SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended SEPTEMBER 30, 2001

OR

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

For the transition period from ________ to ___________

Commission file number: 0-24206

PENN NATIONAL GAMING, INC.
(Exact name of registrant as specified in its charter)

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

Penn National Gaming, Inc.
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 X No __

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

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 NOVEMBER 13, 2001
Common Stock par value .01 per share	15,478,850

This report includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this report regarding the Company's operations, financial position and business strategy may constitute forward-looking terminology. These statements may be identifiable by words such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe" or "continue" or the negative thereof or variations thereon or similar terminology. Although the Company believes that the expectations reflected in such forward-looking statements are reasonable at this time, it can give no assurance that such expectations will prove to have been correct and, therefore, you should not rely on any such forward-looking statements. Important factors that could cause actual results to differ materially from the Company's expectations ("cautionary statements") are disclosed in this report and in other materials filed with the Securities and

Exchange Commission. All subsequent written and oral forward-looking statements attributable to the Company or persons acting on its behalf are expressly qualified in their entirety by the cautionary statements. The Company does not intend to update publicly any forward-looking statements, except as required by law. This discussion is permitted by the Private Securities Litigation Reform Act of 1995.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
INDEX

PART I - FINANCIAL INFORMATION

ITEM 1 - FINANCIAL STATEMENTS

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(in thousands, except share and per share data)

SEPTEMBER 30,
DECEMBER 31,
2001 2000 ---
----------- -

(unaudited)
ASSETS
Current
Assets Cash
and cash
equivalents $
36,401 $
23,287
Accounts
receivable
20,801 10,341
Prepaid
expenses and
other current
assets 8,646
5,312 Prepaid
income taxes
-- 1,905 ----
----- -------
-- TOTAL
CURRENT
ASSETS 65,848
40,845
Property,
plant and
equipment, at
cost Land and
improvements
82,761 81,177
Buildings and
improvements
225,042
142,753
Furniture,
fixtures and
equipment
97,731 79,606
Transportation
equipment
1,138 1,015
Leasehold
improvements
11,920 11,704
Construction
in progress
10,869 3,643
--------- ---

429,461
319,898 Less
accumulated
depreciation
and
amortization
50,843 31,582

--------- ---
------ NET
PROPERTY,
PLANT AND
EQUIPMENT
378,618
288,316 -----
---- --------
- Other
assets
Investments
in and
advances to
unconsolidated
affiliates
15,426 14,584
Cash in
escrow 500
5,107 Excess
of cost over
fair market
value of net
assets
acquired (net
of
accumulated
amortization
of $6,311 and
$3,848,
respectively)
164,223
78,161 Other
intangible
assets (net
of
accumulated
amortization
of $1,068)
24,678 --
Deferred
financing
costs, net
14,709 9,585
Miscellaneous
6,266 3,302 -
-------- ----
----- TOTAL
OTHER ASSETS
225,802
110,739 -----
---- --------
- $ 670,268 $
439,900 -----
---- --------
- LIABILITIES
AND
SHAREHOLDERS'
EQUITY
Current
Liabilities
Current
maturities of
long-term
debt $ 14,204
$ 11,390
Accounts
Payable
14,242 18,436
Purses due
horsemen
1,333 2,262
Uncashed
pari-mutuel
tickets 1,108
1,393 Accrued
expenses
28,626 6,913
Accrued
interest
9,381 1,289
Accrued

salaries and
wages 6,026
3,957
Customers'
deposits 794
834 Income
taxes 1,210 -
- Taxes,
other than
income taxes
4,055 2,816 -
-------- ----
----- TOTAL
CURRENT
LIABILITIES
80,979 49,290
Long term
liabilities
Long-term
debt, net of
current
maturities
454,518
297,909
Deferred
income taxes
38,257 13,480
--------- ---
------ Total
long-term
liabilities
492,775
311,389 -----
---- --------
- Commitments
and
contingencies
Shareholders'
equity
Preferred
stock, $.01
par value,
1,000,000
shares
authorized;
no shares
issued -- --
Common stock,
$.01 par
value,
200,000,000
shares
authorized;
15,901,300
and
15,459,175
shares
issued,
respectively
159 155
Treasury
stock, at
cost, 427,700
shares
outstanding
(2,379)
(2,379)
Additional
paid-in
capital
44,348 39,482
Retained
earnings
60,776 41,963
Other
comprehensive
income
(6,390) -- --
------- -----
---- TOTAL
SHAREHOLDERS'

EQUITY 96,514
79,221 ------
--- ---------
$ 670,268 $
439,900
=========
=========

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 NINE
MONTHS ENDED
SEPTEMBER 30,
SEPTEMBER 30,

- 2001 2000
2001 2000 ---
------ ------
-- ---------

Revenues
Gaming $
104,366 $
50,215 $
267,264 $
99,895 Racing
28,781 30,910
85,508 87,913
Management
service fees
3,499 --
5,480 --
Other revenue
8,888 5,857
25,173 12,209
--------- ---
----- -------
-- ---------
TOTAL
REVENUES
145,534
86,982
383,425
200,017 -----
---- --------
--------- ---

Operating
expenses
Gaming 57,575
29,505
146,940
59,050 Racing
20,368 20,419
59,511 59,065
Other 9,604
5,774 25,847
11,980
General and
administrative
26,195 13,143
68,515 29,316
Depreciation
and
amortization
9,157 4,089
25,079 8,457

--------- ---
----- -------
-- ---------
TOTAL
OPERATING
EXPENSES
122,899
72,930
325,892
167,868 -----
---- --------
--------- ---
------ INCOME
FROM
OPERATIONS
22,635 14,052
57,533 32,149
--------- ---
----- -------
-- ---------
Other income
(expense)
Interest
expense
(11,554)
(6,188)
(32,461)
(11,004)
Interest
income 468
607 2,654
1,334
Earnings from
joint venture
460 815 2,020
2,244 Other
(145) 1 (729)
1 --------- -
------- -----
---- --------
- Total other
income
(expense)
(10,771)
(4,765)
(28,516)
(7,425) -----
---- --------
--------- ---
------ INCOME
BEFORE INCOME
TAXES AND
EXTRAORDINARY
ITEM 11,864
9,287 29,017
24,724 ------
--- --------
--------- ---
------ Taxes
on income
4,151 3,285
10,204 8,876
--------- ---
----- -------
-- ---------
INCOME BEFORE
EXTRAORDINARY
ITEM 7,713
6,002 18,813
15,848
Extraordinary
item -- loss
on early
extinguishment
of debt, net
of income
taxes of
$4,615 --
(6,583) --
(6,583) -----
---- --------

--------- ---
------ NET
INCOME (LOSS)
$ 7,713 $
(581) $
18,813 $
9,265
=========
========
=========
========= PER
SHARE DATA:
BASIC Income
before
extraordinary
item $ 0.50 $
0.40 $ 1.23 $
1.06
Extraordinary
item --
(0.44) --
(0.44) ------
--- --------
--------- ---
------ Net
income (loss)
$ 0.50 $
(0.04) $ 1.23
$ 0.62 ------
--- --------
--------- ---

DILUTED
Income before
extraordinary
item $ 0.48 $
0.39 $ 1.19 $
1.03
Extraordinary
item --
(0.43) --
(0.43) ------
--- --------
--------- ---
------ Net
income (loss)
$ 0.48 $
(0.04) $ 1.19
$ 0.60 ------
--- --------
--------- ---

WEIGHTED
SHARES
OUTSTANDING
Basic 15,467
15,007 15,271
14,948
Diluted
16,043 15,504
15,836 15,407

See accompanying notes to consolidated financial statements.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(in thousands, except share data)
(unaudited)

ADDITIONAL
OTHER COMMON
STOCK
TREASURY
PAID-IN
RETAINED
COMPREHENSIVE

```
SHARES
AMOUNT STOCK
CAPITAL
EARNINGS
INCOME TOTAL
---------- -
----- ------
-- ---------
- -------- -
------------
---------
BALANCE,
JANUARY 1,
2001
15,459,175
$155
$(2,379)
$39,482
$41,963 $ --
$ 79,221
Issuance of
common stock
442,125 4 --
4,866 -- --
4,870
Comprehensive
income: Net
income for
the nine
months ended
September
30, 2001 --
-- -- --
18,813 --
18,813 Fair
market value
of swap
agreement --
-- -- -- --
(6,358)
(6,358)
Translation
adjustment -
- -- -- -- -
- (32) (32)
---------- -
--- -------
------- ----
--- -------
--------
Total
comprehensive
income -- --
-- -- 18,813
(6,390)
12,423 -----
----- ---- -
------ -----
-- ------- -
------ -----
--- BALANCE,
SEPTEMBER
30, 2001
15,901,300
$159
$(2,379)
$44,348
$60,776
$(6,390) $
96,514
==========
==== =======
=======
=======
=======
========
```

See accompanying notes to consolidated financial statements.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)
(unaudited)

NINE MONTHS
ENDED
SEPTEMBER 30,

2001 2000 ---
------ ------
--- Cash
flows from
operating
activities
Net income $
18,813 $
9,265
Adjustments
to reconcile
net income to
net cash
provided by
operating
activities
Depreciation
and
amortization
25,079 8,457
Earnings from
joint venture
(2,020)
(1,645)
Extraordinary
loss relating
to early
extinguishment
of debt --
11,198
(Gain)/Loss
on sale of
net assets
731 --
Deferred
income taxes
3,793 571
Decrease
(increase)
in: Accounts
receivable
792 (3,715)
Prepaid
expenses and
other current
assets
(1,441)
(4,584)
Prepaid
income taxes
1,905 843
Miscellaneous
other assets
(1,108)
(2,013)
Increase
(decrease)
in: Accounts
payable
(7,206) 3,368
Purses due
horsemen
(929) (1,105)
Uncashed
pari-mutuel
tickets (285)
(201) Accrues
expenses

11,290 4,859
Accrued
interest
1,734 939
Accrued
salary and
wages 2,069
3,845
Customer
deposits (40)
321 Taxes,
other than
income taxes
1,239 523
Income taxes
1,210 -- ----
----- -------
-- NET CASH
PROVIDED BY
OPERATING
ACTIVITIES
55,626 30,926
--------- ---
------ Cash
flows from
investing
activities
Expenditures
for property,
plant and
equipment
(22,967)
(17,348)
Proceeds from
sales of
property and
equipment 237
151
Investment in
and advances
to joint
venture 1,178
-- Decrease
in cash in
escrow 4,607
(8)
Acquisition
of business,
net of cash
acquired
(182,961)
(203,906) ---
------ ------
--- NET CASH
USED IN
INVESTING
ACTIVITIES
(199,906)
(221,111) ---
------ ------
--- Cash
flows from
financing
activities
Proceeds from
exercise of
stock options
4,870 626
Proceeds of
long-term
debt 211,000
319,895
Principal
payments on
long-term
debt (51,576)
(102,310)
(Increase) in
unamortized
financing
costs (6,900)

(10,258)
Payment of
senior notes
tender fee --
(6,685) -----
---- --------
- NET CASH
PROVIDED BY
FINANCING
ACTIVITIES
157,394
201,268 -----
---- --------
- Net
increase in
cash and cash
equivalents
13,114 10,968
Cash and cash
equivalents,
at beginning
of period
23,287 9,434
--------- ---
------ CASH
AND CASH
EQUIVALENTS,
AT END OF
PERIOD $
36,401 $
20,402
=========
=========

See accompanying notes to consolidated financial statements.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. BASIS OF PRESENTATION

The consolidated financial statements are unaudited and include the accounts of Penn National Gaming, Inc., and its wholly owned subsidiaries, (collectively the "Company"). 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 September 30, 2001 and the results of its operations for the nine month periods ended September 30, 2001 and 2000. The results of operations experienced for the nine month period ended September 30, 2001 are not necessarily indicative of the results to be experienced for the fiscal year ended December 31, 2001.

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, 2000 annual financial statements.

2. INTEREST RATE SWAPS

Financial Accounting Standards Board ("FASB") Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities," and Statement No. 138, "Accounting for Derivative Instruments and Hedging Activities - an amendment of FASB 133," are effective for fiscal years beginning after June 15, 2000 - fiscal year 2001 for the Company. The Company has conducted evaluations of hedging policies and strategies for existing and anticipated future derivative transactions. Adoption of these statements as of January 1, 2001 did not have a significant effect on the Company's financial statements other than recognition of derivative assets and liabilities on the balance sheet with market value adjustments recognized in other comprehensive income.

3. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the nine months ended September 30, 2001 and 2000 for interest was $29,740,000 and $10,025,000, respectively.

Cash paid during the nine months ended September 30, 2001 and 2000 for income taxes was $1,040,000 and $2,984,000, respectively.

4. SEGMENT INFORMATION

In the year ended December 31, 2000, the Company adopted SFAS No. 131 "Disclosures About Segments of an Enterprise and Related Information." The Company has determined that it currently operates in two segments: (1) gaming and (2) racing.

The accounting policies for each segment are the same as those described in the "Summary of Significant Accounting Policies" for the year ended December 31, 2000. The Company and the gaming industry use EBITDA as a means to evaluate performance. EBITDA should not be considered as an alternative to, or more meaningful than, net income (as determined in accordance with accounting principles generally accepted in the United States) as a measure of operating results or cash flows (as determined in accordance with accounting principles generally accepted in the United States) or as a measure of the Company's limitations.

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

REVENUES

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Gaming (1) (2)	$308,967	$122,029
Racing	75,456	79,256
Eliminations (3)	(998)	(1,268)
Total	$383,425	$200,017

EBITDA

	NINE MONTHS ENDED SEPTEMBER 30,	
	2001	2000
Gaming (1) (2)	$71,015	$25,531
Racing (4)	13,617	17,319
Total	$84,632	$42,850

TOTAL ASSETS

	SEPTEMBER 30, 2001	DECEMBER 31, 2000
Gaming (1) (2)	$1,089,191	$671,655
Racing	89,560	91,756
Eliminations (3)	(508,483)	(323,511)
Total	$ 670,268	$439,900

- ----------

(1) Reflects results of the Mississippi properties since the August 8, 2000 acquisition from Pinnacle Entertainment.

(2) Reflects results of the CRC Acquisition since April 28, 2001.

(3) Primarily reflects intracompany transactions related to import/export simulcasting.

(4) Includes "Earnings from joint venture" of $2,020 and 2,244, respectively.

5. SENIOR SUBORDINATED NOTES

On March 12, 2001, the Company completed an offering of $200,000,000 of its 11 1/8% Senior Subordinated Notes due 2008. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2001. These notes mature on March 1, 2008.

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

The notes are general unsecured obligations and are guaranteed on a senior subordinated basis by all of the Company's current and future wholly owned domestic subsidiaries. The notes rank equally with the Company's future senior subordinated debt and junior to its senior debt, including debt under the Company's senior credit facility. In addition, the notes will be effectively junior to any indebtedness of our non-U.S. or unrestricted subsidiaries, none of which guarantee the notes.

The 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 (the "Securities Act"). On July 30, 2001, the Company completed an offer to exchange the notes and guarantees for notes and guarantees registered under the Securities Act having substantially identical terms.

The proceeds from these notes were used to finance the CRC acquisition that was completed on April 27, 2001.

6. ACQUISITIONS

MISSISSIPPI

On August 8, 2000, the Company completed its acquisition of all of the assets of the Casino Magic hotel, casino, golf resort, recreational vehicle park and marina in Bay St. Louis, Mississippi and the Boomtown Biloxi casino in Biloxi, Mississippi (the "Mississippi Acquisitions"), from Pinnacle Entertainment, Inc. (formerly Hollywood Park, Inc.) The Mississippi Acquisitions were accomplished pursuant to the terms of two asset purchase agreements, each dated December 10, 1999, for an aggregate of $195 million. In addition to acquiring all of the operating assets and related operations of the Casino Magic Bay St. Louis and Boomtown Biloxi properties, the Company entered into a licensing agreement to use the Boomtown and Casino Magic names and marks at the properties acquired.

CRC

On April 27, 2001, the Company completed its acquisitions of (i) CRC Holdings, Inc. ("CRC") from the shareholders of CRC and (ii) the minority interest in Louisiana Casino Cruises, Inc.("LCCI") not owned by CRC from Dan S. Meadows, Thomas L. Meehan and Jerry L. Bayles (together, the "CRC Acquisition"). The CRC Acquisition was accomplished pursuant to the terms of Agreement and Plan of Merger among CRC Holdings, Inc., Penn National Gaming, Inc., Casino Holdings, Inc. and certain shareholders of CRC Holdings, Inc., dated as of July 31, 2000 (the "Merger Agreement"), and a Stock Purchase Agreement by and among Penn National Gaming, Inc., Dan S. Meadows, Thomas L. Meehan and Jerry L. Bayles, dated as of July 31, 2000. Under the Merger Agreement, CRC merged with Casino Holdings, Inc., a wholly-owned subsidiary of the Company (the "Merger"). The aggregate consideration paid by the Company for the CRC Acquisition was approximately $182.4 million, including the repayment of existing debt at CRC or its subsidiaries. The purchase price of the CRC Acquisition was funded by the proceeds of the Company's offering of senior subordinated notes, which was completed in March 2001.

The assets acquired pursuant to the Merger and CRC Acquisition consist primarily of the Casino Rouge riverboat gaming facility in Baton Rouge, Louisiana, and a management contract for Casino Rama, a gaming facility located in Orillia, Canada.

LCCI NOTES TENDER OFFER

On February 20, 2001, the Company commenced a cash tender offer to purchase all of the LCCI 11% Senior Secured Notes due 2005 (the "LCCI Notes") and a related consent solicitation to eliminate certain restrictive covenants and related provisions in the indenture pursuant to which the LCCI Notes were issued. The tender offer was completed on April 27, 2001 in conjunction with the completion of the CRC Acquisition. The total consideration for each $1,000 principal amount of notes tendered was $1,146.90, plus accrued and unpaid interest up to but not including, the payment date, which includes a consent payment of $30 per $1,000 principal amount of notes. Payment for the notes totaling $53 million and consent payments totaling $7.8 million were made on April 30, 2001.

UNAUDITED PROFORMA FINANCIAL INFORMATION

Unaudited pro forma financial information for the nine months and three months ended September 30, 2001 and 2000, as though the Mississippi and CRC Acquisitions had occurred on January 1, 2000, is as follows (in thousands):

	NINE MONTHS ENDED SEPTEMBER 30,		THREE MONTHS ENDED SEPTEMBER 30,	
	2001	2000	2001	2000
Revenues	$419,399	$376,722	$145,535	$126,683
Net income	23,759	19,090	7,711	5,797
Net income per common share				
Basic	$1.56	$1.28	$0.50	$0.39
Diluted	1.50	1.24	0.48	0.37
Weighted shares outstanding				
Basic	15,271	14,948	15,467	15,007
Diluted	15,836	15,407	16,043	15,504

7. RECENT ACCOUNTING STANDARDS

In June 2001, the Financial Accounting Standards Board finalized FASB Statements No. 141, BUSINESS COMBINATIONS (SFAS 141). and No. 142, GOODWILL AND OTHER INTANGIBLES ASSETS (SFAS 142). SFAS 141 requires the use of the purchase method accounting and prohibits the use of pooling-of-interests method of accounting for business combinations initiated after June 30, 2001. SFAS 141 also requires that the Company recognize acquired intangible assets apart from goodwill if the acquired intangible assets meet certain criteria. SFAS 141 applies to all business combinations initiated after June 30, 2001 and for the purchase business combinations completed on or after July 1, 2001. It also requires, upon adoption of SFAS 142, that the Company reclassifies the carrying amounts of intangible assets and goodwill based on certain criteria in SFAS 141.

SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead test goodwill for impairment at least annually. In addition, SFAS 142 requires that the Company identify reporting units for the purpose of assessing potential future impairments of goodwill, reassess the useful lives of the other existing recognized intangible assets, and cease amortization of intangible assets with an indefinite useful life. Any intangible asset with an indefinite useful life should be tested for impairment in accordance with the guidance in SFAS 142. SFAS 142 is required to be applied in fiscal years beginning after December 15, 2001 to all goodwill and other intangible assets recognized at that date, regardless of when those assets were initially recognized. SFAS 142 requires the Company to complete a transitional goodwill impairment test six months from the date of adoption. The Company is also required to reassess the useful lives of the other intangible assets within the first interim quarter after adoption of SFAS 142.

The Company's previous business combinations were accounted for using the purchase method. As of September 30, 2001, net carrying amount of goodwill is $164,223,000 and other intangible assets is $24,678,000. Amortization expense during the nine-month period ended September 30, 2001 was $3,520,000. Currently, the Company is assessing but has not yet determined how the adoption of SFAS 142 will impact its financial position and results of operations.

8. PENDING ACQUISITION

On August 30, 2001, the Company entered into a definitive agreement to acquire all of the assets of the Bullwhackers Casino operations, in Black Hawk, Colorado, from Colorado Gaming and Entertainment Co., a subsidiary of Hilton Group plc, for $6.5 million in cash. The Bullwhackers assets consist of the Bullwhackers Casino, the adjoining Bullpen Sports Casino, the Silver Hawk Saloon and Casino, an administrative building and a 475-car parking area, all located in the Black Hawk, Colorado gaming jurisdiction. The Bullwhackers properties

comprise a total of 63,800 square feet of interior space, 20,700 square feet of which is devoted to gaming, consisting of 1,002 slot machines and 16 table games. The properties are located on leased land as well as 3.25 acres of land included in the acquisition, much of which is utilized for parking. The transaction is anticipated to close in the second quarter of 2002.

9. LITIGATION

SHOWBOAT LITIGATION

As previously disclosed in its Exchange Act filings, in 1997 the Company acquired the Charles Town Races property in Charles Town, West Virginia, by exercising an option held by Showboat Development Company, now a wholly-owned subsidiary of Harrah's Entertainment, Inc. In return for assigning the option, Showboat retained the right to operate a casino at the Charles Town Races property in return for a management fee, to be negotiated at the time of exercise, based on reasonable rates for similar properties. The express terms of the Showboat option do not specify what activities at Charles Town Races would constitute operation of a casino. As previously disclosed, the Company believes that its installation and operation of video lottery terminals linked to the West Virginia Lottery at the Charles Town Races facility does not constitute the operation of a casino under the Showboat option or under West Virginia law and therefore does not trigger Showboat's right to exercise the Showboat option. The rights under the showboat option extend until November 2001.

On August 20, 2001, the Company was served with a lawsuit brought by Showboat Development Company against the Company and certain other parties related to the Charles Town Races facility. The suit alleges, among other things, that the Company's operation of coin-out video lottery terminals at the Charles Town facility constitutes the operation of a casino, thereby triggering Showboat's option. The suit also alleges that the Company's March 2000 acquisition of the 11% minority interest in Charles Town Races from BDC Group, the Company's former joint venture partner, was made in violation of a right of first refusal that Showboat holds from BDC covering the sale of any interest in any casino at Charles Town Races. The Company has filed a motion to dismiss this action in federal court in Nevada and, in the alternate, a motion to transfer the case to the state of West Virginia. The Company believes that each of Showboat's claims is without merit, and it intends to vigorously defend itself against them.

OTHER

In July 2001, a lawsuit was filed against the Company by certain surveillance employees at the Charles Town facility claiming that the Company's surveillance of those employees during working hours was improper. The lawsuit claims damages of $7.0 million and punitive damages of $14.0 million. The Company currently is conducting discovery in the case but, at this time, believes that all of the claims of the employees are without merit. The Company intends to vigorously defend itself against this action.

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

OVERVIEW

We derive substantially all of our revenues from gaming and racing operations. Over the past few years, revenues from our gaming machines at the Charles Town Entertainment Complex, our gaming operations in Mississippi and Louisiana and our management contract in Orillia, Canada have accounted for an increasingly larger share of our total revenues. Our racing 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 simulcasts 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.

On a prospective basis, our August 2000 acquisition of the Mississippi properties and our late-April 2001 acquisition of CRC Holdings, Inc. will impact further our revenue mix between gaming and racing revenues. We expect that in future periods gaming revenue as a percentage of our total revenues will continue to increase as we continue to focus on our gaming operations. For the nine months ended September 30, 2001 and 2000, gaming revenue represented approximately 69.7% and 49.9% of our total revenue, respectively.

RESULTS OF OPERATIONS

THREE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO THREE MONTHS ENDED SEPTEMBER 30, 2000

The results of operations by property level for the three months ended September 30, 2001 and 2000 are summarized below (in thousands):

	REVENUES		EBITDA	
	2001	2000	2001	2000
Charles Town Entertainment Complex............	$ 54,152	$ 37,746	$ 14,312	$ 10,364
Casino Magic Bay St. Louis (1).............	22,711	12,363	4,779	2,433
Boomtown Biloxi(1)...........................	17,594	9,473	3,420	1,419
Casino Rouge (2)...........................	22,881	-	5,316	-
Casino Rama Management Contract (2)...........	3,520	-	3,257	-
Penn National Race Course and its OTWs........	14,594	16,933	1,748	3,009
Pocono Downs and its OTWs....................	10,592	10,971	1965	2,565
Pennwood Racing, Inc.........................	-	-	459	814
Corporate eliminations (3)...................	(510)	(499)	-	-
Corporate operations.........................	-	-	(2,761)	(1,648)
Corporate operations CRC Holdings (2).........	-	-	(243)	-
Total..................................	$145,534	$ 86,982	$ 32,252	$ 18,956

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(1) Reflects results of the Mississippi properties since the August 8, 2000 acquisition from Pinnacle Entertainment.

(2) Reflect results of the CRC acquisition since April 28, 2001

(3) Primarily reflects intracompany transactions related to import/export simulcasting.

Revenues for the three months ended September 30, 2001 increased by $58.4 million, or 67.2%, to $145.4 million in 2001 from $87.0 million in 2000. The Mississippi properties accounted for $18.5 million of the increase, while the CRC properties acquired on April 27, 2001 accounted for $26.4 million of the increase. Revenues increased at the Charles Town Entertainment Complex by $16.5 million, or 43.8%, to $54.2 million in 2001 from $37.7 million in 2000. Gaming revenue accounted for 85% of the increase at Charles Town due to an increase in the number of video lottery machines from 1,500 to 2,000 in 2001 and a change in machine mix from video voucher

machines to coin-out machines. Revenues from the Pennsylvania racetracks and OTWs have decreased by $2.7 million due to a decrease in wagering and a

Commonwealth of Pennsylvania supplement grant of $1.6 million received in 2000 that has not been received in 2001.

Operating expenses for the three months ended September 30, 2001 increased by $50.0 million, or 68.6%, to $122.9 million in 2001 from $72.9 million in 2000. The Mississippi properties accounted for $15.6 million of the increase, while the CRC properties accounted for $20.1 million of the increase. Operating expenses increased at the Charles Town Entertainment Complex by $13.7 million, or 48.2% to $42.1 million in 2001 from $28.4 million in 2000. Operating expenses at the Pennsylvania racetracks and their OTWs increased by $.9 million in the year 2000. Corporate overhead increased by $1.4 million or 66.7% to $3.5 million in 2001 from $2.1 million in 2000. Net interest expense increased by $5.5 million to $11.1 million in 2001 from $5.6 million in 2000 due to the additional borrowings to fund the acquisitions of the Mississippi properties on August 7, 2000 and the CRC acquisition on April 27, 2001. Income before income taxes and extraordinary item for the three months ended September 30 increased by $2.6 million, or 28.0%, to $11.9 million in 2001 from $9.4 million in 2000 as a result of the above.

CHARLES TOWN ENTERTAINMENT COMPLEX

Total revenues were $54.2 million for the three months ended September 30, 2001, an increase of $16.5 million, or 43.8%, from $37.7 million in 2000. Gaming revenues were $45.3 million for the three months ended September 30, 2001, an increase of $14.7 million, or 48.0%, from gaming revenues of $30.6 million for the comparable period in 2000. This increase was due in part to an increase in the total number of video lottery machines from 2,000 in 2001 compared to 1,500 in 2000 and expanded advertising and marketing campaigns in the Baltimore and Washington D.C. areas. Racing revenues were $5.9 million for the three months ended September 30, 2001, an increase of $0.4 million, or 7.3%, from $5.5 million in 2000. This increase was due to increase an increase in live race days and resulted in additional wagering of $13.5 million, or 32.8%, to $54.5 million. Other revenues were $1.9 million for the three months ended September 30, 2001, an increase of $0.2 million, or 11.8%, from other revenues of $1.7 million for the prior period. Other revenues include revenues from food, beverage, retail and commissions.

Total operating expenses were $39.8 million for the three months ended September 30, 2001, an increase of $12.4 million, or 45.2%, from operating expenses of $27.4 million for the prior period. The increase was primarily due to an increase in gaming expense and related taxes of $9.2 million attributed to increased gaming revenues and a change in gaming legislation that resulted in the loss of the administrative fee refund. Salaries and wages increased by $1.7 million primarily due to additional labor associated with increased gaming units, gaming square footage, and expanded concession and dining capacities. Other direct costs increased due to the expanded capacity of the facility.

Earnings before interest, taxes, depreciation and amortization (EBITDA) was $14.3 million for the three months ended September 30, 2001, an increase of $4.0 million, or 38.8%, from EBITDA of $10.3 million for the same period in 2000.

MISSISSIPPI ACQUISITION

The Casino Magic Bay St Louis and Boomtown Biloxi acquisitions were completed on August 8, 2000. For the three months ended September 30, 2001, Casino Magic Bay St. Louis had revenues of $22.7 million consisting mainly of gaming revenues. Operating expenses for Casino Magic totaled $19.7 million consisting of gaming ($11.4 million), other ($1.8 million), general and administrative ($4.7 million) and depreciation and amortization expense ($1.8 million). For the three months ended September 30, 2001, Boomtown Biloxi had revenues of $17.6 million consisting mainly of gaming revenues. Operating expenses for Boomtown totaled $15.5 million consisting of gaming ($7.1 million), other ($2.3 million), general and administrative ($4.8 million) and depreciation and amortization expense ($1.3 million). EBITDA for the Mississippi casinos totaled $8.2 million for the period. Our Mississippi casino operations have numerous competitors, many of which have greater name recognition and financial and marketing resources than we do. Competition in the Mississippi gaming markets is significantly more intense than the competition that our gaming operations face in Louisiana or West Virginia or our pari-mutuel operations face in Pennsylvania and New Jersey.

CRC ACQUISITION

On April 27, 2001, we completed the CRC acquisition, which included the purchase of Casino Rouge in Baton Rouge, Louisiana and a management contract to operate Casino Rama in Orillia, Canada. For the three months ended September 30, 2001, Casino Rouge had revenues of $22.9 million consisting mainly of gaming revenues. Operating expenses for Casino Rouge totaled $19.5 million consisting of gaming ($10.9 million), other ($1.4 million), general and administrative ($5.3 million) and depreciation and amortization expense ($1.9 million). For the three months ended September 30, 2001, management fees from the Casino Rama management contract totaled $3.5 million for which there was $266,000 of operating expenses relating to the associated revenues. EBITDA for the CRC acquisition totaled $8.3 million for the period.

PENN NATIONAL RACE COURSE AND ITS OTW FACILITIES

Penn National Race Course and its OTWs had revenues in 2001 of $14.6 million compared to $16.9 million in 2000, a decrease of $2.3 million or 13.6%. Included in 2000 revenues is a Commonwealth of Pennsylvania supplement grant of $1.0 million that has not been received in 2001. If the 2000 revenues were adjusted for this grant, the decrease in 2001 revenues would be $1.3 million, or 8.2%. Live racing revenues continues to lag behind last year in spite of an increasingly better field size. Average field size in 2001 for the third quarter was 8.0 horses compared to 7.07 horses in 2000. The events of September 11, 2001 caused the cancellation of two days of racing and a slowdown in revenues during the week following the tragedy. Operating expenses for the quarter were $12.9 million in 2001 compared to $13.9 million in 2000, a decrease of $1.0 million, or 7.2%. The decline in operating expenses was attributable primarily to the decline in revenues. EBITDA was approximately $1.7 million in 2001 compared to $3.0 million in 2000, a decrease of $1.3 million, or 43.3%.

POCONO DOWNS AND ITS OTW FACILITIES

For the quarter ended September 30, 2001 Pocono Downs' revenue was $10.6 million compared to $11.0 million for the same period in 2000, a decrease of $0.4 million, or 3.7%. Included in 2000 revenues is a Commonwealth of Pennsylvania supplement grant of $0.6 million that was not received in 2001. The East Stroudsburg OTW was open for only two months in 2000; as a result, 2001 revenues were $0.3 million higher than in 2001. Live races, export simulcast and concessions revenues decreased $0.1 million to $2.5 million compared to $2.6 million for the same period the previous year. Import simulcast increased $0.3 million, or 4.1%, to $7.6 million in 2001 from $7.3 million in 2000.

Operating expenses increased by approximately $0.2 million, or 2.6%, to $8.6 million in 2001 from $8.4 million in 2000. Operating and administrative expense increased $0.1 million to $2.3 million from $2.2 million. This increase was attributable to a full quarter of expenses in 2001 at the new East Stroudsburg OTW facility. EBITDA decreased 23.5% to $2.0 million in 2001 from $2.6 million in 2000.

CORPORATE OVERHEAD EXPENSES

Corporate overhead expenses increased by $1.2 million, or 75.0%, to $2.8 million in 2001 from $1.6 million in 2000. Salaries and wages, payroll taxes, employee benefits, relocation expenses and office rent increased by $550,000 due to the addition of new staff at the corporate office to support the Mississippi and CRC acquisitions. Liability insurance increased by $120,000 due to increased limits for general liability, fiduciary and directors and officers liability insurance. Consulting and professional services increased by $250,000. Travel expenses increased by $200,000 due to supporting properties in Mississippi, Louisiana and Canada.

NEW JERSEY JOINT VENTURE

We have an investment in Pennwood Racing, Inc., a joint venture with Greenwood Racing, Inc., that operates Freehold Raceway and, until May 2001, operated Garden State Park. Revenues of the joint venture decreased by $5.7 million to $8.5 million in 2001 from $14.3 million in 2000. Net income decreased by $0.7 million to $0.9 million in 2001 compared to $1.6 million in 2000 primarily due to the decrease in revenue and a decrease in expenses associated with running 35 live race days in 2001 compared to 55 live race days in 2000. In May 2001, the

owners of Garden State Park completed the sale of the facility and the joint venture ceased operating Garden State Park. Our 50% share of net income was $0.5 million in 2001 compared to $0.8 million in 2000 and was recorded as other income on the income statement.

NINE MONTHS ENDED SEPTEMBER 30, 2001 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 2000

The results of operations by property level for the nine months ended

September 30, 2001 and 2000 are summarized below (in thousands):

	REVENUES 2001	REVENUES 2000	EBITDA 2001	EBITDA 2000
Charles Town Entertainment Complex	$ 143,283	$ 100,194	$ 38,971	$ 26,470
Casino Magic Bay St. Louis (1)	67,823	12,362	14,908	2,417
Boomtown Biloxi(1)	53,426	9,474	10,700	1,419
Casino Rouge (2)	38,934	--	9,351	--
Casino Rama Management Contract (2)	5,480	--	5,062	--
Penn National Race Course and its OTWs	45,386	49,939	6,065	8,537
Pocono Downs and its OTWs	30,070	29,317	5,532	6,541
Pennwood Racing, Inc.	--	--	2,020	2,244
Corporate eliminations (3)	(1,349)	(1.269)	--	--
Corporate operations	372	--	(7,574)	(4,778)
Corporate operations CRC Holdings (2)	--	--	(403)	--
Total	$ 383,425	$ 200,017	$ 84,632	$ 42,850

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(1) Reflects results of the Mississippi properties since the August 8, 2000 acquisition from Pinnacle Entertainment.

(2) Reflect results of the CRC acquisition since April 28, 2001.

(3) Primarily reflects intracompany transactions related to import/export simulcasting.

Revenues for the nine months ended September 30, 2001 increased by $183.4 million, or 91.7%, to $383.4 million in 2001 from $200.0 million in 2000. The Mississippi properties accounted for $99.4 million of the increase, while the CRC properties, which were acquired on April 27, 2001, accounted for $44.0 million of the increase. At the Charles Town Entertainment Complex revenues increased by $43.1 million, or 43.0%, to $143.3 million in 2001 from $100.2 million in 2000. Gaming revenue accounted for 85% of the increase at Charles Town due to an increase in the number of video lottery machines from 1,500 in 2000 to 2,000 in 2001, and a change in machine mix from video voucher machines to coin-out machines. Revenues from their Pennsylvania racetracks and OTWs have decreased by $3.8 million due to a decrease in wagering and a Commonwealth of Pennsylvania supplement grant of $1.6 million received in 2000 that has not been received in 2001.

Operating expenses for the nine months ended September 30, 2001 increased by $158.0 million, or 94.1%, to $325.9 million from $167.9 million in 2000. The Mississippi properties accounted for $85.1 million of the increase and the CRC properties accounted for $34.5 million of the increase. Operating expenses increased at the Charles Town Entertainment Complex by $34.9 million, or 45.7%, to $111.2 million in 2001 from $76.3 million in 2000. Operating expenses at the Pennsylvania racetracks and their OTWs decreased by $0.3 million in the year 2000. Corporate overhead increased by $3.7 million or 59.7% to $9.9 million in 2001 from $6.2 million in 2000. Net interest expense increased by $20.1 million to $29.8 million in 2001 from $9.7 million in 2000 due to the additional borrowings to fund the acquisitions of the Mississippi properties on August 7, 2000 and the CRC acquisition on April 27, 2001. Income before income taxes and extraordinary item for the nine months ended September 30, 2001 increased by $3.0 million, or 19.0%, to $18.8 million from $15.8 million in 2000 as a result of the above.

CHARLES TOWN ENTERTAINMENT COMPLEX

Total revenues were $143.3 million for the nine months ended September 30, 2001, an increase of $43.1 million or 43.0% from total revenues of $100.2 million for the nine months ended September 30, 2000. Gaming

revenues were $121.5 million for the nine months ended September 30, 2001, an increase of $41.2 million, or 51.3%, from gaming revenues of $80.3 million for the same period in 2000. This increase was due to an increase in the total number of video lottery machines from 2,000 in 2001 compared to 1,500 in 2000, and expanded advertising and marketing campaigns in the Baltimore and Washington D.C. areas. Racing revenues were $16.6 million for the nine months ended September 30, 2001, an increase of $1.0 million or 6.4% from $15.6 million in 2000. This increase was due to additional live race days and export simulcasting days in 2001 that resulted in additional wagering of $27.3 million, or 23.7%, to $142.5 million. Other revenues, consisting mainly of concessions revenues, were $5.2 million for the nine months ended September 30, 2001, an increase of $0.9 million, or 20.9%, from other revenues of $4.3 million for the prior period. The increase in food and beverage was due to an increase in restaurant patrons by 127,524 patrons to 274,332 in 2001 from 146,808 for 2001 primarily attributable to the opening of the Sundance Cafe in November 2000 and expansion of the concession areas, dining room and buffet.

Total operating expenses were $104.3 million for the nine months ended September 30, 2001, an increase of $30.6 million, or 41.5%, from operating expenses of $73.7 million for the prior period. The increase was due primarily to an increase in gaming expenses and related taxes of $22.9 million attributed to increased gaming and racing revenues and a change in gaming legislation that resulted in the loss of the administrative fee refund. Salaries and wages increased by $3.9 million primarily due to additional labor associated with increased gaming units, gaming square footage, and expanded concession and dining capacities. Other direct costs increased due to the expanded capacity of the facility.

Earnings before interest, taxes, depreciation and amortization (EBITDA) was $39.0 million for the nine months ended September 30, 2001, an increase of $12.5 million, or 47.2%, from EBITDA of $26.5 million for the comparable period in 2000.

MISSISSIPPI CASINOS

The Casino Magic Bay St Louis and Boomtown Biloxi acquisitions were completed on August 8, 2000. For the nine months ended September 30, 2001, Casino Magic Bay St. Louis had revenues of $67.8 million consisting mainly of gaming revenues. Operating expenses for Casino Magic totaled $58.4 million consisting of gaming ($33.8 million), other ($5.0 million), general and administrative ($14.1 million) and depreciation and amortization expense ($5.5 million). For the nine months ended September 30, 2001, Boomtown Biloxi had revenues of $53.4 million consisting mainly of gaming revenues. Operating expenses for Boomtown totaled $46.2 million consisting of gaming ($21.6 million), other ($6.8 million), general and administrative ($14.2 million) and depreciation and amortization expense ($3.6 million). EBITDA for the Mississippi casinos totaled $17.4 million for the period. Our Mississippi casino operations have numerous competitors, many of which have greater name recognition and financial and marketing resources than we do. Competition in the Mississippi gaming markets is significantly more intense than the competition that our gaming operations face in Louisiana or West Virginia or our pari-mutuel operations face in Pennsylvania and New Jersey.

CRC ACQUISITION

On April 27, 2001, we completed the CRC acquisition, which included the purchase of Casino Rouge in Baton Rouge, Louisiana and a management contract to operate Casino Rama in Orillia, Canada. For the period ended September 30, 2001, Casino Rouge had revenues of $38.9 million consisting mainly of gaming revenues. Operating expenses for Casino Rouge totaled $32.5 million consisting of gaming ($18.6 million), other ($2.1 million), general and administrative ($8.9 million) and depreciation and amortization expense ($2.9 million). For the period ended September 30, 2001, management fees from the Casino Rama management contract totaled $5.5 million for which there was approximately $0.4 million of operating expenses relating to the associated management fee revenues. EBITDA for the CRC properties totaled $14.0 million for the period.

PENN NATIONAL RACE COURSE AND ITS OTW FACILITIES

Revenues at Penn National Race Course and its OTWs decreased approximately $4.5 million, or 9.1%, to $45.4 million in 2001 from $49.9 million in 2000. Included in 2000 revenues is a Commonwealth of Pennsylvania supplement grant of $1.0 million that was not received in 2001. The revenue decrease in 2001, adjusted for the grant, would have been $3.5 million, or 7.2%. Bad weather in the northeastern U.S. in early 2001 adversely

impacted both live racing and simulcast attendance during that period. The loss of pools due to short fields in early 2001 also negatively effected both revenue and EBITDA. Attendance had started to return to last year's levels until the events of September 11, 2001. Expenses were approximately $39.3 million in 2001 compared to $41.4 million in 2000, a decrease of $2.1 million, or 5.1%. EBITDA was approximately $6.1 million in 2001 compared to $8.5 million in 2000, a decrease of $2.4 million, or 28.2%.

POCONO DOWNS AND ITS OTW FACILITIES

For the nine months ended September 30, 2001, revenues at Pocono Downs were $30.1 million compared to $29.3 million for the same period 2000, an increase of $0.7 million or 2.4%. The increase was due primarily to the opening in 2000 of the East Stroudsburg OTW facility, which was in operation for nine months in 2001 compared to two months in 2000. East Stroudsburg OTW revenue was $2.7 million in 2001 compared to $0.6 million the previous year, an increase of $2.1 million. Included in 2000 revenues is a Commonwealth of Pennsylvania supplement grant of $0.6 million that was not received in 2001. The Pocono Downs racetrack, along with the Erie OTW, reported an increase in operating revenue from the previous year of $0.3 million, or 2.1%, while the other four established OTW reported an aggregate decrease in revenue from the previous year of $1.1 million, or 8.0%. The Allentown OTW accounted for the majority of the lost revenue with $0.8 million, or 9.0%, compared to the same period the previous year. This was offset by the Dial-a-Bet telephone account wagering operation (including the newly-opened internet operating unit, eBetUSA) which registered an increase in wagering of $2.4 million, or 22%, to $13.3 million compared to $10.9 million for the same period previous year.

Expenses increased by $1.7 million, or 7.7%, to $24.5 million in 2001 from $22.8 million in 2000. Other operating expenses, administrative expense and concessions expenses increased $0.8 million to $8.8 million compared to $8.0 million for the same period last year. This increase was attributable in part to a full quarter of expenses in 2001 at the new East Stroudsburg OTW facility. Expenses directly related to revenues, such as purse expenses, simulcast expenses and pari-mutuel taxes, increased $0.7 million, or 6.4%, to $11.6 million in 2001, compared to $10.9 million in 2000. EBITDA decreased by $1.0 million to $5.5 million in 2001 from $6.5 million in 2000.

CORPORATE OVERHEAD EXPENSES

Corporate overhead expenses increased by $2.8 million or 58.3% to $7.6 million in 2001 from $4.8 million in 2000. Salaries and wages, payroll taxes, employee benefits, relocation expenses and office rent increased by $1.6 million due to the addition of new staff at the corporate office to support the Mississippi and CRC acquisitions. Liability insurance increased by $.4 million due to increased limits for general liability, fiduciary and directors and officers liability insurance. Consulting and professional services increased by $0.4 million. Travel expenses increased by $0.4 million due to supporting properties in Mississippi, Louisiana and Canada.

NEW JERSEY JOINT VENTURE

We have an investment in Pennwood Racing, Inc., a joint venture with Greenwood Racing, Inc., that operates Freehold Raceway and, until May 2001, operated Garden State Park. Revenues of the joint venture decreased by $8.3 million to $36.8 million in 2001 from $45.1 million in 2000. Net income decreased by $0.5 million to $4.5 million in 2001 compared to $4.0 million in 2000 primarily due to the decrease in revenue and a decrease in expenses associated with running 148 live race days in 2001 compared to 184 live race days in 2000. In May 2001, the owners of Garden State Park completed the sale of the facility and the joint venture ceased operating Garden State Park. Our 50% share of net income was $2.0 million in 2001 compared to $2.2 million in 2000 and was recorded as other income on the income statement.

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 securities.

Net cash provided by operating activities was $55.6 million for the nine months ended September 30, 2001. This consisted of net income and non-cash items ($44.6 million), earnings from joint venture ($2.0 million), an increase in deferred income taxes ($3.8 million), a decrease in current assets ($0.1 million) and an increase in current liabilities ($9.1 million) related to the normal course of business, net of the CRC acquisition on April 27, 2001.

Cash flows used in investing activities totaled $199.9 million for the nine months ended September 30, 2001. Expenditures for property, plant, and equipment totaled $ 23.0 million and included new hotel construction at Casino Magic ($8.2 million), new gaming equipment at Casino Magic ($2.7 million), new gaming equipment and slot system at Boomtown ($3.5 million), land and building acquisitions at Charles Town ($1.0 million), the OK Corral video lottery machine center at Charles Town ($0.6 million), property additions at Charles Town ($0.3 million), parking garage and expansion at Charles Town ($0.4 million), building and design of a steak house at Casino Rouge ($1.5 million), other small projects

($0.7 million) and maintenance capital expenditures ($4.1 million). The CRC acquisition totaled $182.9 million. Cash received from the joint venture totaled $1.2 million. Cash in escrow decreased by $4.6 million as a result of the closing of the CRC acquisition on April 27, 2001.

Cash flows from financing activities provided net cash flow of $157.4 million for the nine months ended September 30, 2001. Aggregate proceeds from the issuance of senior subordinated notes were $200.0 million, a portion of which were used to pay financing costs associated with the issuance ($6.9 million). Principal payments on long-term debt under our existing credit facility, net of additional borrowings on the revolving line of credit, were $40.6 million. Proceeds from the exercise of stock options totaled $4.9 million.

CAPITAL EXPENDITURES

The table below summarizes our planned capital expenditures, other than maintenance capital expenditures, by property level, for 2001-2002 (in thousands). However, we continue to assess and refine our capital expenditure plans at each property; the projects ultimately completed and the costs of such projects may differ from our current expectations described below.

PROPERTY	ESTIMATED BUDGET 2001-2002	EXPENDITURES THROUGH SEPTEMBER 30, 2001
Charles Town Entertainment Complex	$ 50,000	$ 2,221
Casino Magic Bay St. Louis	37,500	8,936
Boomtown Biloxi	2,000	2,000
Casino Rouge	2,000	1,487
Pennsylvania Racetracks and OTW's	800	800
Total	$ 92,300	$ 15,444

At our Charles Town facility, we expect to spend approximately $50.0 million in 2001 and 2002 on capital expenditures. In November 2001, we began construction of a 1,500 space structured parking facility, at an estimated cost of $12.0 million. We are considering the expansion of the gaming and entertainment facility at Charles Town to accommodate additional gaming machines at an estimated cost of between $35.0 and $40.0 million. Depending upon future market conditions in the West Virginia gaming market, we will continue to evaluate our plan to build a 300-room hotel at Charles Town.

At Casino Magic Bay St. Louis, our capital expenditures in 2001 and 2002 are anticipated to be approximately $37.5 million. We have completed the renovation to the existing buffet restaurant and have begun construction on a 300-room hotel with meeting and conference facilities, three new restaurant ventures and renovations to the gaming floor, at an estimated cost of $33.0 million.

At the Boomtown Biloxi property, we do not expect to incur significant capital expenditures. However, we are presently exploring a buy-out of the existing ground lease at the Boomtown Biloxi property; if we are successful, we would consider additional expansion opportunities, which could include structured parking at the facility and a

hotel. At Casino Rouge and our Pennsylvania racetracks and OTW's we do not expect to incur significant capital expenditures.

SENIOR SUBORDINATED NOTES

On March 12, 2001, we completed a private placement of $200 million in aggregate principal amount of 11 1/8% of Senior Subordinated Notes due March 1, 2008. The proceeds of the notes were used, in part, to complete the acquisition of CRC Holding, Inc. and the minority interest in Louisiana Casino Cruises, Inc. not owned by CRC. The Senior Subordinated Notes rank equally with our other senior indebtedness and junior to our senior debt, including debt under our senior secured credit facility. The Senior Subordinated Notes are guaranteed by all of our current and future wholly owned domestic subsidiaries.

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, especially in light of the current economic environment, 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 the notes when required or to make anticipated capital expenditures. In addition, if we consummate significant acquisitions in the future, our cash requirements may increase significantly. 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, and August 3, 2001 we entered into two interest rate swap agreements with financial institutions in the notional amount of $136 million. The interest rate swap agreements hedges our exposure on our outstanding floating rate obligations, which were $268,678,500 at September 30, 2001. The purpose of the interest rate swaps are to convert a portion of our floating rate interest obligations to obligations having a fixed rate of 5.835% and 4.8125% plus an applicable margin up to 4.00% per annum through June 30, 2004. The fixing of interest rates reduces in part our exposure to the uncertainty of floating interest rates. The differentials paid or received by us on the interest rate swap agreement is recognized as adjustments to interest expense in the period incurred. For the nine months ended September 30, 2001, interest expense increased by approximately $875,000 as a result of the interest rate swap agreements. We are exposed to credit loss in the event of nonperformance by our counter party to the interest rate swap agreement. We do not anticipate nonperformance by such financial institution, and no material loss would be expected from the nonperformance by such financial institution. Our interest rate swap agreements expires in December 2003 and June 2004.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

SHOWBOAT LITIGATION

As previously disclosed in our Exchange Act filings, in 1997 we acquired our Charles Town Races property in Charles Town, West Virginia, by exercising an option held by Showboat Development Company, now a wholly-owned subsidiary of Harrah's Entertainment, Inc. In return for assigning the option, Showboat retained the right to operate a casino at the Charles Town Races property in return for a management fee, to be negotiated at the time of exercise, based on reasonable rates for similar properties. The express terms of the Showboat option do not specify what activities at Charles Town Races would constitute operation of a casino. As previously disclosed, we believe that our installation and operation of video lottery terminals linked to the West Virginia Lottery at the Charles Town Races facility does not constitute the operation of a casino under the Showboat option or under West Virginia law and therefore does not trigger Showboat's right to exercise the Showboat option. The rights under the showboat option extend until November 2001.

On August 20, 2001, we were served with a lawsuit brought by Showboat Development Company against us and certain other parties related to the Charles Town Races facility. The suit alleges, among other things, that the our operation of coin-out video lottery terminals at the Charles Town facility constitutes the operation of a casino, thereby triggering Showboat's option. The suit also alleges that our March 2000 acquisition of the 11% minority interest in Charles Town Races from BDC Group, our former joint venture partner, was made in violation of a right of first refusal that Showboat holds from BDC covering the sale of any interest in any casino at Charles Town Races. We have filed a motion to dismiss this action in federal court in Nevada and, in the alternate, a motion to transfer the case to the state of West Virginia. We believe that each of Showboat's claims is without merit, and we intend to vigorously defend ourselves against them.

OTHER

In July 2001, a lawsuit was filed against us by certain surveillance employees at the Charles Town facility claiming that our surveillance of those employees during working hours was improper. The lawsuit claims damages of $7.0 million and punitive damages of $14.0 million. We currently are conducting discovery in the case but, at this time, believes that all of the claims of the employees are without merit. We intend to vigorously defend ourselves against this action.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

None

(b) Reports on Form 8-K

We filed the following Current Report on Form 8-K during the third quarter 2001:

On August 23, 2001, we filed a Current Report on Form 8-K that described a lawsuit brought by Showboat Development Company against us and certain other parties related to the Charles Town Races property.

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.

NOVEMBER 13, 2001

By: /S/ WILLIAM J. CLIFFORD
William J. Clifford
Chief Financial Officer