

PENN NATIONAL GAMING INC
Form DEF 14A
April 22, 2003

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SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(A) of
the Securities Exchange Act of 1934

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14A-6(e)(2))**
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to Rule 14a-12

PENN NATIONAL GAMING, INC.

(Name of Registrant as Specified In Its Charter)

N/A

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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 - (1) Amount Previously Paid:
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(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

PENN NATIONAL GAMING, INC.

**825 Berkshire Boulevard, Suite 200
Wyomissing, Pennsylvania 19610**

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To be Held on May 22, 2003

NOTICE IS HEREBY GIVEN that the 2003 Annual Meeting of Shareholders of Penn National Gaming, Inc. (the "Company"), a Pennsylvania corporation, will be held on Thursday, May 22, 2003, at 10:00 a.m., local time, at the offices of Ballard Spahr Andrews & Ingersoll, LLP, 1735 Market Street, Philadelphia, Pennsylvania 19103 for the following purposes:

1. To elect two Class I directors for a 3-year term and until their successors are duly elected and qualified.
2. To consider and act upon a proposal to ratify the appointment of BDO Seidman, LLP, as independent public accountants for the Company for the fiscal year ending December 31, 2003.
3. To consider and approve the 2003 Long Term Incentive Compensation Plan of the Company, which will replace the Company's 1994 Stock Option Plan.
4. To consider and transact such other business as may properly come before the Annual Meeting.

The foregoing items of business are more fully described in the Proxy Statement accompanying this Notice of Annual Meeting. Management currently knows of no other business to be presented at the meeting. If any other matters come before the meeting, the persons named in the enclosed proxy will vote with their judgment on those matters.

Only shareholders of record at the close of business on April 4, 2003 are entitled to notice of and to vote at the Annual Meeting and any postponement or adjournment thereof. All shareholders are cordially invited to attend the Annual Meeting in person. Any shareholder attending the Annual Meeting may vote in person even if such shareholder previously signed and returned a proxy.

**By order of the Board of
Directors,**
Robert S. Ippolito
Secretary

Wyomissing, Pennsylvania
April 22, 2003

WHETHER OR NOT YOU EXPECT TO ATTEND THE ANNUAL MEETING, PLEASE COMPLETE, DATE AND SIGN THE ENCLOSED PROXY AND MAIL IT PROMPTLY IN THE ENCLOSED ENVELOPE PROVIDED FOR THAT PURPOSE TO ASSURE REPRESENTATION OF YOUR SHARES. NO POSTAGE NEED BE AFFIXED IF MAILED IN THE UNITED STATES.

PENN NATIONAL GAMING, INC.

**825 Berkshire Boulevard, Suite 200
Wyomissing, Pennsylvania 19610**

**PROXY STATEMENT
ANNUAL MEETING OF SHAREHOLDERS
MAY 22, 2003**

This Proxy Statement and the enclosed Proxy are first being sent or given to shareholders of Penn National Gaming, Inc. (the "Company") on or about April 22, 2003, in connection with the solicitation of proxies for use at the Company's 2003 Annual Meeting of Shareholders ("Annual Meeting") to be held on Thursday, May 22, 2003 at 10:00 a.m., local time, or at any adjournment or postponement thereof, for the purposes set forth herein and in the accompanying Notice of Annual Meeting. The Annual Meeting will be held at the offices of Ballard Spahr Andrews & Ingersoll, LLP, 1735 Market Street, Philadelphia, Pennsylvania 19103. This solicitation is being made on behalf of the Board of Directors of the Company.

INFORMATION CONCERNING SOLICITATION AND VOTING

Record Date and Shares Outstanding

The Board of Directors has set the close of business on April 4, 2003, as the record date ("Record Date") for the determination of shareholders of the Company entitled to notice of, and to vote at, the Annual Meeting. On the Record Date, 39,274,034 shares of the Company's Common Stock were issued and outstanding and entitled to vote at the Annual Meeting.

Revocability of Proxies

Any proxy given pursuant to this solicitation may be revoked by the person giving it at any time before its use by delivering to the Secretary of the Company written notice of revocation or a duly executed proxy bearing a later date or by attending the Annual Meeting and voting in person.

Voting and Solicitation

The presence, in person or by proxy, of shareholders entitled to cast at least a majority of the votes, which all shareholders are entitled to cast, is necessary for a quorum to be present at the Annual Meeting. Each share of the Company's Common Stock outstanding is entitled to one vote on each matter which may be brought before the Annual Meeting.

Proxies given in the form enclosed, unless previously revoked, will be voted at the Annual Meeting in accordance with the instructions contained therein, **and if no choice is specified, will be voted for each of the nominees for director set forth in this Proxy Statement and in favor of proposals two and three, which are set forth in the notice of meeting.** Assuming a quorum is present, (a) the two nominees for director receiving the highest number of votes cast by shareholders entitled to vote for directors will be elected to serve on the Company's Board

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of Directors; and (b) the affirmative vote of a majority of the votes cast at the Annual Meeting is required for (i) the ratification of BDO Seidman, LLP as the Company's independent public accountants for the year ending December 31, 2003 and (ii) the approval of the Company's 2003 Long Term Incentive Compensation Plan. The Board knows of no other matters that are likely to be brought before the meeting other than the matters specifically

referred to in the notice of the meeting. If any other matters properly come before the meeting, the persons named in the enclosed proxy or their duly appointed substitutes acting at the meeting will be authorized to vote or otherwise act with their judgment on those matters. For purposes of determining the number of votes cast, only those cast "for" or "against" are counted. Abstentions and broker non-votes are not considered "cast" but are counted for purposes of determining whether a quorum is present at the Annual Meeting. Under Pennsylvania law, a quorum is required to conduct business at the Annual Meeting.

It is expected that the solicitation of proxies will be conducted primarily by mail. Proxies also may be solicited personally or by telephone, teletype or via the internet. The cost of this solicitation will be borne by the Company. In addition, the Company may reimburse brokerage firms and other persons representing beneficial owners of shares for their expenses in forwarding solicitation material to such beneficial owners. Proxies also may be solicited by certain directors, officers and employees of the Company, without additional compensation, personally or by telephone, teletype or via the internet.

PROPOSAL 1: ELECTION OF CLASS I DIRECTORS

Information about Nominees and Other Directors

The Company's Board of Directors currently consists of five members: Peter M. Carlino, Harold Cramer, David A. Handler, John M. Jacquemin and Robert P. Levy. Two Class I directors will be elected at the Annual Meeting to hold office, subject to the provisions of the Company's By-Laws, until the annual meeting of shareholders of the Company to be held in the year 2006 and until their respective successors are duly elected and qualified.

The following table sets forth the name, age, principal occupation and respective service dates of each person who has been nominated to be a director of the Company. Each nominee has consented to be named as a nominee and, to the knowledge of the Company, is willing to serve as a director, if elected. Should any of the nominees not remain a nominee at the end of the meeting (a situation which is not anticipated), solicited proxies will be voted in favor of those who remain as nominees and may be voted for substitute nominees.

<u>Name of Nominee</u>	<u>Age</u>	<u>Principal Occupation</u>	<u>Director Since</u>	<u>Term Expires</u>
David A. Handler	38	Senior Managing Director, Bear Stearns & Co., Inc.	1994	2003
John M. Jacquemin	56	President, Mooring Financial Corporation	1995	2003

David A. Handler. Mr. Handler has been a director since 1994. Since April 2000, Mr. Handler has been a Senior Managing Director at Bear Stearns & Co., Inc. From July 1995 to April 2000, Mr. Handler was employed by Jefferies & Company, Inc. where he became a Managing Director in March 1998.

John M. Jacquemin. Mr. Jacquemin has been a director since 1995 and is President of Mooring Financial Corporation and a group of affiliated companies. Mooring Financial Corporation is a financial services group founded by Mr. Jacquemin in 1982 that specializes in the purchase and administration of commercial loan portfolios and equipment leases.

The Board of Directors unanimously recommends that the shareholders vote "FOR" each of the nominees. The two nominees receiving the highest number of affirmative votes will be elected as directors.

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The following table sets forth the name, age, principal occupation, and respective service dates of each director whose term of office extends beyond the date of the Annual Meeting. William J. Bork resigned as a director of the Company effective May 31, 2002. Mr. Bork had been a member of the Company's Board since 1995 and was the President and Chief Operating Officer of the Company from 1995 until 2001. As a result of Mr. Bork's resignation, there is currently one vacancy in Class II of the Board of Directors of the Company. The Board has not yet appointed an individual to fill the vacancy created by Mr. Bork's resignation.

Name	Age	Principal Occupation	Director Since	Term Expires
<i>Class II Director:</i>				
Robert P. Levy	72	Chairman of the Board, DRT Industries, Inc.	1995	2004
<i>Class III Directors:</i>				
Peter M. Carlino	56	Chairman of the Board and Chief Executive Officer of the Company	1994	2005
Harold Cramer	75	Retired Partner, Schnader Harrison Segal & Lewis LLP; Retired Chairman and Chief Executive Officer of the Graduate Health System	1994	2005

Robert P. Levy. Mr. Levy has been a director since 1995. He is Chairman of the Board of the Atlantic City Racing Association and served a two-year term from 1989 through 1990 as President of the Thoroughbred Racing Association. Robert P. Levy has served as the Chairman of the Board of DRT Industries, Inc., a diversified business based in the Philadelphia metropolitan area, since 1960. Mr. Levy owns the Robert P. Levy Stable, a thoroughbred racing and breeding operation and is a director of Fasig-Tipton Company, an equine auction company.

Peter M. Carlino. Mr. Carlino has served as the Company's Chairman of the Board and Chief Executive Officer since April 1994. Since 1976, he has been President of Carlino Financial Corporation, a holding company which owns and operates various Carlino family businesses, in which capacity he has been continuously active in strategic planning for Carlino Financial Corporation and monitoring its operations.

Harold Cramer. Mr. Cramer has been a director since 1994. Until November 1996, Mr. Cramer was the Chairman and Chief Executive Officer of the Graduate Health System. From November 1996 to July 2000, Mr. Cramer was Counsel to Mesirov Gelman Jaffe Cramer & Jamieson, LLP, which merged with Schnader Harrison Segal & Lewis LLP in July 2000. Mr. Cramer is now a retired partner of Schnader Harrison Segal & Lewis LLP. He also serves as director of several of the Company's subsidiaries.

Meetings of the Board of Directors and Information about Board Committees

The Board of Directors held nine meetings during the fiscal year ended December 31, 2002. Each of the Company's directors attended at least 75% of the aggregate of all meetings of the Board during the fiscal year ended December 31, 2002. In addition, each of the Company's directors attended at least 75% of the aggregate of all meetings of all committees of the Board of which he was a member held during the fiscal year ended December 31, 2002. William J. Bork, who resigned as a director of the Company effective May 31, 2002, attended at least 75% of the Board meetings held prior to his resignation.

The Company has three standing Committees: the Audit Committee, the Compensation Committee and the Compliance Committee. The Board of Directors does not have an executive or nominating committee.

Audit Committee. John M. Jacquemin (Chairman), Harold Cramer and Robert P. Levy, all of whom are independent directors under the current Marketplace Rules of the National Association of Securities Dealers, Inc., are the members of the Audit Committee. The principal functions of the Audit Committee are to serve as an independent and objective party to monitor the integrity of the Company's financial reporting process and internal control system; review and appraise the audit efforts of the Company's independent accountants; and maintain free and open communication with and among the independent accountants, financial and senior management, and the Board of Directors. The Audit Committee operates under a written charter adopted by the Board of Directors that complies with the current Marketplace Rules of the National Association of Securities Dealers, Inc. A copy of the written charter was included as Exhibit A to the Company's 2001 Proxy Statement filed with the Securities and Exchange Commission on April 23, 2001. The Audit Committee met ten times in 2002.

Compensation Committee. Harold Cramer (Chairman) and David A. Handler are the members of the Compensation Committee. The Compensation Committee reviews compensation and benefits for the Company's executive officers and administers the grant of stock options to executive officers under the Company's Amended and Restated 1994 Stock Option Plan, as amended, or the 1994 Stock Option Plan. The Compensation Committee met one time in 2002.

Compliance Committee. David A. Handler (Chairman) and John M. Jacquemin are the current Board members of the Compliance Committee. The Compliance Committee is made up of Board members, employees of the Company and others and was established to ensure, through self-regulatory procedures, compliance with applicable laws relating to the Company's gaming businesses and to prevent, to the fullest extent possible, any involvement by the Company in any activities that would pose a threat to the reputation and integrity of the gaming industry. The Compliance Committee met five times in 2002.

Compensation of Directors

The Company pays director's fees to each director who is not an employee of the Company. During the year ending December 31, 2002, each outside director received an annual fee of \$18,000, plus \$1,500 for each Board meeting attended in person and reimbursement for out-of-pocket expenses in connection with his attendance at such meetings. Each director who is not an employee of the Company may receive options to purchase shares of common stock in addition to other compensation paid to those directors. On January 2, 2002, each non-employee director received a grant of options to purchase 30,000 shares of Common Stock of the Company (this amount reflects the Company's June 25, 2002 two-for-one stock split). The exercise price of options granted to non-employee directors was equal to the fair market value of the Company's Common Stock on the date of the grant.

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PROPOSAL 2: RATIFICATION OF THE APPOINTMENT OF INDEPENDENT PUBLIC ACCOUNTANTS

Based upon the recommendation of the Audit Committee of the Board of Directors, which is composed entirely of non-employee directors who are independent under the current Marketplace Rules of the National Association of Securities Dealers, Inc., the Board of Directors of the Company has appointed BDO Seidman, LLP as certified public accountants to audit the books, records and accounts of the Company and its subsidiaries for the year ending December 31, 2003. This appointment is being presented to the shareholders for ratification.

BDO Seidman has served as the independent public accountants for the Company and its predecessors since December 1982. All audit services provided by BDO Seidman are approved by the Audit Committee. BDO Seidman has advised the Audit Committee that it has no direct or material indirect interest in the Company or its affiliates.

During 2002, BDO Seidman performed certain non-audit services for the Company. The Audit Committee has considered whether the provision of these non-audit services is compatible with maintaining BDO Seidman's independence. A summary of the audit and non-audit fees billed to the Company by BDO Seidman in 2002 is as follows:

Audit Fees The aggregate fees billed by BDO Seidman for professional services rendered for the audit and the reviews of the Company's financial statements were approximately \$451,000.

Financial Information Systems Design and Implementation Fees The Company did not retain BDO Seidman for professional services relating to financial information system design and implementation fees.

All Other Fees The aggregate fees billed to the Company by BDO Seidman for all other services were approximately \$821,000. All other fees includes fees incurred in connection with tax compliance, financings, the audit of the Company's 401(k) plans and quarterly audits of Louisiana Casino Cruises, Inc., a subsidiary of the Company, required to be submitted to the Louisiana Gaming Control Board. The Audit Committee has determined that BDO Seidman's rendering of these non-audit services is compatible with maintaining auditor independence.

The Board of Directors considers BDO Seidman to be well qualified to serve as the independent public accountants of the Company. If, however, the shareholders do not ratify the appointment of BDO Seidman, the Board of Directors may, but is not required to, reconsider the appointment. Representatives of BDO Seidman will be present at the Annual Meeting, will have an opportunity to make statements if they desire, and will be available to respond to appropriate questions.

The Board of Directors unanimously recommends that shareholders vote FOR the proposal to ratify the appointment of BDO Seidman, LLP, as the Company's independent public accountants for the year ending December 31, 2003.

**PROPOSAL 3: APPROVAL OF 2003 LONG TERM
INCENTIVE COMPENSATION PLAN**

The Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan (the "LTIC Plan") authorizes the Company, at its discretion, to grant incentive awards to selected officers and key employees (including directors who are also employees) in the form of stock options, stock appreciation rights, restricted stock, performance shares, phantom units and other market-based and performance-based awards or any combination of the foregoing. In addition, the Company is also authorized to grant stock option awards to non-employee directors under the LTIC Plan. The LTIC Plan will replace the Company's 1994 Stock Option Plan, which expires in April 2004. Set forth below is a brief description of the major features of the LTIC Plan, which description is qualified in its entirety by reference to the text of the LTIC Plan. A copy of the LTIC Plan has been filed with the Securities and Exchange Commission as an appendix to this Proxy Statement.

Effective Date and Expiration

The effective date of the LTIC Plan is June 1, 2003 and the termination date will be May 31, 2013. Although no awards may be made under the LTIC Plan after its termination date, awards made prior to the termination date may have a distribution or payout date after such termination date.

Number of Shares Available

The LTIC Plan authorizes the use of up to 6,000,000 shares of Common Stock for awards during the term of the LTIC Plan. The number and kinds of shares covered by the LTIC Plan will be subject to adjustments by the Compensation Committee of the Board in the event of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, split-up, split-off, spin-off, combination of shares, exchange of shares or other like changes in the Company's capital structure. On April 16, 2003, the closing price of the Company's common stock was \$18.38.

Individual Limit

The LTIC Plan limits to 1,000,000 the number of stock options (including performance accelerated stock options) that can be awarded to any individual during any year of the LTIC Plan. This individual limit allows the Company to meet the exception for performance-based compensation under Section 162(m) of the Internal Revenue Code and any compensation received by certain senior officers as a result of the exercise of stock options or performance accelerated stock options granted under the LTIC Plan will not be subject to that Section's \$1,000,000 per year deduction limit.

Administration

The LTIC Plan is administered by the Compensation Committee of the Board which consists entirely of "outside directors," as defined for purposes of Section 162(m) of the Internal Revenue Code. The Compensation Committee has full authority to interpret the LTIC Plan and to establish rules for its administration. The form of each award granted under the LTIC Plan, and the number of shares of Common Stock or the amount of cash subject to each award, is determined by the Compensation Committee for all LTIC Plan participants who are subject to Section 16 of the Securities Exchange Act of 1934 and, as long as the Chief Executive Officer of the Company (the "CEO") is a director of the Company, by the CEO for all participants who are not subject to Section 16. In the event that the CEO is not a director of the Company, award determinations for participants not subject to Section 16 will be made by the Compensation Committee (references to "Compensation Committee" throughout this description of the features of the LTIC Plan shall be deemed to refer to either the Compensation Committee or the CEO, whichever may be appropriate in a given circumstance).

Eligibility for Awards

Awards can be made to any employee of the Company and of any future subsidiary that may elect to adopt the LTIC Plan. In addition, non-employee directors of the Company will be eligible to be granted nonqualified stock options under the LTIC Plan as long as there is not a separate equity compensation plan under which non-employee directors may be granted stock options. There are currently four non-employee

directors of the Company. It is impossible to determine the exact number of persons who will be eligible under the LTIC Plan during its term because the selection of participants depends on discretionary decisions of the CEO and the Compensation Committee.

Awards

The LTIC Plan provides for the award of stock options (both incentive stock options and nonqualified stock options), stock appreciation rights, performance shares, restricted stock, phantom units, performance accelerated stock options and cash value awards. Each of these awards (an "Award") is described more fully below. Award prices and the number and kinds of shares covered by the LTIC Plan and the Awards under the LTIC Plan will be subject to adjustments by the Compensation Committee in the event of a merger, consolidation, reorganization, recapitalization, stock dividend, stock split, split-up, split-off, spin-off, combination of shares or other like changes in the Company's capital structure. All Awards, other than nonqualified stock options, will be nontransferable other than by will or the laws of descent and distribution. The Compensation Committee may, in its sole discretion, allow nonqualified stock options to be transferable to family members (as defined in the LTIC Plan).

Stock Options and SARs. Options granted pursuant to the LTIC Plan may be either in the form of incentive stock options (which are options that meet the requirements of Section 422 of the Internal Revenue Code) or in the form of nonqualified stock options. A stock option gives the holder the right to purchase, during the term of the option, a number of shares of Common Stock at a price determined on the date the option is granted. The option exercise price and the time or times at which the option may be exercised are determined by the Compensation Committee at the time of grant. Under the LTIC Plan, the option price may be (i) not less than 100% of the fair market value of the Common Stock on the date of grant for incentive stock options and (ii) not less than 85% of fair market value of the Common Stock on the date of grant for nonqualified stock options. The option price may be paid in cash or, with the Compensation Committee's permission, in the form of Common Stock under such rules as the Compensation Committee may impose, based on the fair market value of such Common Stock on the date of exercise, or a combination of cash and Common Stock. However, in the case where the Compensation Committee permits payment in the form of Common Stock, only shares previously held by the optionee will be allowed to be used for such payment. When an option is exercised, no shares may be issued except upon receipt by the Company of full payment of the option price or upon the exercise and simultaneous sale of the option shares. Stock options may be exercised at such time or times as may be specified at the time of grant, but in no event more than ten years after the date of grant. The permissible vesting period for stock options may end no less than six months before the end of the option term.

Stock Appreciation Rights ("SAR"). SARs may be granted in connection with a stock option granted under the LTIC Plan. SARs entitle the holder, upon exercise of the SAR, to receive an amount equal to the difference between the fair market value of the shares of Common Stock with respect to which the SAR is being exercised and the option price. Payment may be made in cash, in shares of Common Stock, or a combination of the two, as the Compensation Committee determines.

Performance Shares. Performance Shares give the holder the right to receive a designated number of shares of Common Stock (the actual amount may be on a sliding scale based on the attainment of specified performance goals) at the end of a specified performance period if specified performance

goals are met. A performance period may be from one to five years. Performance goals are typically corporate objectives and include specified levels of earnings per share, return on investment, return on shareholder equity and other goals related to the performance of the Company, a particular business unit, corporate staff or individual performance. When circumstances occur that cause predetermined performance objectives to be an inappropriate measure of performance, the Compensation Committee, in its discretion, may adjust the performance goals. Performance Shares representing achievement of the target performance goals are issued in the grantee's name at the time of the award, but are held in custody by the Company during the performance period. The grantee is generally entitled to vote the shares and to receive any dividends payable in respect of the shares, but may not transfer them. If the target performance goals are met during the specified period, all shares held in custody will be released and delivered to the participant. If performance exceeds the performance target goals, the portion of the award in excess of the target will be paid in the form of cash or the Company's Common Stock, as determined by the Compensation Committee.

Restricted Stock. In a Restricted Stock Award, shares of Common Stock are granted to an employee for no consideration, but will be forfeited to the Company if the recipient ceases to be an employee of the Company or its subsidiaries (for any reason other than death, disability, transfer to a related entity or normal retirement) during a restriction period specified at the time of grant. The restriction period may be from one to five years. Like target Performance Shares, Restricted Stock is issued in the employee's name at the time of grant, but held in custody by the Company until the end of the restriction period. While the shares are held in custody, the employee will be entitled to vote the shares and to receive any dividends paid on such shares.

Phantom or Restricted Stock Units. A Phantom Unit does not give the holder the right to receive any shares of Common Stock, but instead involves the creation of an unfunded account for the participant, the value of which is measured by reference to the value of the Common Stock. Units vest and are payable at the end of the vesting period specified at the time of grant. The vesting period may be from one to five years. The Compensation Committee, in its discretion, may also grant Phantom Units payable in Common Stock at the time each unit vests. Such Phantom Units are referred to as Restricted Stock Units. During the vesting period, the Restricted Stock Units are treated in the same way and are subject to the same rules as are Phantom Units. However, once vested, payment for the Restricted Stock Units is made in an equivalent number of shares of Common Stock rather than cash.

Performance Accelerated Stock Options. The granting of Performance Accelerated Stock Options ("PASOs") is also permitted. PASOs are identical in all respects to stock options, except that the vesting of PASOs may be accelerated if certain specified performance goals are met during the term of the PASO.

Cash Value Awards. Cash Value Awards are awards, denominated in dollars, which are payable in cash or stock if specified performance goals are met by the end of a specified performance period. The performance goals applicable to Cash Value Awards will generally be similar to those applied to Performance Shares.

Other Market-Based or Performance-Based Awards. The LTIC Plan also permits the Compensation Committee to grant any other type of award that is valued in whole or in part by reference to the value of Common Stock, on such terms and conditions as it may determine.

Termination of Employment

Awards made under the LTIC Plan which have not vested or become exercisable will generally be forfeited if the holder ceases to be an employee of the Company or its subsidiaries except in the case of termination as a result of a change of control (as defined in the LTIC Plan). See "Change of Control" below. If a holder shall voluntarily resign before eligibility for retirement (except for

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retirement with the approval of the Company) or shall be terminated by the Company or its subsidiaries for cause, the Awards that have become exercisable shall remain exercisable for a period of thirty days following the effective date of the termination of employment. In addition, the Compensation Committee may, in its sole discretion, accelerate the vesting or exercisability of the holder's Awards that are unvested or not exercisable at the time of the holder's termination of employment.

Stock Options. If a holder of stock options or SARs ceases to be employed by the Company or its subsidiaries because of a reduction in force, the participant's death or disability, retirement, transfer to a related entity or involuntary termination of employment for other than cause, all of his outstanding vested options and SARs will remain exercisable until the remaining term of the stock options or SARs ends.

Performance Accelerated Stock Options. If the holder of PASOs ceases to be employed by the Company or its subsidiaries because of the participant's retirement, death, disability or an involuntary termination of employment for a reason other than cause, any PASOs exercisable on the date of the holder's termination of employment may be exercised for the period up to the expiration date of the PASO. In the event of a reduction in force, a transfer to a related entity or a decrease in the Company's ownership of a subsidiary, the Compensation Committee will determine the timing, terms and conditions for the exercise of the PASO, but not beyond the expiration date of the PASO.

Restricted Stock and Phantom or Restricted Stock Unit Awards. If a participant retires, dies or becomes disabled, all restrictions applicable to his Restricted Stock and Phantom or Restricted Stock Units will lapse. If the participant's employment is terminated due to a transfer to a related entity or a decrease in the Company's ownership of a subsidiary, all restrictions will remain in effect until the end of the applicable restriction period.

Performance Shares and Cash Value Awards. A holder who retires will be entitled to his Performance Shares or Cash Value Awards at the end of the applicable performance period, to the extent that the applicable performance goals were met during the period. If the holder of Performance Shares or a Cash Value Award is terminated due to a reduction in force, he will be entitled to receive, at the end of the applicable performance period, the minimum payout provided under his Award, prorated to reflect the portion of the performance period during which he was an employee. If his employment terminates due to death or disability, he will be entitled to receive his Performance Shares or Cash Value Awards at the target award level on the date of termination. Cash Value Awards will only be payable in cash in the event of termination due to death or disability. If the participant's employment terminates due to a transfer to a related entity or a decrease in the Company's ownership of a subsidiary, all restrictions applicable to his Performance Shares and Cash Value Awards will remain in effect.

Discretion. The Compensation Committee generally has the discretion to provide for earlier vesting or to waive restrictions applicable to Awards, to the extent such modifications are deemed to be in the best interests of the Company.

Termination of Service by Non-Employee Directors

If a non-employee director's service as a director terminates for any reason, his vested outstanding options granted under the LTIC Plan may be exercised until the options' termination date. In addition, a non-employee director's unvested options will be forfeited upon the termination of his service as a director except that the Compensation Committee may accelerate the vesting of unvested options in its discretion.

Change of Control

In the event of a change of control (as defined in the LTIC Plan), all outstanding stock options, SARs and PASOs will become immediately exercisable for the remainder of their terms and all other Awards will become fully payable within 30 days at the maximum level of performance.

Amendment or Termination of the LTIC Plan

The Board of Directors of the Company can amend, suspend or terminate the LTIC Plan at any time but must seek shareholder approval to materially increase the benefits accruing to LTIC Plan participants, materially modify the requirements for eligibility, extend the term of the LTIC Plan or increase the number of shares of Common Stock that may be issued under the LTIC Plan. In addition, the Board will seek shareholder approval for any amendment if such approval is necessary under applicable law. No amendment of the LTIC Plan by the Board may adversely affect an Award previously granted under the LTIC Plan without the consent of the Award recipient so affected, except in accordance with the LTIC Plan or the Award grant.

Federal Income Tax Consequences

The LTIC Plan is not qualified under Section 401(a) of the Internal Revenue Code. The following brief description, which is based on existing law, sets forth certain of the federal income tax consequences of the grant of options and other Awards under the LTIC Plan. This description may differ from the actual tax consequences incurred by any individual participant in the Plan. Moreover, existing law is subject to change by new legislation, by new regulations, administrative pronouncements and court decisions or by new or clarified interpretations or applications of existing regulations, administrative pronouncements and court decisions. Any such change may affect the federal income tax consequences described below.

Stocks Options and PASOs. There is no tax incurred by the participant (or expense deduction for the Company) upon the grant of stock options and PASOs, assuming that such Awards do not have a readily ascertainable fair market value. At the time of exercise of a nonqualified stock option or PASO, the difference between the exercise price and the fair market value of Common Stock on the date of exercise will constitute ordinary income. The Company will be allowed a deduction equal to the amount of ordinary income realized by the participant. In the case of incentive stock options, although no income is realized upon exercise and the Company is not entitled to a deduction, the excess of the fair market value on the date of exercise over the exercise price is treated by the participant as an item of tax preference for alternative minimum tax purposes. If the participant does not dispose of the shares acquired on the exercise of an incentive stock option within one year after their receipt or within two years after the grant of the stock option, gain or loss realized on the subsequent disposition of the shares will be treated as long-term capital gain or loss. In the event of an earlier disposition, the participant may realize ordinary income and the Company will be entitled to a deduction, equal to the amount of such income, at the time such income is realized by the participant.

If a participant exercises an option by delivering previously held shares in payment of the exercise price, the participant does not recognize gain or loss on the exchange of the delivered shares, even if their then fair market value is different from the participant's tax basis in the shares. However, the exercise of the option is taxed, and the Company generally is entitled to a deduction, in the same way that it would be if the participant had paid the exercise price in cash. Provided the participant receives a separate identifiable stock certificate therefor, his tax basis in the number of shares received that is equal to the number of shares surrendered on exercise will be equal to his tax basis in the shares surrendered. His holding period for such number of shares will include his holding period for the shares surrendered. The participant's tax basis and holding period for the additional shares received

upon exercise of an option in whole or in part with shares will be the same as it would be if the participant had exercised solely for cash.

SARs. The participant will not realize any income at the time of grant of a SAR. Upon the exercise of a SAR, any cash received and the fair market value on the exercise date of any shares of Common Stock received will constitute ordinary income to the participant. The Company will be entitled to a deduction in the amount of such income at the time of exercise.

Restricted Stock. A participant normally will not realize taxable income upon the grant of a Restricted Stock Award, and the Company will not be entitled to a deduction, until the termination of the restrictions, except with respect to the dividends, or dividend equivalents, received by the participant. Upon termination of the restrictions, the participant will realize ordinary income in an amount equal to the fair market value of the Common Stock at that time and the Company will be entitled to a deduction in the same amount. However, a participant may elect to realize ordinary income in the year the Restricted Stock is awarded in an amount equal to the fair market value at the time of the grant, determined without regard to the restrictions. In this event, the Company will be entitled to a deduction in such year in the same amount, and any gain or loss realized by the participant upon subsequent disposition of the stock will be capital gain or loss. If, after making this election, any Restricted Stock is forfeited, or if the market value at vesting is lower than the amount on which the participant was taxed, the participant cannot then claim a deduction for the loss.

Phantom or Restricted Stock Units, Performance Awards, Cash Value Awards and Other Market or Performance-Based Awards. A participant normally will not realize taxable income upon the award of Phantom or Restricted Stock Units, Performance Awards, Cash Value Awards or other Market-Based Awards or Performance-Based Awards. Subsequently, when the conditions and requirements established with respect to the grants have been satisfied and the payment amount determined, any cash and the fair market value of any shares of Common Stock received, or not subject to a substantial risk of forfeiture, whichever occurs earlier, will constitute ordinary income to the participant in the year in which paid or when no longer subject to a substantial risk of forfeiture, and the Company will be entitled to a deduction in the same amount. Performance Awards up to target level are subject to the same tax consequences as Restricted Stock described above.

Withholding. The Company shall have the right to reduce the number of shares of Common Stock deliverable pursuant to the LTIC Plan by an amount which would have a fair market value equal to the amount of all federal, state, or local taxes required to be withheld, or to deduct the amount of such taxes from any cash payment to be made to the participant pursuant to the LTIC Plan or otherwise.

Deductibility of Executive Compensation

Section 162(m) of the Internal Revenue Code disallows a tax deduction to publicly held companies for compensation paid to the Chief Executive Officer and the four top-paid executive officers, to the extent that total compensation exceeds \$1 million per covered officer in any taxable year. The limitation applies only to compensation which is not considered to be performance-based. Compensation deemed paid by the Company in connection with disqualifying dispositions of incentive stock option shares or exercises of nonqualified stock options granted under the LTIC Plan qualifies as performance-based compensation for purposes of Section 162(m) if the grants were made by a committee of "outside directors" as defined under Section 162(m). The Company anticipates that any compensation deemed paid by it in connection with disqualifying dispositions of incentive stock option shares or exercises of nonqualified stock options will qualify as performance-based compensation for purposes of Section 162(m) and will not have to be taken into account for purposes of the \$1 million limitation. Accordingly, all compensation deemed paid with respect to those options should be deductible by the Company without limitation under Section 162(m) of the Internal Revenue Code.

Certain Accounting Consequences

Under current generally accepted accounting principles, neither the grant nor the exercise of stock options or PASOs with an exercise price equal to 100% of the fair market value of the underlying shares on the date of grant will result in a charge to the Company's earnings. However, generally accepted accounting principles are subject to change and the Financial Accounting Standards Board is considering a proposal to require that the grant of stock options and PASOs result in a charge against earnings. The award of SARs does require a charge against earnings for the appreciation on the SARs that have become exercisable and that are anticipated will be exercised. The amount of such charge is dependent upon the amount, if any, by which the fair market value of the Company's Common Stock exceeds the option price provided for in the related option. As to Phantom Units, a charge against earnings over the vesting period is required for the fair market value of equivalent shares of Common Stock at the time of grant adjusted for changes in stock price. With respect to awards of Performance Shares, periodic estimates of the compensation expense will be charged against the Company's earnings over the performance period based on the likelihood that performance goals will be achieved and the movement in Common Stock price; the aggregate compensation expense will equal the number of shares

ultimately earned multiplied by the market price of the Company's Common Stock at the end of the performance period. The fair market value of the shares of Restricted Stock Awards on the date of award will be charged ratably against earnings as compensation expense over the restriction period.

Compliance With Laws

The LTIC Plan and the grant of Awards shall be subject to all applicable Federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. It is intended that the LTIC Plan be operated and administered in compliance with Rule 16b-3 promulgated under Section 16 of the Securities Exchange Act of 1934, as amended, which limits the transactions involving Common Stock in which executive officers may engage. If any provision of the LTIC Plan would be in violation of Rule 16b-3, if applied as written, such provision shall not be given effect as written but shall be interpreted so as to comply with Rule 16b-3, as determined by the Compensation Committee. The Board of Directors is authorized to amend the LTIC Plan and to make any such modifications to grants of Award under the LTIC Plan to comply with Rule 16b-3, and to make any such other amendments or modifications as it deems necessary or appropriate to better accomplish the purposes of the LTIC Plan in light of any amendments made to Rule 16b-3.

New Plan Benefits

The future number, amount and type of Awards to be received by or allocated to eligible participants under the LTIC Plan cannot be determined at this time. Awards with respect to the authorized shares remaining to be granted under the LTIC Plan will be made in the future based on decisions made by the Compensation Committee at such time.

The Board of Directors unanimously recommends that shareholders vote FOR the proposal to approve the LTIC Plan.

EQUITY COMPENSATION PLAN INFORMATION

The following table summarizes certain information with respect to the Company's compensation plans and individual compensation arrangements under which the Company's equity securities have been authorized for issuance as of the fiscal year ended December 31, 2002:

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options, warrants and rights	(b) Weighted-average exercise price of outstanding options, warrants and rights	(c) Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column(a))
Equity compensation plans approved by shareholders	2,933,166	\$ 8.55	735,000
Equity compensation plans not approved by shareholders			
Total	2,933,166	\$ 8.55	735,000

SECURITY OWNERSHIP OF PRINCIPAL SHAREHOLDERS AND MANAGEMENT

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The following table sets forth certain information with respect to beneficial ownership of the Company's Common Stock, as of April 4, 2003, by each person known to the Company to own beneficially more than five percent of the Company's outstanding Common Stock, each director, the chief executive officer and each of the four other most highly compensated executive officers of the Company and all of the executive officers and directors of the Company as a group. The persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them except as otherwise described in the footnotes to the table. Unless otherwise indicated in the footnotes to the table, the address of each such person is c/o the Company, 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610.

Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. Shares of Common Stock subject to options currently exercisable or exercisable within 60 days of April 4, 2003 are deemed outstanding for computing the percentage beneficially owned by such holder, but are not deemed outstanding for purposes of computing the percentage beneficially owned by any other person. The percentage for each beneficial owner is calculated based on (i) the aggregate number of shares reported to be owned by such group or individual and (ii) the aggregate number of shares of Common Stock outstanding as of April 4, 2003 (39,274,034 shares).

Name and Address	Number of Shares Beneficially Owned	Percentage of Class
Peter M. Carlino(1)(2)	8,054,104	20.1%
Harold Cramer(2)(3)	6,449,004	16.4%
Peter D. Carlino(4)	6,422,504	16.4%
Richard J. Carlino(5)	6,046,348	15.4%
David E. Carlino(5)	6,046,348	15.4%
Carlino Family Trust(6)	6,046,348	15.4%
David A. Handler(2)	120,290	*
Kevin DeSanctis(2)	125,000	*
William J. Clifford(2)	25,000	*
Robert S. Ippolito(2)	34,200	*
John M. Jacquemin(2)	23,700	*
Joseph A. Lashinger, Jr.(7)	10,000	*
Robert P. Levy(2)	7,500	*
All executive officers and directors as a group (10 persons) (2)	8,831,200	21.8%
Baron Capital Group, Inc.(8)	3,364,000	8.6%

*
Less than 1%.

(1) The number of shares in the table includes 6,046,348 shares owned by an irrevocable trust (the "Carlino Family Trust") among Peter D. Carlino, his eight children and the former spouse of one of his children, as settlors, and certain trustees, as to which Peter M. Carlino has sole voting power for the election of directors and certain other matters and Peter D. Carlino, Peter M. Carlino, David E. Carlino, Richard J. Carlino and Harold Cramer have shared investment power and shared voting power with respect to certain matters; and 1,176,756 shares owned jointly by Mr. Carlino and his wife, Marshia Carlino.

(2) Includes shares that may be acquired upon the exercise of outstanding options that are exercisable within 60 days of April 4, 2003, as follows: Peter M. Carlino, 831,000 shares; Harold Cramer, 22,500 shares; Robert S. Ippolito, 30,500 shares; David A. Handler; 52,500 shares; John M. Jacquemin, 22,500 shares; Kevin DeSanctis, 125,000 shares; William J. Clifford, 25,000 shares; Robert P. Levy, 7,500 shares; and all executive officers and directors as a group, 1,155,250 shares.

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(3) The number of shares in the table includes 6,046,348 shares owned by the Carlino Family Trust, and an aggregate of 356,156 shares owned by a marital trust for the benefit of Peter D. Carlino and by a residuary trust for the benefit of Peter D. Carlino and Peter D. Carlino's children as to both of which Harold Cramer has shared investment power and shared voting power.

(4)

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The number of shares in the table includes 6,046,348 shares owned by the Carlino Family Trust, as to which Peter D. Carlino has shared investment and voting power with respect to certain matters; and 356,156 shares owned by a marital trust for the benefit of Peter D. Carlino and by a residuary trust for the benefit of Peter D. Carlino and Peter D. Carlino's children as to both of which Peter D. Carlino has shared investment power and shared voting power.

- (5) The number of shares in the table includes 6,046,348 shares of Common Stock owned by the Carlino Family Trust, as to which David E. Carlino and Richard J. Carlino have shared investment power and shared voting power.
- (6) Represents an irrevocable trust among Peter D. Carlino, his eight children and the former spouse of one of his children, as settlors, and certain trustees, as to which Peter M. Carlino has sole voting power for the election of directors and certain other matters and Peter D. Carlino, Peter M. Carlino, David E. Carlino, Richard J. Carlino and Harold Cramer have shared investment power and shared voting power with respect to certain matters.
- (7) Includes 10,000 shares that may be acquired by Mr. Lashinger upon the exercise of outstanding options that are exercisable within 60 days of April 4, 2003. Mr. Lashinger resigned as Vice President/General Counsel of the Company effective April 5, 2002. The address for Mr. Lashinger is 115 Spy Glass Drive, Blue Bell, PA 19341.
- (8) According to their joint Schedule 13G filed with the Securities and Exchange Commission on February 13, 2003, Ronald Baron, Baron Capital Group, Inc. ("BCG"), BAMCO, Inc. and Baron Capital Management, Inc. ("BCM") beneficially own 3,364,000 shares, 3,364,000 shares, 2,580,000 shares and 784,000 shares respectively; Mr. Baron, BCG and BCM each have sole voting and dispositive power with respect to 240,000 shares; and Mr. Baron, BCG, BAMCO, Inc., and BCM have shared voting and dispositive power with respect to 3,124,000 shares, 3,124,000 shares, 2,580,000 shares and 544,000 shares, respectively. The address for Ronald Baron, BCG, BAMCO, Inc., and BCG is 767 Fifth Avenue, New York, NY 10153.

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COMPENSATION OF EXECUTIVE OFFICERS AND OTHER INFORMATION

The following table sets forth information with respect to all compensation awarded to, earned by or paid for services rendered to the Company by (a) the Company's Chief Executive Officer and (b) each of the four most highly compensated executive officers of the Company (collectively, the "Named Executive Officers") during the last completed fiscal year.

Summary Compensation Table

Name and Principal Position	Year	Annual Compensation		Long Term Compensation Awards	
		Salary	Bonus(1)	Securities Underlying Options Granted(2)	All Other Compensation
Peter M. Carlino <i>Chairman of the Board Chief Executive Officer</i>	2002	\$ 600,000	\$ 550,000	150,000	\$ 263,398(3)
	2001	\$ 456,731	150,000	150,000	\$ 256,833(3)
	2000	\$ 380,000	\$ 100,000	150,000	\$ 242,969(3)
Kevin DeSanctis <i>President and Chief Operating Officer(5)</i>	2002	\$ 575,000	\$ 525,000	100,000	\$ 8,985(4)
	2001	\$ 403,846	\$ 150,000	300,000	
William J. Clifford <i>Chief Financial Officer and Sr. Vice President, Finance(7)</i>	2002	\$ 275,000	\$ 250,000	50,000	\$ 17,023(6)
	2001	\$ 111,058	\$ 35,000	100,000	\$ 11,327(6)

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		Annual Compensation		Long Term Compensation Awards	
Robert S. Ippolito	2002	\$ 165,000	\$ 150,000	30,000	\$ 14,839(8)
<i>Vice President,</i>	2001	\$ 162,500	\$ 40,000	30,000	\$ 14,670(8)
<i>Secretary & Treasurer</i>	2000	\$ 155,500	\$ 33,750	30,000	\$ 5,589(8)
Joseph A. Lashinger, Jr.	2002	\$ 88,461	\$ 25,000		\$ 234,773(9)
<i>Former Vice President/</i>	2001	\$ 223,231	\$ 70,000	30,000	\$ 10,534(6)
<i>General Counsel(10)</i>	2000	\$ 200,000	\$ 45,000	30,000	\$ 4,368(6)

- (1) These amounts reflect the bonuses earned for 2002, 2001 and 2000. Bonus amounts that appeared in the summary compensation tables of the Company's previous proxy statements reflected the amounts of bonus actually paid in the years represented.
- (2) Options granted have been adjusted to reflect the Company's June 25, 2002 two-for-one stock split.
- (3) Represents (i) contributions of \$36,398, \$18,833 and \$4,969 in 2002, 2001, and 2000, respectively made by the Company to its deferred compensation, profit sharing and 401(k) plans for the account of Peter M. Carlino; and (ii) life insurance policy premiums of \$227,000, \$238,000 and \$238,000 in 2002, 2001 and 2000, respectively, paid by the Company on behalf of certain irrevocable trusts created by Peter M. Carlino. No premium payments were made by the Company after September 2002. See "Certain Transactions" beginning on page 19.
- (4) Represents (i) contributions of \$5,500 made by the Company to its deferred compensation, profit sharing and 401(k) plans for the account of Kevin DeSanctis; and (ii) life insurance policy premiums of \$3,485 paid by the Company on behalf of Mr. DeSanctis.
- (5) Mr. DeSanctis joined the Company on February 15, 2001.
- (6) Represents amounts contributed by the Company to its deferred compensation, profit sharing and 401(k) plans for the account of the executive officer.
- (7) Mr. Clifford joined the Company on July 30, 2001.
- (8) Represents (i) contributions of \$12,069, \$11,901 and \$2,820 in 2002, 2001 and 2000, respectively made by the Company to its deferred compensation, profit sharing and 401(k) plan for the account of Mr. Ippolito; and (ii) a premium of \$2,769, paid by the Company in each year pursuant to a split dollar life insurance arrangement between Mr. Ippolito and the Company. No premium payments were made by the Company after September 2002.

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- (9) Represents (i) \$4,773 contributed by the Company to its deferred compensation, profit sharing and 401(k) plans for the account of Mr. Lashinger; and (ii) a severance payment of \$230,000 pursuant a Separation Agreement between Mr. Lashinger and the Company.
- (10) Mr. Lashinger resigned as Vice President/General Counsel of the Company effective April 5, 2002.

Option Grants in Last Fiscal Year

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The following table sets forth certain information regarding stock options granted during 2002 to the executive officers named in the Summary Compensation Table.

NAME	Individual Grants				Potential Realizable Value at Assumed Annual Rates of Stock Price Appreciation for Option Term	
	Number of Securities Underlying Options Granted(1)	Percentage of Total Options Granted to Employees in Fiscal Year 2002(2)	Exercise Price Per Share(3)	Expiration Date	5% (4)	10% (4)
Peter M. Carlino	150,000	14.49%	\$ 14.84	1/2/12	\$ 1,399,919	\$ 3,547,671
Kevin DeSanctis	100,000	9.66%	\$ 14.84	1/2/09	\$ 604,137	\$ 1,407,896
William J. Clifford	50,000	4.29%	\$ 14.84	1/2/09	\$ 302,068	\$ 703,948
Robert S. Ippolito	30,000	2.90%	\$ 14.84	1/2/09	\$ 181,241	\$ 422,369
Joseph A. Lashinger, Jr.(5)						

- (1) Adjusted to reflect the Company's June 25, 2002 two-for-one stock split. Options granted to Messrs. Carlino, DeSanctis, Clifford and Ippolito vest one-quarter on the first anniversary of the date of grant, and one-quarter on each succeeding such anniversary.
- (2) Based on a total number of options granted to employees of 1,035,500.
- (3) The exercise price is equal to the closing price of the Company's Common Stock on the date of grant.
- (4) Potential realizable value is based on an assumption that the market price of the Company's Common Stock appreciates at the stated rates compounded annually, from the date of grant until the end of the respective option term. These values are calculated based on requirements promulgated by the Securities and Exchange Commission and do not reflect the Company's estimate of future stock price appreciation.
- (5) Mr. Lashinger resigned as Vice President/General Counsel of the Company effective April 5, 2002.

Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table provides information with respect to the executive officers shown in the Summary Compensation Table concerning stock options exercised during 2002 and the value of vested and unvested unexercised options held as of December 31, 2002. There are no outstanding stock appreciation rights.

Name	Shares Acquired on Exercise(1)	Value Realized	Number of Securities Underlying Unexercised Options at December 31, 2002(1)		Value of Unexercised In-the-Money Options at December 31, 2002	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Peter M. Carlino	600,000	\$ 6,130,650	693,500	362,500	\$ 9,063,730	\$ 2,552,250
Kevin DeSanctis	50,000	\$ 685,889	25,000	325,000	\$ 263,750	\$ 2,475,750
William J. Clifford	12,500	\$ 107,983	12,500	125,000	\$ 79,750	\$ 529,500
Robert S. Ippolito	66,500	\$ 908,909	3,000	72,500	\$ 37,920	\$ 510,450
Joseph A. Lashinger, Jr.(2)	37,500	\$ 534,247		20,000		\$ 230,870

- (1) Adjusted to reflect the Company's June 25, 2002 two-for-one stock split.
- (2) Mr. Lashinger resigned as Vice President/General Counsel of the Company effective April 5, 2002.

Employment Agreements

On April 12, 1994, the Company entered into employment agreements with Peter M. Carlino, its Chairman and Chief Executive Officer, and Robert S. Ippolito, its Vice President, Secretary and Treasurer, that were amended on June 1, 1999. The agreements have automatically renewed and are now from year to year. The agreements may be terminated at the election of the Company if the employee becomes disabled, the employee loses certain regulatory licensure, the employee is convicted of a felony, upon a material breach of the agreement not cured within 30 days of written notice of breach and, in the case of Mr. Ippolito's agreement only, upon 90 days written notice. Each agreement sets a minimum base salary that may be increased on an annual basis and provides for additional compensation and bonuses as may be awarded from time to time by the Board of Directors. For 2002, Mr. Carlino's annual salary was \$600,000, and Mr. Ippolito's annual base salary was \$165,000. Each agreement also prohibits the respective employee from competing with the Company during its term and for one year thereafter, prohibits the disclosure of confidential information of the Company and requires a death benefit payment by the Company based on the employee's annual salary in effect at the time of his death.

Effective as of February 15, 2001, the Company entered into an employment agreement with Kevin DeSanctis, its President and Chief Operating Officer that expired on February 14, 2003. The agreement provided for a minimum base salary that could be increased on an annual basis. For 2002, Mr. DeSanctis's annual salary was \$575,000. During its term and for two years thereafter, the employment agreement prohibited Mr. DeSanctis from revealing confidential information of the Company and from soliciting the services of any employee of the Company, its subsidiaries or affiliated companies. Mr. DeSanctis and the Company have agreed, in principal, to enter into a new employment agreement, which will be effective as of February 15, 2003 and expire on December 31, 2005 and will provide for a minimum base salary of \$675,000 (subject to future adjustment), the payment of bonuses based on Mr. DeSanctis's and the Company's performance, the payment by the Company of the premiums on a \$5 million life insurance policy for the benefit of Mr. DeSanctis, and other customary terms and conditions.

On July 30, 2001, the Company entered into an employment agreement with William J. Clifford, its Chief Financial Officer and Senior Vice President, Finance. The agreement provides for a minimum base salary, subject to upward adjustment, and the payment of bonuses based on Mr. Clifford's and the Company's performance. Mr. Clifford's salary was \$275,000 in 2002. The initial term of the agreement is from July 30, 2001 to July 30, 2003 and automatically renews for one-year periods unless either party gives written notice of its desire to terminate. If, after the completion of the initial term, the Company elects, without cause, to not continue the agreement or elects not to offer an "at will" employment agreement to Mr. Clifford, Mr. Clifford is entitled to receive a severance allowance equal to the full amount of Mr. Clifford's then annual base salary and six months' health insurance benefits. The agreement may be terminated by the Company for "Cause" (as defined in the agreement), for performance-related reasons or because of death or total disability. The agreement prohibits Mr. Clifford from competing with the Company during its term and for any period thereafter for which Mr. Clifford is receiving severance payments from the Company as well as disclosure of trade secrets of the Company.

The Company entered into a separation agreement with Joseph A. Lashinger, Jr., which was effective as of April 5, 2002. The agreement provided for a severance payment of \$230,000 and a bonus payment of \$75,000. In addition, the Company agreed to take all actions necessary to vest a portion of Mr. Lashinger's unvested options to purchase shares of the Company's Common Stock, provided that Mr. Lashinger not exercise such options until the date they would have otherwise been vested. Under the separation agreement, the Company transferred ownership of a \$300,000 life insurance policy on Mr. Lashinger to Mr. Lashinger and provided, at its cost, medical benefits to Mr. Lashinger through April 4, 2003. Pursuant to the agreement, Mr. Lashinger agreed to keep secret all confidential information about the Company that he obtained during his employment.

Certain Transactions

In August 1994, the Company signed a consulting agreement with Peter D. Carlino, the former Chairman of the Company. Pursuant to the consulting agreement, as amended, Peter D. Carlino receives an annual fee of \$135,000. Peter D. Carlino is the father of Peter M. Carlino, the

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Chairman of the Board and Chief Executive Officer of the Company.

The Company paid premiums on life insurance policies (the "Policies") on behalf of certain irrevocable trusts (the "Trusts") created by the Company's Chief Executive Officer ("CEO"). The policies cover the CEO's life and that of his spouse. The Trusts are the owners and beneficiaries of the policies and are obligated to reimburse the Company for all premiums paid when the insurance matures or upon death. As of December 31, 2002, the Company has recorded receivables from such trusts in the amount of \$1,418,000. The Company paid premiums of \$238,000, \$238,000, and \$227,000 in 2000, 2001, and 2002, respectively. No premium payments were made after September 2002.

The Company currently leases 11,045 square feet of office space in two office buildings in Wyomissing, Pennsylvania for our executive offices. The office buildings are owned by affiliates of Peter M. Carlino, the Company's Chairman and Chief Executive Officer. These two properties were developed by the Carlino Development Group, of which Peter M. Carlino is the chairman. These leases expire in March 2005 and June 2012 and provide for minimum annual future payments of \$238,000. The Company believes that the lease terms are not less favorable than lease terms that could have been obtained from an unaffiliated third party.

Prior to March 6, 2003, the Company leased an aircraft from a company owned by Mr. Jacquemin, an outside director of the Company. The lease provided for monthly payments of \$27,775. The Company believes that the lease terms were not less favorable than lease terms that could have been obtained from an unaffiliated third party. On March 6, 2003, this lease was refinanced and a new lease was entered into between the Company and General Electric Capital Corporation.

Certain other transactions are described under the caption "Compensation Committee Interlocks and Insider Participation."

Compensation Committee Interlocks and Insider Participation

The current members of the Company's Compensation Committee are Messrs. Cramer and Handler. David A. Handler is a Senior Managing Director of Bear Stearns and Co., Inc. During 2002, Bear Stearns and Co., Inc. performed certain financial advisory and investment banking services for the Company. In addition, Bear Stearns and Co. was a joint lead arranger of, and is the administrative agent under, the \$800 million senior secured credit facility the Company entered into on March 3, 2003. The Company anticipates that Bear Stearns and Co. may continue to be retained to perform services in the future. The services performed during 2002 were provided to the Company on substantially the same terms as those prevailing at the time for comparable transactions with unrelated parties and Bear Stearns and Co.'s compensation in connection with such services did not exceed five percent (5%) of Bear Stearns and Co.'s consolidated gross revenues for its last full fiscal year.

No executive officer of the Company has served as a director or member of the Compensation Committee (or other committee serving as equivalent function) of any other entity, whose executive officers served as a member of the Compensation Committee of the Company.

Notwithstanding anything to the contrary, the following reports of the Compensation Committee and the Audit Committee and the performance graph on page 23 shall not be deemed incorporated by reference by any general statement incorporating by reference this Proxy Statement into any filing under the Securities Act of 1933, as amended, or under the Securities Exchange Act of 1934, except to the extent