbent director.

(c) Resignation. Any director may resign at any time upon written notice to the corporation. The resignation shall be effective upon receipt thereof by the corporation or at such subsequent time as shall be specified in the notice of resignation.

(d) Classified Board of Directors. The Board of Directors of this Corporation shall be divided into three classes and are hereby designated as Class I, Class II and Class III, respectively, the members of which are to be elected for staggered terms. The term of office of each Class I director shall expire at the first annual meeting of shareholders; that of each Class II director at the second annual meeting of shareholders; and that of each Class III director at the third annual meeting of shareholders. At each election, directors shall be chosen for a full term, as the case may be, to succeed those whose terms expire.

Section 4.04. Vacancies.

(a) General Rule. Vacancies in the board of directors, including vacancies resulting from an increase in the number of directors, may be filled by a majority vote of the remaining members of the board though less than a quorum, or by a sole remaining director, and each person so selected shall be a director to serve until the next selection of the class for which such director has been chosen, and until a successor has been selected and qualified or until his or her earlier death, resignation or removal.

(b) Action by Resigned Directors. When one or more directors resign from the board effective at a future date, the directors then in office, including those who have so resigned, shall have power by the applicable vote to fill the vacancies, the vote thereon to take effect when the resignations become effective.

Section 4.05. Removal of Directors.

(a) By Shareholders. Any director or the entire board of directors may be removed by the shareholders without cause only by consent and not at a meeting.

(b) Successor Directors. In case a director or class of directors or the board is so removed, new directors may be elected at the same meeting or in the same consent.

(c) Removal by the Board. The board of directors may declare vacant the office of a director:

(1) Who has been judicially declared of unsound mind or who has been convicted of an offense punishable by imprisonment for a term of more than one year;

(2) If, within 60 days after notice of his or her selection, the director does not accept the office either in writing or by attending a meeting of the board of directors; or

(3) Who has been determined to be unsuitable to serve as a director by (A) any federal, state or local regulatory body having jurisdiction over the corporation and its activities, or (B) the compliance committee.

Section 4.06. Place of Meetings. Meetings of the board of directors may be held at such place within or without the Commonwealth of Pennsylvania as the board of directors may from time to time appoint or as may be designated in the notice of the meeting.

Section 4.07. Organization of Meetings. At every meeting of the board of directors, the chairman of the board of directors, or, in the case of a vacancy in the office or absence of the chairman of the board of directors, one of the following officers present in the order stated: the vice chairman of the board of directors, if there be one, the president, the chairman of the audit committee, or a person chosen by a majority of the directors present, shall act as chairman of the meeting. The secretary or, in the absence of the secretary, an assistant secretary, or, in the absence of the secretary and the assistant secretaries, any person appointed by the chairman of the meeting, shall act as secretary of the meeting.

Section 4.08. Regular Meetings. Regular meetings of the board of directors shall be held at such time and place as shall be designated from time to time by resolution of the board of directors.

Section 4.09. Special Meetings. Special meetings of the board of directors shall be held whenever called by the chairman or by two or more of the directors.

Section 4.10. Quorum of and Action by Directors.

(a) General Rule. A majority of the directors in office of the corporation shall be necessary to constitute a quorum for the transaction of business and the acts of a majority of

the directors present and voting at a meeting at which a quorum is present shall be the acts of the board of directors.

(b) Action by Unanimous Consent. Any action required or permitted to be taken at a meeting of the directors may be taken without a meeting if, prior or subsequent to the action, a consent or consents thereto by all of the directors in office is filed with the secretary of the corporation.

(c) Notation of Dissent. A director who is present at a meeting of the board of directors, or of a committee of the board, at which action on any corporate matter is taken shall be presumed to have assented to the action taken unless his or her dissent is entered in the minutes of the meeting or unless the director files a written dissent to the action with the secretary of the meeting before the adjournment thereof or transmits the dissent in writing to the secretary of the corporation immediately after the adjournment of the meeting. The right of dissent shall not apply to a director who voted in favor of the action. Nothing in this section shall bar a director from asserting that minutes of the meeting incorrectly omitted his or her dissent if, promptly upon receipt of a copy of such minutes, the director notifies the secretary, in writing, of the asserted omission or inaccuracy.

Section 4.11. Committees of the Board.

(a) Establishment and Powers. The board of directors may, by resolution adopted by a majority of the directors in office, establish one or more committees to consist of one or more directors of the corporation possessing such characteristics and experience as may be required under any applicable federal, state or local law or regulation, or any applicable rule or regulation of a securities exchange on which the securities of the corporation are listed, setting forth requirements as to the composition of committees established by the corporation. Any committee, to the extent provided in the resolution

of the board of directors, shall have and may exercise all of the powers and authority of the board of directors except that a committee shall not have any power or authority as to the following:

(1) The submission to shareholders of any action requiring approval of shareholders under the Business Corporation law.

(2) The creation or filling of vacancies in the board of directors.

(3) The adoption, amendment or repeal of these Bylaws.

(4) The amendment or repeal of any resolution of the board that by its terms is amendable or repealable only by the board.

(5) Action on matters committed by a resolution of the board of directors to another committee of the board.

(b) Alternate Committee Members. The board may designate one or more directors as alternate members of any committee who may replace any absent or disqualified member at any meeting of the committee or for the purposes of any written action by the committee. In the absence or disqualification of a member and alternate member or members of

a committee, the member or members thereof present at any meeting and not disqualified from voting, whether or not constituting a quorum, may unanimously appoint another director to act at the meeting in the place of the absent or disqualified member.

(c) Term. Each committee of the board shall serve at the pleasure of the board.

(d) Committee Procedures. The term "board of directors" or "board," when used in any provision of these Bylaws relating to the organization or procedures of or the manner of taking action by the board of directors, shall be construed to include and refer to any committee of the board.

Section 4.12. Compensation. The board of directors shall have the authority to fix the compensation of directors for their services as directors and a director may be a salaried officer of the corporation.

ARTICLE V

Officers

Section 5.01. Officers Generally.

(a) Number, Qualifications and Agents. The officers of the corporation shall be a chairman of the board of directors, a president, vice president(s), a secretary and a treasurer, and such other officers and assistant officers as may be elected in accordance with the provisions of Section 5.03. Officers may but need not be directors or shareholders of the corporation. The chairman of the board of directors, president and secretary shall be natural persons of full age. The treasurer may be a corporation, but if a natural person shall be of full age. Any number of offices may be held by the same person.

(b) Bonding. The corporation may secure the fidelity of any or all of its officers by bond or otherwise.

Section 5.02. Election, Term of Office and Resignations.

(a) Election and Term of Office. The chairman of the board of directors, the Chief Executive Officer, Chief Financial Officer, Chief Operating Officer, President, Vice President of Finance, Secretary, Treasurer and Vice President and General Counsel (collectively, the "Executive Officers") of the corporation shall be elected annually by the board of directors and shall hold office for a term of one year and until a successor has been selected and qualified or until his or her earlier death, resignation or removal. All other officers shall be appointed by the chairman of the board of directors or by delegated authority pursuant to Section 5.03 and shall serve at will.

(b) Resignations. Any officer may resign at any time upon written notice to the corporation. The resignation shall be effective upon receipt thereof by the corporation or at such subsequent time as may be specified in the notice of resignation.

Section 5.03. Subordinate Officers. The chairman of the board of directors may from time to time appoint such other officers as the business of the corporation may require, including one or more assistant secretaries, and one or more assistant treasurers, each of whom shall hold office for such period, have such authority, and perform such duties as are provided in these Bylaws, or as the chairman of the board of directors may from time to time determine. The chairman of the board of directors may delegate to any officer or committee the power to appoint subordinate officers and to retain or appoint employees or other agents, or committees thereof, and to prescribe the authority and duties of such subordinate officers, committees, employees or other agents.

Section 5.04. Removal of Officers and Agents. Any officer or agent of the corporation may be removed by the board of directors with or without cause. The removal shall be without prejudice to the contract rights, if any, of any person so removed. Election or appointment of an officer or agent shall not of itself create contract rights.

Section 5.05. Vacancies. A vacancy in any office because of death, resignation, removal, disqualification, or any other cause, may be filled by the board of directors or by the officer or committee to which the power to fill such office has been delegated pursuant to Section 5.03, as the case may be, and if the office is one for which these Bylaws prescribe a term, shall be filled for the unexpired portion of the term.

Section 5.06. Authority. All officers of the corporation, as between themselves and the corporation, shall have such authority and perform such duties in the management of the corporation as may be provided by or pursuant to resolutions or orders of the board of directors or, in the absence of controlling provisions in the resolutions or orders of the board of directors, as may be determined by or pursuant to these Bylaws.

Section 5.07. The Chairman of the Board of Directors. The chairman of the board of directors shall be the chief executive officer of the corporation and shall have general supervision over the business and operations of the corporation, subject, however, to the control of the board of directors. The chairman of the board of directors shall be a member, ex officio, of all standing committees. The chairman of the board of directors shall perform all duties incident to the office of chairman of the board of directors, and such other duties as from time to time may be assigned by the board of directors.

Section 5.08. The President. The president shall be the chief operating officer of the corporation. During the absence or disability of the chairman of the board of directors, the president shall exercise all the powers and discharge all the duties of the chairman of the board of directors. The president shall perform all duties incident to the office of president and such other duties as from time to time may be assigned by the board of directors or the chairman of the board of directors.

Section 5.09. The Vice Presidents. The vice presidents shall perform the duties of the president in the absence of the president and such other duties as may from time to time be assigned to them by the board of directors, the chairman of the board of directors or the president.

Section 5.10. The Secretary. The secretary shall attend all meetings of the shareholders, of the board of directors and all committees thereof and shall record all the votes of the shareholders and of the directors and the minutes of the meetings of the shareholders and of the board of directors and of committees of the board in a book or books to be kept for that purpose; shall see that notices are given and records and reports properly kept and filed by the corporation as required by law; shall be the custodian of the seal of the corporation and see that it is affixed to all documents to be executed on behalf of the corporation under its seal; and, in general, shall perform all duties incident to the office of secretary, and such other duties as may from time to time be assigned by the board of directors, the chairman of the board of directors or the president.

Section 5.11. Assistant Secretaries. In the absence or disability of the secretary, any assistant secretary may perform all the duties of the secretary, and, when so acting, shall have all the powers of and be subject to all the restrictions upon, the secretary. The assistant secretaries shall perform such other duties as from time to time may be assigned to them, respectively, by the board of directors, the chairman of the board of directors, the president or the secretary.

Section 5.12. The Treasurer. The treasurer shall have or provide for the custody of the funds or other property of the corporation; shall collect and receive or provide for the collection and receipt of moneys earned by or in any manner due to or received by the corporation; shall deposit all funds in his or her custody as treasurer in such banks or other places of deposit as the board of directors may from time to time designate; shall, whenever so required by the board of directors, render an account showing all transactions as treasurer, and the financial condition of the corporation; and, in general, shall discharge such other duties as may from time to time be assigned by the board of directors, the chairman of the board of directors or the president.

Section 5.13. Assistant Treasurers. In the absence or disability of the treasurer, any assistant treasurer may perform all the duties of the treasurer, and, when so acting, shall have all the powers of and be subject to all the restrictions upon the treasurer. The assistant treasurers shall perform such other duties as from time to time may be assigned to them, respectively, by the board of directors, the chairman of the board of directors, the president or the treasurer.

Section 5.14. Salaries. The salary and other remuneration of the Executive Officers of the corporation shall be fixed from time to time by the board of directors. The salaries and other remuneration of all other officers and employees shall be fixed from time to time by the chairman of the board of directors or by delegated authority pursuant to Section 5.03. No officer shall be prevented from receiving such salary or other compensation by reason of the fact that the officer is also a director of the corporation.

Section 5.15. Liability of Officers. An officer of the corporation shall not be personally liable, as such, to the corporation, for monetary damages (including, as such, to the corporation, for monetary damages (including, without limitation, any judgment, amount paid in settlement, penalty, punitive damages or expense of any nature (including, without limitation, attorneys' fees and disbursements)) for any action taken, or any failure to take any action, unless the officer has breached or failed to perform the duties of his or her office under the Articles,

these Bylaws or applicable provisions of law and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. The provisions of this section shall not apply to the responsibility or liability of an officer, as such, pursuant to any criminal statute or for the payment of taxes pursuant to local, state or federal law.

Section 5.16. Conduct of Officers. In lieu of the standards of conduct otherwise provided by law or in a Code of Ethics adopted by the corporation and applicable to such officers, officers of the corporation shall be subject to the same standards of conduct, including standards of care and loyalty and rights of justifiable reliance, as shall at the time be applicable to directors of the corporation.

ARTICLE VI

Certificates of Stock, Transfer, Etc.

Section 6.01. Share Certificates.

(a) Form of Certificates. Certificates for shares of the corporation shall be in such form as approved by the board of directors, and shall state that the corporation is incorporated under the laws of the Commonwealth of Pennsylvania, the name of the person to whom issued, and the number and class of shares and the designation of the series (if any) that the certificate represents. If the corporation is authorized to issue shares of more than one

class or series, certificates for shares of the corporation shall set forth upon the face or back of the certificate (or shall state on the face or back of the certificate that the corporation will furnish to any shareholder upon request and without charge), a full or summary statement of the designations, voting rights, preferences, limitations and special rights of the shares of each class or series authorized to be issued so far as they have been fixed and determined and the authority of the board of directors to fix and determine the designations, voting rights, preferences, limitations and special rights of the classes and series of shares of the corporation.

(b) Share Register. The share register or transfer books and blank share certificates shall be kept by the secretary or by any transfer agent or registrar designated by the board of directors for that purpose.

(c) Uncertificated Shares. These Bylaws may provide that any or all classes and series of shares, or any part thereof, shall be uncertificated shares except that such a provision shall not apply to shares represented by a certificate until the certificate is surrendered to the corporation. Within a reasonable time after the issuance or transfer of uncertificated shares, the corporation shall send to the registered owner thereof a written notice containing the information required to be set forth or stated on certificates by subsection (a). Except as otherwise expressly provided by law, the rights and obligations of the holders of shares represented by certificates and the rights and obligations of the holders of uncertificated shares of the same class and series shall be identical.

Section 6.02. Issuance. The share certificates of the corporation shall be numbered and registered in the share register or transfer books of the corporation as they are issued. They shall be executed in such manner as the board of directors shall determine.

Section 6.03. Transfer. Transfers of shares shall be made on the share register or transfer books of the corporation upon surrender of the certificate therefore, endorsed by the person named in the certificate or by an attorney lawfully constituted in writing. No transfer shall be made inconsistent with the provisions of the Uniform Commercial Code, 13 Pa.C.S. §§ 8101 et seq., and its amendments and supplements.

Section 6.04. Record Holders of Shares. The corporation shall be entitled to treat the person in whose name any share or shares of the corporation stand on the books of the corporation as the absolute owner thereof, and shall not be bound to recognize any equitable or other claim to, or interest in, such share or shares on the part of any other person.

Section 6.05. Lost, Destroyed or Mutilated Certificates. The holder of any shares of the corporation shall immediately notify the corporation of any loss, destruction or mutilation of the certificate therefore. If the corporation receives such notice prior to notice that the certificate at issue has been acquired by a protected purchaser, the corporation shall cause a new certificate or certificates to be issued to such holder, in case of mutilation of the certificate, upon the surrender of the mutilated certificate or, in the case of loss or destruction of the certificate, upon satisfactory proof of such loss or destruction and, in either such instance, upon the deposit of an indemnity bond in such form and in such sum, and with such surety or sureties, as the corporation may direct.

ARTICLE VII

Indemnification of Directors, Officers and Other Authorized Representatives

Section 7.01. Scope of Indemnification.

(a) General Rule. The corporation shall indemnify an Indemnified Representative against any Liability incurred in connection with any Proceeding in which the Indemnified Representative may be involved as a party or otherwise by reason of the fact that such person is or was serving in an Indemnified Capacity, including, without limitation, Liabilities resulting from any actual or alleged breach or neglect of duty, error, misstatement or misleading statement, negligence, gross negligence or act giving rise to strict or products liability, except:

(1) where such indemnification is expressly prohibited by applicable law;

(2) where the conduct of the Indemnified Representative has been finally determined pursuant to Section 7.06 or otherwise:

(i) to constitute willful misconduct or recklessness within the meaning of 15 Pa.C.S. §§ 518(b) and 1746(b) or any superseding provision of law sufficient in the circumstances to bar indemnification against liabilities arising from the conduct; or

(ii) to be based upon or attributable to the receipt by the Indemnified Representative from the corporation of a personal benefit to which the Indemnified Representative is not legally entitled; or

(3) to the extent such indemnification has been finally determined in a final adjudication pursuant to Section 7.06 to be otherwise unlawful.

(b) Partial Payment. If an Indemnified Representative is entitled to indemnification in respect of a portion, but not all, of any Liabilities to which such person may be subject, the corporation shall indemnify such Indemnified Representative to the maximum extent for such portion of the Liabilities.

(c) Presumption. The termination of a Proceeding by judgment, order, settlement or conviction or upon a plea of nolo contendere or its equivalent shall not of itself create a presumption that the Indemnified Representative is not entitled to indemnification.

(d) Definitions. For purposes of this Article:

(1) "Certifying Employee" means an employee of the corporation requested, as part of the corporation's disclosure controls and procedures and in connection with the performance of the employee's responsibilities in service to the corporation, to provide to the corporation a certification or certifications to be used by the corporation in connection with the preparation of its periodic reports under the Securities Exchange Act of 1934, as amended;

(2) "Indemnified Capacity" means any and all past, present and future service by an Indemnified Representative in one or more capacities as a director, officer, employee or agent of the corporation, or, at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise;

(3) "Indemnified Representative" means any and all directors and officers of the corporation, Certifying Employees and any other person designated as an Indemnified Representative by the board of directors of the corporation (which may, but need not, include any person serving at the request of the corporation, as a director, officer, employee, agent, fiduciary or trustee of another corporation, partnership, joint venture, trust, employee benefit plan or other entity or enterprise);

(4) "Liability" means any damage, judgment, amount paid in settlement, fine, penalty, punitive damages, excise tax assessed with respect to an employee benefit plan, or cost or expense of any nature (including, without limitation, attorneys' fees and disbursements); and

(5) "Proceeding" means any threatened, pending or completed investigation, action, suit, appeal or other proceeding of any nature, whether civil, criminal, administrative or investigative, whether formal or informal, and whether

brought by or in the right of the corporation, a class of its security holders or otherwise.

Section 7.02. Proceedings Initiated by Indemnified Representatives. Notwithstanding any other provision of this Article, the corporation shall not indemnify under this Article an Indemnified Representative for any Liability incurred in a proceeding initiated (which shall not be deemed to include counterclaims or affirmative defenses) or participated in as an intervenor or amicus curiae by the person seeking indemnification unless such initiation of or participation in the proceeding is authorized, either before or after its commencement, by the affirmative vote of a majority of the directors in office. This section does not apply to reimbursement of expenses incurring in successfully prosecuting or defending an arbitration under Section 7.06 or otherwise successfully prosecuting or defending the rights of an Indemnified Representative granted by or pursuant to this Article.

Section 7.03. Advancing Expenses. Except where such advance is expressly prohibited by applicable law, the corporation shall pay the expenses (including attorneys' fees and disbursements) incurred in good faith by an Indemnified Representative in advance of the final disposition of a Proceeding described in Section 7.01 or the initiation of or participation in which is authorized pursuant to Section 7.02 upon receipt of an undertaking by or on behalf of the Indemnified Representative to repay the amount if it is ultimately determined pursuant to Section 7.06 that such person is not entitled to be indemnified by the corporation pursuant to this Article. The financial ability of an Indemnified Representative to repay an advance shall not be a prerequisite to the making of such advance.

Section 7.04. Securing of Indemnification Obligations. To further effect, satisfy or secure the indemnification obligations provided herein or otherwise, the corporation may maintain insurance, obtain a letter of credit, act as self-insurer, create a reserve, trust, escrow, cash collateral or other fund or account, enter into indemnification agreements, pledge or grant a security interest in any assets or properties of the corporation, or use any other mechanism or arrangement whatsoever in such amounts, at such costs, and upon such other terms and conditions as the board of directors shall deem appropriate. Absent fraud, the determination of the board of directors with respect to such amounts, costs, terms and conditions shall be conclusive against all security holders, officers and directors and shall not be subject to voidability.

Section 7.05. Payment of Indemnification. An Indemnified Representative shall be entitled to indemnification within 30 days after a written request for indemnification has been delivered to the secretary of the corporation.

Section 7.06. Indemnification Procedure.

(a) Notification of claim. An Indemnified Representative shall use such Indemnified Representative's best efforts to notify promptly the secretary of the corporation of the commencement of any Proceeding or other occurrence of any event which might give rise to a Liability under this article, but, unless the corporation has been prejudiced thereby, the failure so to notify the corporation shall not relieve the corporation of any liability which it may have to the Indemnified Representative under this article or otherwise.

(b) Assumption of defense. The corporation shall be entitled, upon notice to any such Indemnified Representative, to assume the defense of any Proceeding with counsel reasonably satisfactory to the Indemnified Representative, or a majority of the Indemnified Representatives involved in such Proceeding if there be more than one. If the corporation notifies the Indemnified Representative of its election to defend the Proceeding, the corporation shall have no liability for the expenses (including attorneys' fees and disbursements) of the Indemnified Representative incurred in connection with the defense of such Proceeding subsequent to such notice, unless:

(1) such expenses (including attorneys' fees and disbursements) have been authorized by the corporation,

(2) the corporation shall not in fact have employed counsel reasonably satisfactory to such Indemnified Representative or Indemnified Representatives to assume the defense of such Proceeding, or

(3) it shall have been determined pursuant to subsection (d) that the Indemnified Representative was entitled to indemnification for such expenses under this Article or otherwise.

Notwithstanding the foregoing, the Indemnified Representative may elect to retain counsel at the Indemnified Representative's own cost and expense to participate in the defense of such proceeding.

(c) Settlement by corporation. The corporation shall not be required to obtain the consent of the Indemnified Representative to the settlement of any Proceeding which the corporation has undertaken to defend if the corporation assumes full and sole responsibility for such settlement and the settlement grants the Indemnified Representative an unqualified release in respect of all Liabilities at issue in the proceeding. Whether or not the corporation has elected to assume the defense of any Proceeding, no Indemnified Representative shall have any right to enter into any full or partial settlement of a Proceeding without the prior written consent of the corporation (which consent shall not be unreasonably withheld), nor shall the corporation be liable for any amount paid by an Indemnified Representative pursuant to any settlement to which the corporation has not so consented.

(d) Arbitration. Any dispute related to the right to indemnification, contribution or advancement of expenses as provided under this Article, except with respect to indemnification for liabilities arising under the Securities Act of 1933 that the corporation has undertaken to submit to a court of adjudication, shall be decided only by arbitration in the county in which the principal executive offices of the corporation are located at the time, in accordance with the commercial arbitration rules then in effect of the American Arbitration Association (the "AAA Rules"), before a panel of three arbitrators (the "Panel"), one of whom shall be selected by the corporation, the second of whom shall be selected by the Indemnified Representative and the third of whom shall be selected by the other two arbitrators. In the absence of the American Arbitration Association, or if for any reason arbitration under the arbitration rules of the American Arbitration Association cannot be initiated, and if one of the parties fails or refuses to select an arbitrator or the arbitrators selected by the corporation and the Indemnified

Representative cannot agree on the selection of the third arbitrator within 30 days after such time as the corporation and the Indemnified Representative have each been notified of the selection of the other's arbitrator, the necessary arbitrator or arbitrators shall be selected by the presiding judge of the court of general jurisdiction in such county. The arbitration shall be conducted pursuant to the Federal Arbitration Act and such procedures as the parties subject to such arbitration (each, a "Party") may agree, or, in the absence of or failing such agreement, pursuant to the AAA Rules. Notwithstanding the foregoing: (a) each Party shall provide to the other, reasonably in advance of any hearing, copies of all documents which a Party intends to present in such hearing; (b) each Party shall be allowed to conduct reasonable discovery through written document requests and depositions, the nature and extent of which discovery shall be determined by the Parties; provided, however, that if the Parties cannot agree on the terms of such discovery, the nature and extent thereof shall be determined by the Panel which shall take into account the needs of the Parties and the purposes of arbitration to make discovery expeditious and cost effective; (c) each Party shall be entitled to make an oral presentation to the Panel; and (d) the Panel shall select as a resolution the position of either Party for each item of disagreement and may not impose an alternative resolution. The award shall be in writing and shall specify the factual and legal basis for the award.

(e) Burden of Proof. The party or parties challenging the right of an Indemnified Representative to the benefits of this Article shall have the burden of proof.

(f) Expenses. The corporation shall reimburse an Indemnified Representative for the expenses (including attorneys' fees and disbursements) incurred in successfully prosecuting or defending such arbitration.

(g) Effect. Any award entered by the arbitrators shall be final, binding and nonappealable and judgment may be entered thereon by any party in accordance with applicable law in any court of competent jurisdiction, except that the corporation shall be entitled to interpose as a defense in any such judicial enforcement proceeding any prior final judicial determination adverse to the Indemnified Representative under Section 7.01(a)(2) in a Proceeding not directly involving indemnification under this Article. This arbitration provision shall be specifically enforceable.

Section 7.07. Contribution. If the indemnification provided for in this Article or otherwise is unavailable for any reason in respect of any liability or portion thereof, the corporation shall contribute to the liabilities to which the Indemnified Representative may be subject in such proportion as is appropriate to reflect the intent of this Article or otherwise.

Section 7.08. Mandatory Indemnification of Directors, Officers and Authorized Representatives. To the extent that an authorized representative of the corporation has been successful on the merits or otherwise in defense of any action, suit or Proceeding referred to in Section 1741 or 1742 of the Business Corporation Law or in defense of any claim, issue or matter therein, such person shall be indemnified against expenses (including attorneys' fees and disbursements) actually and reasonable incurred by such person in connection therewith.

Section 7.09. Contract Rights; Amendment or Repeal. All rights under this Article shall be deemed a contract between the corporation and the Indemnified Representative

pursuant to which the corporation and each Indemnified Representative intend to be legally bound. Any repeal, amendment or modification hereof shall be prospective only and shall not affect any rights or obligations then existing.

Section 7.10. Scope of Article. The rights granted by this article shall not be deemed exclusive of any other rights to which those seeking indemnification, contribution or advancement of expenses may be entitled under any statute, agreement, vote of shareholders or disinterested directors or otherwise, both as to action in an indemnified capacity and as to action in any other capacity. The indemnification, contribution and advancement of expenses provided by or granted pursuant to this article shall continue as to a person who has ceased to be an Indemnified Representative in respect of matters arising prior to such time, and shall inure to the benefit of the heirs, executors, administrators and personal representatives of such a person.

Section 7.11. Reliance on Provisions. Each person who shall act as an Indemnified Representative of the corporation shall be deemed to be doing so in reliance upon the rights provided by this Article.

Section 7.12. Interpretation. The provisions of this Article are intended to constitute bylaws authorized by 15 Pa.C.S. §§ 518 and 1746.

ARTICLE VIII

Miscellaneous

Section 8.01. Corporate Seal. The corporation shall have a corporate seal in the form of a circle containing the name of the corporation, the year of incorporation and such other details as may be approved by the board of directors. The affixation of the corporate seal shall not be necessary to the valid execution, assignment or endorsement by the corporation of any instrument or other document.

Section 8.02. Checks. All checks, notes, bills of exchange or other similar orders in writing shall be signed by such person or persons as the board of directors or any person authorized by resolution of the board of directors may from time to time designate.

Section 8.03. Contracts; Borrowing. Except as otherwise provided in the Business Corporation Law in the case of transactions that require action by the shareholders, the board of directors may authorize any officer, agent or employee to enter into any contract or to execute or deliver any instrument on behalf of the corporation. Such authority may be general or confined to specific instances, and no officer or officers, agent or agents, employee or employees of the corporation shall have any power or authority to bind the corporation by any contract or engagement to borrow money, to pledge its credit or to mortgage or pledge its real or personal property, except within the scope and to the extent of the authority so delegated.

Section 8.04. Interested Directors or Officers; Quorum.

(a) General Rule. A contract or transaction between the corporation and one or more of its directors or officers or between the corporation and another corporation,

partnership, joint venture, trust or other enterprise in which one or more of its directors or officers are directors or officers or have a financial or other interest, shall not be void or voidable solely for that reason, or solely because the director or officer is present at or participates in the meeting of the board of directors that authorizes the contract or transaction, or solely because his, her or their votes are counted for that purpose, if:

(1) the material facts as to the relationship or interest and as to the contract or transaction are disclosed or are known to the board of directors and the board authorizes the contract or transaction by the affirmative votes of a majority of the disinterested directors even though the disinterested directors are less than a quorum;

(2) the material facts as to his or her relationship or interest and as to the contract or transaction are disclosed or are known to the shareholders entitled to vote thereon and the contract or transaction is specifically approved in good faith by vote of those shareholders; or

(3) the contract or transaction is fair as to the corporation as of the time it is authorized, approved or ratified by the board of directions or the shareholders.

(b) Quorum. Common or interested directors may be counted in determining the presence of a quorum at a meeting of the board which authorizes a contract or transaction specified in subsection (a).

Section 8.05. Deposits. All funds of the corporation shall be deposited from time to time to the credit of the corporation in such banks, trust companies or other depositaries as the board of directors may approve or designate, and all such funds shall be withdrawn only upon checks signed by such one or more officers or employees as the board of directors shall from time to time determine.

Section 8.06. Corporate Records.

(a) Required Records. The corporation shall keep complete and accurate books and records of account, minutes of the proceedings of the incorporators, shareholders and directors and a share register giving the names and addresses of all shareholders and the number and class of shares held by each. The share register shall be kept at either the registered office of the corporation in the Commonwealth of Pennsylvania or at its principal place of business wherever situated or at the office of its registrar or transfer agent. Any books, minutes or other records may be in written form or any other form capable of being converted into written form within a reasonable time.

(b) Right of Inspection. Every shareholder shall, upon written verified demand stating the purpose thereof, have a right to examine, in person or by agent or attorney, during the usual hours for business for any proper purpose, the share register, books and records of account, and records of the proceedings of the incorporators, shareholders and directors and to make copies or extracts therefrom. A proper purpose shall mean a purpose reasonably related to the interest of the person as a shareholder. In every instance where an attorney or other agent is

the person who seeks the right of inspection, the demand shall be accompanied by a verified power of attorney or other writing that authorizes the attorney or other agent to so act on behalf of the shareholder. The demand shall be directed to the corporation (i) at its registered office in the Commonwealth of Pennsylvania, (ii) at its principal place of business wherever situated, or (iii) in care of the person in charge of an actual business office of the corporation.

Section 8.07. Voting. Unless otherwise ordered by the board of directors, the corporation may cast (by consent or at a meeting) the votes which the corporation may be entitled to cast as a shareholder or otherwise in any other corporation any of whose shares or other securities are held by or for the corporation by any of its officers or agents, or by proxy appointed by any officer or agent, unless some other person, by resolution of the board of directors or a provision of the other corporation's articles or bylaws, is appointed its general or special proxy in which case that person shall be entitled to vote the shares or other securities.

Section 8.08. Fiscal Year. The fiscal year of the corporation shall begin on the first day of January in each year.

Section 8.09. Amendment of Bylaws.

(a) General Rule. Except as otherwise provided in the express terms of any series of the shares of the corporation, the authority to adopt, amend and repeal these Bylaws of the corporation is hereby vested in the board of directors of the corporation. These Bylaws may be amended or repealed, or new bylaws may be adopted, by vote of a majority of the board of directors of the corporation in office at any regular or special meeting of directors, including in circumstances otherwise reserved by statute exclusively to the shareholders (except as otherwise provided in Section 1504(b) of the Business Corporation Law), subject to the power of the shareholders to change such action. Any bylaw adopted by the board of directors under this paragraph shall be consistent with the Articles.

(b) Effective Date. Any change in these Bylaws shall take effect when adopted unless otherwise provided in the resolution effecting the change.

SPECIMEN COMMON STOCK CERTIFICATE

[LOGO OF PENN NATIONAL GAMING, INC.]

COMMON STOCK

$.01 PAR VALUE

PENN NATIONAL GAMING, INC.

INCORPORATED UNDER THE LAW OF THE COMMONWEALTH OF PENNSYLVANIA

CUSIP 707569 10 9

SEE REVERSE FOR CERTAIN DEFINITIONS

THIS CERTIFIES THAT

IS THE OWNER OF

FULLY PAID AND NONASSESSABLE SHARES OF THE COMMON STOCK OF

PENN NATIONAL GAMING, INC.

transferable on the books of the Corporation by the holder hereof, in person or by duly authorized attorney, upon the surrender of this Certificate properly endorsed. This Certificate is not valid until countersigned by the Transfer Agent and registered by the Registrar.

Witness the facsimile seal of said Corporation and the facsimile signatures of its duly authorized officers.

Dated:

Countersigned and Registered:

CONTINENTAL STOCK TRANSFER & TRUST COMPANY

TRANSFER AGENT AND REGISTRAR

BY SPECIMEN
AUTHORIZED SIGNATURE

[CORPORATE SEAL OF PENN NATIONAL GAMING, INC.]

/s/
CHAIRMAN

/s/
SECRETARY

The Corporation will furnish without charge to each shareholder who so requests a statement of the powers, designations, preferences and relative, participating, optional or other special rights of each class of stock of the Corporation or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights. Any such request may be addressed to the Corporation or its Transfer Agent.

The following abbreviations, when used in the inscription on the face of this Certificate, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common
TEN ENT - as tenants by the entireties
JT TEN - as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT- _____ (Cust) Custodian _____ (Minor)
under Uniform Gifts to Minor Act _____ (State)

Additional abbreviations may also be used though not in the above list.

For value received, _____ hereby sell, assign and transfer unto _____

PLEASE INSERT SOCIAL SECURITY OR OTHER IDENTIFYING NUMBER OF ASSIGNEE: _____

&nb sp;_____

(NAME AND ADDRESS OF TRANSFEREE SHOULD BE PRINTED OR TYPEWRITTEN)

_____ &nbs p; Shares of the Common Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint _____ Attorney to transfer the said stock on the books of the within-named Corporation with full power of substitution in the premises.

Dated _____ _____

Signature

NOTICE: THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH NAME(S) AS WRITTEN UPON THE FACE OF THE CERTIFICATE IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT OR ANY CHANGE WHATSOEVER.

SIGNATURE(S) GUARANTEED

By: _____

THE SIGNATURE(S) SHOULD BE GUARANTEED BY AN ELIGIBLE GUARANTOR INSTITUTION (Banks, Stockbrokers, Savings and Loan Associations and Credit Unions) WITH MEMBERSHIP IN AN APPROVED SIGNATURE GUARANTEE MEDALLION PROGRAM, PURSUANT TO S.E.C. RULE 17Ad-15.

“This certificate also evidences and entitles the holder hereof to certain Rights as set forth in the Rights Agreement between Penn National Gaming, Inc. (the “Company”) and Continental Stock Transfer and Trust Company (the “Rights Agent”) dated as of March 2, 1999 (the “Rights Agreement”), and as the same may be amended from time to time, the terms of which are hereby incorporated herein by reference and a copy of which is on file at the principal offices of the Company. Under certain circumstances, as set forth in the Rights Agreement, such Rights will be evidenced by separate certificates and will no longer be evidenced by this certificate. The Company will mail to the holder of this certificate a copy of the Rights Agreement, as in effect on the date of mailing, without charge promptly after receipt of a written request therefor. Under certain circumstances set forth in the Rights Agreement, Rights issued to, or held by, any Person who is, was or becomes an Acquiring Person, an Adverse Person or any Affiliate or Associate thereof (as such terms are defined in the Rights Agreement), whether currently held by or on behalf of such Person or by any subsequent holder, may become null and void.”

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into as of this 10th day of June, 2003 by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and Leonard DeAngelo, an individual residing in New Jersey ("Executive").

WHEREAS, Executive desires to become employed by the Company, and the Company desires to employ Executive upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree as follows:

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Executive Vice President, Operations of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the President and Chief Operating Officer or by the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term.

(a) Initial Term. The term of this Agreement shall begin on a date to be agreed upon in writing between Executive and the Company, but in no event later than February 1, 2004 (the "Commencement Date"), and shall terminate at the close of business on the third anniversary of the Commencement Date (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof.

(b) Renewal Terms. This Agreement may be renewed for such additional periods as the parties may agree (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon execution of a written renewal agreement signed by each party. In the event the parties have not executed a renewal agreement prior to the expiration of the Employment Term but Executive continues to be employed by the Company after such time, Executive shall be deemed to be employed "at will" and the parties will have no further obligations to each other under this Agreement other than under Sections 3.4(b), 5, 7 and 9 through 19.

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations (so long as such service does not materially interfere with Executive's duties hereunder) or investing assets in such form or manner as will not require services on the part of Executive.

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2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of $450,000, payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any changes in Base Salary or other compensation shall be made at the discretion of the President and Chief Operating Officer, subject to the review of the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses.

(a) Annual Bonus. Executive shall participate in the Company's Senior Management Incentive Compensation Plan as such may be adopted, amended and approved, from time to time, by the Compensation Committee. Executive's participation in such plan shall be pro rated during Executive's first year of employment based on the number of days of actual employment.

(b) Start Bonus. Executive shall receive a cash bonus of $150,000 on the Commencement Date. Such bonus shall be paid together with the first payment of Base Salary in accordance with the Company's standard payroll practices.

(c) Transition Bonus. In the event that Executive is unable to commence employment with the Company prior to December 31, 2003 due to contractual obligations to Executive's prior employer and such prior employer fails to pay Executive the full amount of Executive's 2003 bonus as required by the terms of Executive's employment agreement with such prior employer, then the Company will pay to Executive an amount equal to such shortfall up to a maximum of $100,000 (the "Transition Bonus"). Such payment shall be conditioned upon Executive providing a written statement to the Company setting forth the amount of such shortfall, the formula Executive believes should have been used to calculate such bonus and such other detail or documents as may be reasonably necessary for the Company to verify the basis of such claim. Such payment shall be made as soon as possible following the Company's review and verification of such claim.

2.3. Equity Compensation. The Company shall grant to Executive options pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. for 150,000 shares of Penn National Gaming, Inc. common stock at an exercise price based on the closing market price of the stock on the Commencement Date. Such options will vest as follows:

i. 25% on the first anniversary of the Commencement Date;
ii. 25% on the second anniversary of the Commencement Date;
iii. 25% on the third anniversary of the Commencement Date; and
iv. 25% on the fourth anniversary of the Commencement Date.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate. In the event that Executive is not immediately eligible for medical coverage on Commencement Date, the Company shall reimburse Executive for any COBRA payments from the Commencement Date until such time as the Company's medical coverage commences.

2.5. Insurance. The Company shall maintain life insurance on the life of Executive in the amount of $1,000,000, to the extent it can be issued at standard rates, and Executive may name the beneficiary of such policy.

2.6. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time, prorated for the current year. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.7. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(a) Without Cause. The Company may terminate Executive at any time without Cause (as defined in subsection (b) below) upon the delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(b) With Cause. The Company may terminate Executive at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any Company policy and fails to cure such breach within 15 days after receipt of written notice thereof or Executive materially breaches the terms of Sections 4, 5 or 6 this Agreement; or

(iv) Executive misappropriates corporate funds or commits other acts of dishonesty as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination). The Company and Executive, however, recognize and agree that they mutually agreed upon term of this Agreement and that Executive is expected to complete fully the Employment Term. In the event Executive terminates employment under this Section 3.2 prior to the completion of the Initial Term, the Company may, without limiting any other rights or remedies available to it, request that Executive repay any bonuses paid under Sections 2.2(b) or 2.2(c) pro rata to the number of days remaining in the Initial Term following the effective date of termination. Such payment shall be made in cash within 10 days of delivery of written notice from the Company to Executive.

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, this Agreement shall terminate effective as of the date of Executive's death or total disability. The term "total disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Generally. Upon any termination described in Sections 3.1, 3.2 or 3.3 above, Executive shall be entitled to receive any amounts due for Base Salary earned or expenses incurred through the effective date of termination and any benefits accrued or earned on or prior to such date in accordance with the terms of any applicable benefit plans and programs.

(b) Without Cause. In the event the Company terminates Executive's employment without Cause (either before or after expiration of the Employment Term), and subject to Executive executing a mutual release in a form reasonably acceptable to the Company and Executive, Executive shall be entitled to receive the following in lieu of any other severance:

(i) Executive shall receive a cash payment equal to Executive's monthly Base Salary at the rate in effect on the effective date of termination multiplied by the greater of (i) the number of months remaining in the Initial Term or (ii) twelve months (the "Severance Period").

(ii) Executive shall continue to receive the health benefits coverage in effect on the effective date of termination (or as the same may be changed from time to time for Peer Executives) for Executive and, if any, Executive's spouse and dependents for the Severance Period. At the option of the Company, the Company may elect to pay Executive cash in lieu of such coverage in an amount equal to Executive's after-tax cost of obtaining generally comparable coverage for such period.

(c) Death or Disability. In the event the Company terminates Executive's employment due to the death or total disability of Executive, Executive shall be entitled to receive the following in lieu of any other severance:

(i) Executive shall receive a cash payment equal to 175% of Executive's monthly Base Salary at the rate in effect on the effective date of termination multiplied by the number of months remaining in the Severance Period.

(ii) Executive shall continue to receive the health benefits coverage in effect on the effective date of termination (or as the same may be changed from time to time for Peer Executives) for Executive and, if any, Executive's spouse and dependents for the Severance Period. At the option of the Company, the Company may elect to pay Executive cash in lieu of such coverage in an amount equal to Executive's after-tax cost of obtaining generally comparable coverage for such period.

(d) Payments. All payments due under this Section 3.4 shall be made within 15 days of the effective date of termination provided the release, if applicable, has been executed by Executive. Except as otherwise provided in this Section 3.4 or Section 8 below, no other payments or benefits shall be due under this Agreement to Executive.

3.5. Options. Except as otherwise provided in the relevant option plan or option agreement or as otherwise approved by the Compensation Committee, all options granted to Executive shall cease vesting on the effective date of termination, regardless of the reason therefore.

3.6. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment relationship that would interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer lists, and other business related information for the Compan's customers). Executive agrees

that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to the remainder of the Employment Term in effect on the effective date of termination.

(b) During Executive's employment by the Company and for the duration of the Restriction Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates a gaming or pari-mutuel facility located within 150 miles of any gaming or pari-mutuel facility owned or operated by the Company or any of its affiliates; provided, however, that this Section 6(b) shall not apply in the event the Company terminates Executive without cause under Section 3.1(a).

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange Act of 1934,

provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control. In the event that a change in control of the Company occurs (as such may be defined by the Company's current equity compensation plan, a "Change of Control"), Executive shall be entitled to any payments and/or benefits that may become payable as a result of such event on substantially the same terms and conditions as any payments and/or benefits provided to Peer Executives taking into account Executive's position as the Executive Vice President, Operations.

9. Document Surrender. Upon the termination of Executive's employment for any reason, Executive shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

10. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

11. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper forum for adjudicating such a claim.

12. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842

Attention: President

If to Executive, to:

Leonard DeAngelo
c/o Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 373-4966

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

13. Contents of Agreement; Amendment and Assignment.

13.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto and cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

13.2. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective heirs, executors, administrators, legal representatives, successors and assigns of the parties hereto, except that the duties and responsibilities of Executive under this Agreement are of a personal nature and shall not be assignable or delegatable in whole or in part by Executive.

14. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances.

15. Remedies.

15.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

15.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

15.3. In the event the Company, in the exercise of its sole reasonable judgment, determines that Executive has breached any term or condition of Sections 5, 6 or 7 of this Agreement, the Company may, by delivering written notice to Executive, (i) terminate and declare null and void any and all vested options, (ii) demand repayment of the proceeds of all option shares sold by Executive during the preceding 12 month period, and/or (iii) demand repayment of all amounts paid as severance hereunder or otherwise. Any repayments to be made by Executive shall be made within five business days of the giving of such notice. This subsection (c) shall terminate and be of no further force and effect immediately prior to a Change of Control.

16. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of

Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

17. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

18. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

19. Legal Fees. Each party shall bear its own costs and expenses with respect hereto except that the Company will defend, indemnify and hold harmless Executive for any costs and expenses relating to claims made by any third party with respect to Executive's employment with the Company or this Agreement.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Kevin G. DeSanctis
Name: Kevin G. DeSanctis
Title: President and Chief Operating Officer

EXECUTIVE

/s/ Leonard DeAngelo
Leonard DeAngelo

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, Peter M. Carlino, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Penn National Gaming, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

   (c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2003

/s/Peter M.Carlino
Peter M. Carlino
Chairman and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934

I, William J. Clifford, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Penn National Gaming, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and we have:

(a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures as of the end of the period covered by this report based on such evaluation; and

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

(a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 13, 2003

/s/ William J. Clifford

William J. Clifford
Senior Vice President-Finance and
Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Penn National Gaming, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter M. Carlino, Chairman and Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ Peter M. Carlino
Peter M. Carlino
Chairman and Chief Executive Officer
August 13, 2003

Exhibit 32.2

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of Penn National Gaming, Inc. (the "Company") on Form 10-Q for the quarter ended June 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Clifford, Senior Vice President-Finance and Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, to the best of my knowledge, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

By: /s/ William J. Clifford
William J. Clifford
Senior Vice President-Finance and
Chief Financial Officer
August 13, 2003