

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 2000

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 (I.R.S. Employer incorporation or organization) Identification No.)

Penn National Gaming, Inc.

825 Berkshire Blvd., Suite 200

Wyomissing, PA 19610

(Address of principal executive offices) (Zip code)

610-373-2400

(Registrant's telephone number including area code)

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 May 10, 2000
Common Stock Par value \$.01 per share	14,925,975

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 LOCATED ELSEWHERE HEREIN REGARDING THE COMPANY'S OPERATIONS, FINANCIAL POSITION AND BUSINESS STRATEGY, MAY CONSTITUTE FORWARD-LOOKING TERMINOLOGY 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. 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.

References to "Penn National Gaming" or the "Company" include Penn National Gaming, Inc. and its subsidiaries.



Penn National Gaming, Inc. and Subsidiaries

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Part I. Financial Information

Item 1. Financial Statements

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

	March 31, 2000 (Unaudited)	December 31, 1999
<hr/>		
Assets		
Current assets		
Cash and cash equivalents	\$ 11,430	\$ 9,434
Accounts receivable	4,410	4,779
Prepaid expenses and other current assets	2,192	1,793
Deferred income taxes	669	888
Prepaid income taxes	-	1,088
	<hr/>	
Total current assets	18,701	17,982
	<hr/>	
Property, plant and equipment, at cost		
Land and improvements	27,878	27,988
Building and improvements	72,114	70,870
Furniture, fixtures and equipment	37,870	36,195
Transportation equipment	887	860
Leasehold improvements	9,806	9,802
Construction in progress	991	1,980
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	149,546	147,695
Less accumulated depreciation and amortization	22,479	20,824
	<hr/>	
Net property, plant and equipment	127,067	126,871
	<hr/>	
Other assets		
Investment in and advances to unconsolidated affiliate	13,449	12,862
Investment in minority interest purchase	5,845	-
Cash in escrow	5,000	5,000
Excess of cost over fair market value of net assets acquired (net of accumulated amortization of \$2,762 and \$2,611, respectively)	21,430	21,582
Deferred financing costs	4,825	5,014
Miscellaneous	1,262	1,289
	<hr/>	
Total other assets	51,811	45,747
	<hr/>	
	\$ 197,579	\$ 190,600
	<hr/>	

See accompanying notes to consolidated financial statements.

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

	March 31, 2000 (Unaudited)	December 31, 1999
<hr style="border-top: 1px dashed black;"/>		
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	\$ 5,160	\$ 5,160
Accounts payable	5,346	10,210
Purses due horsemen	3,601	2,114
Uncashed pari-mutuel tickets	1,641	1,351
Accrued expenses	1,485	2,694
Accrued interest	2,302	433
Accrued salaries and wages	930	1,098
Customer deposits	946	800
Taxes, other than income taxes	2,189	1,491
Income taxes	845	-
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Total current liabilities	24,445	25,351
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Long-term liabilities		
Long-term debt and capital lease obligations, net of current maturities	90,292	86,053
Deferred income taxes	12,881	12,924
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Total long-term liabilities	103,173	98,977
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Commitments and contingencies		
Shareholders' equity		
Preferred stock, \$.01 par value, authorized 1,000,000 shares; issued none	-	-
Common stock, \$.01 par value, authorized 20,000,000 shares; issued 15,332,675 and 15,314,175, respectively	153	153
Treasury stock, 424,700 shares at cost	(2,379)	(2,379)
Additional paid in capital	38,597	38,527
Retained earnings	33,590	29,971
	<hr style="border-top: 1px dashed black;"/>	
Total shareholders' equity	69,961	66,272
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	\$ 197,579	\$ 190,600
	<hr style="border-top: 1px dashed black;"/>	

See accompanying note to consolidated financial statements.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ending March 31, 2000	1999
	-----	-----
Revenue		
Pari-mutuel revenues		
Live races	\$ 4,065	\$ 2,414
Import simulcasting	19,816	15,301
Export simulcasting	1,594	511
Gaming revenue	22,166	11,297
Admissions, programs and other racing revenue	1,656	1,120
Concessions revenues	3,378	2,146
Earnings from unconsolidated affiliates	587	-
	-----	-----
Total revenues	53,262	32,789
	-----	-----
Operating expenses		
Purses, stakes, and trophies	9,571	5,711
Direct salaries, payroll taxes and employee benefits	5,372	3,715
Simulcast expenses	3,501	2,387
Pari-mutuel taxes	2,322	1,669
Lottery taxes and administration	8,748	4,489
Other direct meeting expenses	6,315	4,592
Concessions expenses	2,974	2,022
Other operating expenses	4,437	3,074
Horsemen's action expenses	-	1,250
Depreciation and amortization	2,176	2,015
	-----	-----
Total operating expenses	45,416	30,924
	-----	-----
Income from operations	7,846	1,865
	-----	-----
Other income (expense)		
Interest (expense)	(2,382)	(2,125)
Interest income	450	209
Other	(154)	-
	-----	-----
Total other (expense)	(2,086)	(1,916)
	-----	-----
Income (loss) before income taxes	5,760	(51)
Taxes (benefit) on income	2,141	(73)
	-----	-----
Net income	\$ 3,619	\$ 22
	=====	=====
Per share data		
Basic	\$ .24	\$ .00
Diluted	\$ .24	\$ .00
Weighted average shares outstanding		
Basic	14,898	14,762
Diluted	15,212	15,079

See accompanying notes to consolidated financial statements.

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

	Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance, January 1, 2000	15,314,175	\$ 153	\$ (2,379)	\$ 38,527	\$ 29,971	\$ 66,272
Issuance of common stock	18,500	-	-	70	-	70
Net income for the three months ended March 31, 2000	-	-	-	-	3,619	3,619
Balance, March 31, 2000	15,332,675	\$ 153	\$ (2,379)	\$ 38,597	\$ 33,590	\$ 69,961

See accompanying notes to consolidated financial statements.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOW

(In thousands)  
(Unaudited)

	Three Months Ended 2000	March 31, 1999
	-----	-----
Cash flows from operating activities		
Net income	\$ 3,619	\$ 22
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,176	2,015
Income from unconsolidated affiliates	(587)	-
Deferred income taxes	176	232
Decrease (increase) in		
Accounts receivable	369	533
Prepaid expenses	(498)	(149)
Prepaid income taxes	1,088	(482)
Miscellaneous other assets	25	(9)
Increase (decrease) in		
Accounts payable	(4,865)	(562)
Purses due horsemen	1,487	871
Uncashed pari-mutuel tickets	290	152
Accrued expenses	(1,209)	639
Accrued interest	1,869	1,975
Accrued salaries & wages	(168)	40
Customer deposit	146	2
Taxes, other than income payable	698	(152)
Income taxes	845	-
	-----	-----
Net cash provided by operating activities	5,461	5,127
	-----	-----
Cash flows from investing activities		
Expenditures for property, plant and equipment	(1,851)	(1,458)
Note receivable	-	(11,250)
Minority interest purchase	(5,845)	-
	-----	-----
Net cash (used) in investing activities	(7,696)	(12,708)
	-----	-----
Cash flows from financing activities		
Proceeds from sale of common stock	70	29
Proceeds from long-term debt	4,247	11,500
Principal payments on long-term debt and capital lease obligations	(8)	(17)
Increase in unamortized deferred financing costs	(78)	(579)
	-----	-----
Net cash provided by financing activities	4,231	10,933
	-----	-----
Net increase in cash and cash equivalents	1,996	3,352
Cash and cash equivalents, at beginning of period	9,434	6,826
	-----	-----
Cash and cash equivalents, at end of period	\$ 11,430	\$ 10,178
	=====	=====

See accompanying notes to consolidated financial statements

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

1. Basis of Financial Statement Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Penn National Gaming, Inc., ("Penn") and its wholly and majority owned subsidiaries, (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated. 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 which are necessary to present fairly the financial position of the Company as of March 31, 2000 and the results of its operations for the three month periods ended March 31, 2000 and 1999. The results of operations experienced for the three month period ended March 31, 2000 are not necessarily indicative of the results to be experienced for the fiscal year ended December 31, 2000.

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, 1999 annual financial statements.

2. Wagering Information (in thousands)

	Three months ended March 31, 2000			
	Penn National	Pocono Downs	Charles Town	Total
Pari-mutuel wagering in-state on company live races	\$ 13,345	\$ -	\$ 5,770	\$ 19,115
<hr style="border-top: 1px dashed black;"/>				
Pari-mutuel wagering on simulcasting:				
Import simulcasting from other racetracks	49,710	32,672	12,598	94,980
Export simulcasting to out of State wagering facilities	38,190	-	14,693	52,883
	<hr style="border-top: 1px dashed black;"/> 87,900	32,672	27,291	147,863
	<hr style="border-top: 1px dashed black;"/>			
Total pari-mutuel wagering	\$ 101,245	\$32,672	\$ 33,061	\$ 166,978
	<hr style="border-top: 3px double black;"/>			

Three months ended March 31, 1999

	Penn National	Pocono Downs	Charles Town	Total
Pari-mutuel wagering in-state on company live races	\$ 6,679	\$ -	\$ 5,043	\$ 11,722
-----				
Pari-mutuel wagering on simulcasting:				
Import simulcasting from other racetracks	27,605	35,164	12,599	75,368
Export simulcasting to out of State wagering facilities	17,154	-	-	17,154
-----				
	44,759	35,164	12,599	92,522
-----				
Total pari-mutuel wagering	\$ 51,438	\$35,164	\$ 17,642	\$ 104,244
=====				

3. Commitments

At March 31, 2000, the Company was contingently obligated under letters of credit with face amounts aggregating \$1,970,000. These amounts consisted of \$1,727,000 relating to horsemen's account balances, \$104,000 for Pennsylvania pari-mutuel taxes and \$139,000 for other items.

4. Supplemental Disclosures of Cash Flow Information

Cash paid during the three months ended March 31, 2000 and 1999 for interest was \$422,000 and \$67,000, respectively.

Cash paid during the three months ended March 31, 2000 and 1999 for income taxes was \$29,800 and \$199,000, respectively.

5. Subsidiary Guarantors

Summarized financial information for the three month period ended March 31, 2000 and 1999 for Penn National Gaming, Inc., ("Parent"), the Subsidiary Guarantors and Subsidiary Nonguarantors is as follows:

	Parent Company	Subsidiary Guarantors	Subsidiary Non- Guarantors	Elimin- ations	Consoli- dated
As of March 31, 2000					
Consolidated Balance Sheet (In Thousands)					
Current assets	\$ 3,316	\$ 8,283	\$ 8,125	\$ (1,023)	\$ 18,701
Net property, plant and equipment	822	79,226	47,019	-	127,067
Other assets	119,026	172,364	7,609	(247,188)	51,811
<b>Total</b>	<b>\$ 123,164</b>	<b>\$ 259,873</b>	<b>\$ 62,753</b>	<b>\$ (248,211)</b>	<b>\$ 197,579</b>
Current liabilities	\$ 2,358	\$ 26,491	\$ 6,985	\$ (11,389)	\$ 24,445
Long-term liabilities	81,995	96,180	53,449	(128,451)	103,173
Shareholders' equity	38,811	137,202	2,319	(108,371)	69,961
<b>Total</b>	<b>\$ 123,164</b>	<b>\$ 259,873</b>	<b>\$ 62,753</b>	<b>\$ (248,211)</b>	<b>\$ 197,579</b>
Three months ended March 31, 2000					
Consolidated Statement of Income (In Thousands)					
Total revenues	\$ 6	\$ 26,890	\$ 28,718	\$ (2,352)	\$ 53,262
Total operating expenses	(1,469)	24,855	24,382	(2,352)	45,416
Income from operations	1,475	2,035	4,336	-	7,846
Other income(expenses)	(1,181)	411	(1,162)	(154)	(2,086)
Income before income taxes	294	2,446	3,174	(154)	5,760
Taxes on income	126	2,067	-	(52)	2,141
<b>Net income</b>	<b>\$ 168</b>	<b>\$ 379</b>	<b>\$ 3,174</b>	<b>\$ (102)</b>	<b>\$ 3,619</b>
Three months ended March 31, 2000					
Consolidated Statement of Cash Flow (In Thousands)					
Net cash provided by (used in) operating activities	\$ (3,780)	\$ (4,711)	\$ (3,893)	\$ 17,845	\$ 5,461
Net cash provided by (used in) investing activities	2,841	2,606	(1,298)	(11,845)	(7,696)
Net cash provided by (used in) financing activities	320	3,920	5,991	(6,000)	4,231
Net increase (decrease) in cash and cash equivalents	(619)	1,815	800	-	1,996
Cash and cash equivalents at January 1, 2000	2,544	2,538	4,352	-	9,434
<b>Cash and cash equivalents at March 31, 2000</b>	<b>\$ 1,925</b>	<b>\$ 4,353</b>	<b>\$ 5,152</b>	<b>\$ -</b>	<b>\$ 11,430</b>

	Parent Company	Subsidiary Guarantors	Subsidiary Non- Guarantors	Elimin- ations	Consoli- dated
As of March 31, 1999					
Consolidated Balance Sheet (In Thousands)					
Current assets	\$ 6,667	\$ 6,613	\$ 4,687	\$ (418)	\$ 17,549
Net property, plant and equipment	13,200	62,510	44,778	-	120,488
Other assets	114,009	154,037	1,804	(232,371)	37,479
<b>Total</b>	<b>\$ 133,876</b>	<b>\$ 223,160</b>	<b>\$ 51,269</b>	<b>\$ (232,789)</b>	<b>\$ 175,516</b>
Current liabilities	\$ 8,520	\$ 14,165	\$ 7,886	\$ (10,410)	\$ 20,161
Long-term liabilities	87,735	78,313	47,559	(117,339)	96,268
Shareholders' equity (deficiency)	37,621	130,682	(4,176)	(105,040)	59,087
<b>Total</b>	<b>\$ 133,876</b>	<b>\$ 223,160</b>	<b>\$ 51,269</b>	<b>\$ (232,789)</b>	<b>\$ 175,516</b>
Three months ended March 31, 1999					
Consolidated Statement of Income (In Thousands)					
Total revenues	\$ 3,696	\$ 13,852	\$ 16,365	\$ (1,124)	\$ 32,789
Total operating expenses	2,019	15,179	14,850	(1,124)	30,924
Income from operations	1,677	(1,327)	1,515	-	1,865
Other income(expenses)	(1,506)	755	(1,165)	-	(1,916)
Income(loss)before income taxes	171	(572)	350	-	(51)
Taxes (benefit) on income	89	(324)	162	-	(73)
<b>Net income (loss)</b>	<b>\$ 82</b>	<b>\$ (248)</b>	<b>\$ 188</b>	<b>\$ -</b>	<b>\$ 22</b>
Three months ended March 31, 1999					
Consolidated Statement of Cash Flow (In Thousands)					
Net cash provided by (used in) operating activities	\$ 2,506	\$ 1,763	\$ 858	\$ -	\$ 5,127
Net cash provided by (used in) investing activities	(11,379)	(716)	(613)	-	(12,708)
Net cash provided by (used in) financing activities	11,529	(596)	-	-	10,933
Net increase (decrease) in cash and cash equivalents	2,656	451	245	-	3,352
Cash and cash equivalents at January 1, 1999	2,001	1,705	3,120	-	6,826
<b>Cash and cash equivalents at March 31, 1999</b>	<b>\$ 4,657</b>	<b>\$ 2,156</b>	<b>\$ 3,365</b>	<b>\$ -</b>	<b>\$ 10,178</b>

## 6. Mississippi Agreement

On December 10, 1999, the Company entered into two definitive agreements to purchase all of the assets of the Casino Magic hotel, casino, golf resort, recreational vehicle (RV) park and marina in Bay St. Louis, Mississippi and the Boomtown Biloxi casino in Biloxi, Mississippi, from Pinnacle Entertainment, Inc. formerly Hollywood Park, Inc. (NYSE:PNK) for \$195 million. These agreements are contingent upon each other. In addition to acquiring all of the operating assets and related operations of the Casino Magic Bay St. Louis and Boomtown Biloxi properties (the "Mississippi Acquisitions"), the Company will enter into a licensing agreement to use Boomtown and Casino Magic names and marks at the properties being acquired. The transaction is subject to certain closing conditions including the approval of the Mississippi Gaming Commission, financing and expiration of the applicable Hart-Scott-Rodino waiting period. As part of the agreement, the Company paid a deposit of \$5 million to an escrow account, which is refundable if certain conditions are not met. In connection with financing the Mississippi acquisition, the Company will explore a number of financing alternatives, which may include repaying or redeeming its existing debt. The Company received approval for a gaming license from the Mississippi Gaming Commission on April 20, 2000.

## 7. New Jersey Joint Venture

On January 28, 1999, pursuant to a First Amendment to an Asset Purchase Agreement by and among Greenwood New Jersey, Inc. ("Greenwood"), International Thoroughbred Breeders Inc., Garden State Race Track Inc., Freehold Racing Association, Atlantic City Harness, Inc. and Circa 1850, Inc., the original parties to an Asset Purchase Agreement entered into as of July 2, 1998 and the Company (the "Agreement"), and pursuant to which the Company entered into a joint venture ("Joint Venture"), the Company, along with its Joint Venture partner, Greenwood, agreed to purchase certain assets of the Garden State Race Track and Freehold Raceway, both located in New Jersey (the "Acquisition").

The purchase price for the Acquisition was approximately \$46 million (subject to reduction of certain disputed items, for which amounts have been placed in escrow). The purchase price consisted of \$23 million in cash and \$23 million pursuant to two deferred purchase price promissory notes in the amount of \$22 million and \$1 million each. On July 29, 1999, after receiving the necessary consents from the holders of its 10.625% Senior Notes due 2004, Series B, the Company completed its investment in the Joint Venture, pursuant to which Pennwood, Inc. was formed with Greenwood New Jersey, Inc. (a wholly-owned subsidiary of Greenwood Racing, Inc. the owner of Philadelphia Park Race Track). Pursuant to the Joint Venture Agreement, the Company agreed to guarantee severally: (i) up to 50% of the obligation of the Joint Venture under its Put Option Agreement (\$17.5 million) with Credit Suisse First Boston Mortgage Capital LLC ("CSFB"); (ii) up to 50% of the Joint Venture obligation for the seven year lease at Garden State Park and; (iii) up to 50% of the Joint Venture obligation to International Thoroughbred Breeders, Inc. for the contingent purchase price notes (\$10.0 million) relating to the operation subject to passage by the New Jersey legislature, by the Joint Venture of OTWs and telephone wagering accounts in New Jersey. In conjunction with the closing, the Company entered into a Debt Service Maintenance Agreement with Commerce Bank, N.A. for the funding of a \$23.0 million credit facility to the Joint Venture. The Joint Venture Agreement provides for a limited obligation of the Company of \$11.5 million subject to limitations provided for in the Company's 10.625% Senior Notes Indenture. The Company's investment in the Joint Venture is accounted for under the equity method, original investments are recorded at cost and adjusted by the Company's share of income or losses of the Joint Venture. The income for the three months ended March 31, 2000 of the Joint Venture is included in earnings of unconsolidated affiliates in the accompanying Consolidated Statements of Income for the three months ended March 31, 2000.

Summarized balance sheet information for the Joint Venture as of March 31, 2000 is as follows (in thousands):

Current assets	\$	9,604
Property, plant and equipment, net		30,473
Other		17,983
		-----
Total assets	\$	58,060
		=====
Current liabilities	\$	8,070
Long-term liabilities		46,221
Members' equity		3,769
		-----
Total liabilities and members' equity	\$	58,060
		=====

Summarized results of operations of the unconsolidated Joint Venture for the three months ended March 31, 2000 is as follows (in thousands):

Revenues	\$	14,679
Operating expenses		11,813
		-----
EBITDA*		2,866
		-----
Net Income	\$	1,174
		-----

\* Earnings before interest, taxes, depreciation and amortization.

#### 8. Trackpower, Inc. and eBet Limited

In July 1999, the Company entered into an agreement with Trackpower, Inc. (OTC BB: TPWR) ("Trackpower") to serve as the exclusive pari-mutuel wagering hub operator for Trackpower. Trackpower provides direct-to-home digital satellite transmissions of horse racing to its subscriber base. The initial term of the contract is for five years with an additional five-year option available. The Company pays Trackpower a commission on all new revenues earned from their subscriber base. As an additional incentive to enter into the contract, the Company received warrants to purchase 5,000,000 shares of common stock of Trackpower at prices ranging from \$1.58 per share to \$2.58 per share. The warrants vest at 20% per year and expire on April 30, 2004. The fair market value of the warrants issued will be amortized over the vesting period or one year from the anniversary date of the agreement. As a result of the transition of operations in 1999, the amount to be amortized as a reduction of commissions earned in 1999 by Trackpower was not material.

In March 2000, the Company entered into a letter of intent with Trackpower and eBet Limited ("eBet") which, if a definitive agreement is executed, will replace and restate the above described agreement between the Company and Trackpower. Under the terms of the letter of intent, the Company and eBet will contribute various assets, equipment, management agreements relating to our telephone account wagering systems and business operations to Trackpower. Under the proposed agreement, the Company will continue to receive the same level of income as in 1999, the Company and eBet will each receive 18,000,000 shares of Trackpower common stock as well as warrants to purchase additional shares exercisable at \$1.00 per share. Upon completion of the proposed transaction the Company and eBet will each own 26.5% of Trackpower not including future exercise of options or warrants. The proposed agreement is subject to due diligence, regulatory and other approvals.

9. Minority Interest Purchase

On March 15, 2000, the Company purchased from the BDC Group ("BDC"), its joint venture partner in West Virginia, BDC's 11% interest in PNGI Charles Town Gaming Limited Liability Company, which owns and operates Charles Town Races for \$6.0 million in cash. The investment is recorded net of the minority interest tax liability of \$155,000 or \$5.845 million. The Company is in the process of determining the allocation of the purchase price to the various property, plant and equipment accounts. The allocation will be based on the results of an appraisal that is to be completed in June. As a result of the purchase, Charles Town Races is now a 100%-owned subsidiary of the Company.

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

RESULTS OF OPERATIONS

The percentage of the Company's revenue derived from gaming operations has increased over the last few years as a result of the gaming operations at the Charles Town Entertainment Complex. The Company expects that the Mississippi Acquisition and the continued expansion of the Charles Town Entertainment Complex will cause this trend to continue. In the future the Company expects to alter the presentation of certain of its financial information to better capture this trend. An example of a type of presentation that the Company is likely to use is presented below.

The results of operations for the three months ended March 31, 1999 and 2000 by property level are summarized as follows:

(in thousands)	Charles Town Racing and Gaming		Penn National and OTWs		Pocono Downs and OTWs	
	1999	2000	1999	2000	1999	2000
<b>Revenues</b>						
Gaming	\$11,399	\$ 22,372	\$ -	\$ -	\$ -	\$ -
Racing	3,964	4,628	7,795	15,101	7,623	7,501
Other	1,002	1,718	635	1,171	509	490
Total revenues	16,365	28,718	8,430	16,272	8,132	7,991
<b>Expenses</b>						
Gaming	8,593	16,416	-	-	-	-
Racing	4,060	4,673	6,497	11,191	4,941	5,323
Other*	1,699	2,796	1,825	2,317	964	1,078
Total expenses	14,352	23,885	8,322	13,508	5,905	6,401
<b>EBITDA</b>						
Gaming	2,806	5,956	-	-	-	-
Racing	(96)	(45)	1,298	3,910	2,682	2,178
Other	(697)	(1,078)	(1,190)	(1,146)	(455)	(588)
Total EBITDA	\$ 2,013	\$ 4,833	\$ 108	\$ 2,764	\$ 2,227	\$ 1,590

\* Other expenses include property level general and administrative expenses and excludes corporate overhead and non-recurring expenses.

### Three Months Ended March 31, 2000 Compared To Three Months Ended March 31, 1999

Revenues for the three months ended March 31, 2000 increased by approximately \$20.5 million or 62.4% to \$53.3 million from \$32.8 million for the three months ended March 31, 1999. The increase in revenues is attributed to Penn National Race Course running 48 live race days in the year 2000 compared to 18 live race days during a Horsemen action in the first quarter in 1999, the addition of 663 slot and video lottery machines at Charles Town and simulcast of race broadcasts from Charles Town in 2000. Operating expenses for the three months ended March 31, 2000 increased by approximately \$14.5 million or 46.8% to \$45.4 million from \$30.9 million for the three months ended March 31, 1999. Included in operating expenses were non-recurring expenses for the three months ended March 31, 1999 for the Horsemen's action at Penn National Race Course (\$1.3 million). Income from operations increased by \$6.0 million to \$7.8 million for the three months ended March 31, 2000 from \$1.8 million for the three months ended March 31, 1999. Other expenses for the three months ended March 31, 2000 and 1999 consisted of approximately \$2.1 million and \$2.0 million, respectively, of net interest primarily due to the 10.625% Senior Notes, the Bank of America term loan and the revolving Credit Facility with First Union National Bank. Taxes on income increased by \$2.2 million to \$2.1 million for the three months ended March 31, 2000 from a credit of \$.1 million for the three months ended March 31, 1999. Net income increased by \$3.6 million to \$3.6 million for the three months ended March 31, 2000 from \$22,000 for the three months ended March 31, 1999 due to the factors described above.

### Charles Town Entertainment Complex

Revenues increased at Charles Town by approximately \$12.3 million or 75.5% to \$28.7 million in 2000 from \$16.4 million in 1999. Gaming revenue increased by \$11.0 million or 96.2% to \$22.4 million in 2000 from \$11.4 million in 1999 due to the addition of 136 new video lottery machines and 565 new reel spinning, coin-out slot machines since the first quarter of last year. The average number of machines in play increased to 1,464 in 2000 from 837 in 1999 and the average win per machine increased to \$169 in 2000 from \$150 in 1999. Racing revenue increased by \$.7 million or 16.7% to \$4.6 million in 2000 from \$3.9 million in 1999. The live meet consisted of 45 race days in 2000 compared to 39 race days in 1999 and a change in the schedule from a Wednesday afternoon race program to a Thursday evening race program to accommodate export simulcasting. Charles Town began exporting its live race program to tracks across the country on June 5, 1999 and generated export simulcasting revenues of \$.5 million for the quarter. Concession revenues increased by approximately \$.7 million or 71.4% to \$1.7 million in 2000 from \$1.0 million in 1999 due to increased attendance for gaming and racing and the expansion of the concession areas, dining room and buffet area. Operating expenses increased by \$9.5 million or 66.4 % to \$23.9 million in 2000 from \$14.4 million in 1999. The increase was due to an increase in direct costs associated with additional wagering on horse racing and gaming machine play, the addition of gaming machines and floor space (new temporary facility for gaming machines), export simulcast expenses and expanded concession and dining capability and capacity.

### Penn National Race Course and OTW Facilities (Penn National Race Course)

Penn National Race Course had an increase in revenue of approximately \$7.9 million or 93.0% to \$16.3 million in 2000 from \$8.4 million in 1999. The increase in revenues is attributed to Penn National Race Course running 48 live race days in 2000 compared to 18 live race days during a Horsemen action in the first quarter that resulted in the closure of the facilities from February 16 to March 24, 1999. Operating expenses increased by approximately \$5.2 million or 62.3% to \$13.5 million in 2000 from \$8.3 million in 1999 as a result of the increased race days. Included in the 1999 expenses is \$1.3 million for the Horsemen's action.

#### Pocono Downs and OTW Facilities (Pocono Downs)

Revenues at Pocono Downs decreased by \$.1 million or 1.7% to \$8.0 million in 2000 from \$8.1 million in 1999. Revenue decreased at Allentown OTW (\$.3 million) and Hazleton OTW (\$.1 million) due to loss of Penn National Race Course customers wagering at Pocono Downs sites during the 1999 action. The revenue decrease was partially offset by revenue increases at Erie OTW, Carbondale OTW and the Pocono Downs racetrack. Expenses increased by approximately \$.5 million or 8.4% to \$6.4 million in 2000 from \$5.9 million in 1999.

#### New Jersey Joint Venture

On July 29, 1999, after receiving the necessary approvals from the New Jersey Racing Commission and the necessary consents from the holders of its 10.625% Senior Notes due 2004, Series B, the Company completed its investment in the Joint Venture. The Joint Venture operates Freehold Raceway and Garden State Race Track. Summarized results of operations of the unconsolidated Joint Venture for the three months ended March 31, 2000 include \$14.7 million in revenue, \$11.8 million in operating expenses and net income of \$1.2 million. The Company's 50% share of net income or \$.6 million is recorded as "Earnings from unconsolidated affiliates" on the income statement.

#### Capital Expenditures

The Company had capital expenditures of \$1.8 million in 2000 compared to \$1.5 million in 1999. Capital expenditures at Charles Town were approximately \$1.3 million for machinery, equipment and improvements. Capital expenditures at Penn National and its OTW facilities (\$.2 million) and Pocono Downs and its OTW facilities (\$.3 million) were for equipment replacement and leasehold improvements. As a result, depreciation and amortization increased \$.2 million or 8.9% to \$2.2 million in 2000 from \$2.0 million in 1999.

#### LIQUIDITY AND CAPITAL RESOURCES

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

Net cash provided from operating activities was \$5.5 million for the period ended March 31, 2000. This consisted of net income and non-cash expenses (\$5.2 million), a decrease in prepaid income taxes (\$1.1 million) and an increase in corporate income tax liability (\$.9 million) due to an increase in taxable income, a decrease in accounts payable and accrued expenses due to completion of construction for the temporary facility at Charles Town (\$6.1 million), an increase in purses due horsemen (\$1.5 million), an increase in taxes, other than income taxes (\$.7 million) due to a change in payment schedules for Pennsylvania pari-mutuel taxes, an increase in accrued interest for the 10.625% Senior Notes (\$1.9 million) and other changes in certain assets and liabilities (\$.3 million).

Cash flows used in investing activities for the period ended March 31, 2000 (\$7.7 million) consisted of the Company's buyout of the 11% interest in Charles Town that was owned by other investors (\$5.9 million), machinery, equipment and improvements at Charles Town (\$1.3 million), and equipment replacement and building improvements at Penn National (\$.2 million) and Pocono Downs (\$.3 million) facilities.

Cash flows provided by financing activities (\$4.2 million) consisted of borrowings under the credit facility (\$4.2 million) for Charles Town expansion and proceeds from the exercise of stock options and warrants (\$.1 million). This was offset by an increase in financing costs (\$.1 million) for amending the credit facility.

The Company is subject to possible liabilities arising from the

environmental condition at the Landfill adjacent to Pocono Downs. Specifically, the Company may incur expenses in connection with the landfill in the future, which expenses may not be reimbursed by the four municipalities, which are parties to the Settlement Agreement. The Company is unable to estimate the amount, if any, that it may be required to expend.

In 2000, the Company anticipates spending approximately \$21.5 million on capital expenditures at its racetrack and OTW facilities. The Company anticipates expending approximately \$18.2 million at the Charles Town Entertainment Complex for player tracking (\$.7 million), new slot machines and conversion kits (\$2.1 million), paddock casino and interior renovations (\$7.4 million), machinery and equipment (\$2.0 million) and other projects including construction of a structured parking facility, design and planning for a new hotel (\$6.0 million). The Company also plans to spend approximately \$261,000 at Pocono Downs, \$550,000 at Penn National, \$400,000 at the OTW facilities for building improvements and equipment and \$2.0 million on building improvements and equipment for its new OTW facility in East Stroudsburg, Pennsylvania. The Company spent approximately \$1.8 million on these projects in the first quarter.

The Company entered into its Credit Facility with Bankers Trust Company, as Agent in 1996. This Credit Facility was amended and restated on January 29, 1999 with First Union National Bank replacing Bankers Trust Company, as Agent. The Credit Facility, as amended, provides for a \$20 million revolving Credit Facility, including a \$3 million sub-limit for standby letters of credit and a \$5 million term loan. Under the terms of the Credit Facility, as amended, the Company borrowed an additional \$11.5 million which was used to finance its share of the New Jersey Joint Venture (see Note 4). The revolving Credit Facility is secured by substantially all of the assets of the Company, except for the assets of the Charles Town Entertainment Complex. The revolving Credit Facility provides for certain covenants, including those of a financial nature. The \$5.0 million term loan was repaid on December 16, 1999. At the Company's option, the revolving facility may bear interest at the highest of: (1) 1/2 of 1% in excess of the federal reserve reported certificate of deposit rate, (2) the rate that the bank group announces from time to time as its prime lending rate and (3) 1/2 of 1% in excess of the federal funds rate plus an applicable margin of up to 2% or the revolving facility may also bear interest at a rate tied to a eurodollar rate plus an applicable margin of up to 3%. The outstanding amount under this Credit Facility as of March 31, 2000 was \$12.9 million at an interest rate of 8.75%. Mandatory repayments of the revolving facility are required in an amount equal to a percentage of the net cash proceeds from any issuance or incurrence of equity or funded debt by the Company, that percentage to be dependent upon the then outstanding balance of the revolving facility and the Company's leverage ratio. Mandatory repayments of varying percentages are also required in the event of either asset sales in excess of stipulated amounts or defined excess cash flow.

On December 13, 1999, the Company entered into a \$20.0 million Senior Secured Multiple Draw Term Loan with Bank of America, as an Agent for a bank group. The term loan is payable in quarterly installments of \$1.3 million principle plus interest. The loan is secured by gaming equipment and improvements at the Charles Town Entertainment Complex. Part of the term loan was used to repay the \$5.0 million First Union term loan and the balance will be used to finance gaming equipment and improvements at the Charles Town Entertainment Complex. At the Company's option the term loan may bear interest at the highest of: (1) 1/2 of 1% in excess of the federal reserve reported certificate of deposit rate, (2) the rate that the bank group announces from time to time as its prime lending rate and (3) 1/2 of 1% in excess of the federal funds rate plus an applicable margin of up to 1.75% or the facility may also bear interest at a rate tied to a eurodollar rate plus an applicable margin of up to 2.75%. The outstanding amount under this credit facility as of March 31, 2000 was \$ 13.3 million at an interest rate of 8.89%.

In connection with the Company's agreement to acquire all of the assets of Casino Magic Bay St. Louis and Boomtown Biloxi, the Company is exploring a number of financing alternatives, which may involve repaying or redeeming its existing debt. The Company expects to use part of the proceeds from any refinancing to make certain improvements to the Mississippi properties.

The Company currently estimates that the cash generated from operations and available borrowings under the credit facilities will be sufficient to finance its current operations and planned capital expenditure requirements, not including the Mississippi Acquisition. There can be no assurance, however, that the Company will not be required to seek additional capital, in addition to that available from the foregoing sources. The Company may, from time to time, seek additional funding through public or private financing, including equity financing. There can be no assurance that adequate funding will be available as needed or, if available, on terms acceptable to the Company.

Item 3. Changes in Information about Market Risk

Most of the Company's debt obligations at March 31, 2000 were fixed rate obligations, and management, therefore, does not believe that the Company has any material risk from its debt obligations.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Purchase Agreement dated March 15, 2000, between PNGI Charles Town Gaming, LLC and BDC Group.

Amendment No. 1 to Term Loan Agreement between the Company and Bank of America, dated March 29, 2000.

Amendment No. 4 to Loan Agreement between the Company and First Union National Bank dated March 29, 2000.

(b) Reports on Form 8-K

None

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.

May 12, 2000  
-----  
Date

By: /s/Robert S. Ippolito  
-----  
Chief Financial Officer,  
Secretary/Treasurer

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AGREEMENT FOR SALE OF MEMBERSHIP INTERESTS

IN PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

Agreement made as of this 15th day of March, 2000, by, between and among Thomas Hale Boggs, Jr., William C. Bryant, James A. Reeder, Sun Mountain Development, LLC and Timber Nation Limited Partnership (hereinafter individually a "Seller" and collectively the "Sellers" or the "BDC Group"), Penn National Gaming of West Virginia, Inc., a West Virginia Corporation, or its affiliated designee, (hereinafter "Buyer"), PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company (hereinafter the "LLC"), Penn National Gaming, Inc., a Pennsylvania Corporation (hereinafter "PENN"), and Dr. Henry G. Jarecki (hereinafter "Jarecki").

BACKGROUND:

The BDC Group owns eleven percent of the Membership Interests in the LLC (collectively the "BDC Membership Interest" and individually a "Seller's Membership Interest").

The BDC Group desires to sell to the Buyer the BDC Membership Interest in accordance with that certain Second Amended and Restated Operating Agreement of the LLC dated as of October 17, 1997 among the BDC Group, the Buyer, the LLC and Bryant Development Company, Nominee (the "Operating Agreement").

The Buyer desires to purchase the BDC Membership Interest in accordance with the Operating Agreement and the terms and provisions hereof.

A G R E E M E N T

NOW THEREFORE, in consideration of the mutual covenants herein contained, and intending to be legally bound hereby, the parties hereto agree as follows:

ARTICLE I

PURCHASE AND SALE OF THE BDC MEMBERSHIP INTEREST

1.1 Basic Transaction. On and subject to the terms and conditions of this Agreement, the Buyer agrees to and does hereby purchase from each Seller and each Seller agrees to and does hereby sell to the Buyer his or its Seller's Membership Interest, collectively constituting the entire BDC Membership Interest, for the consideration specified in this Article I.

1.2 Purchase Price. The Buyer agrees to pay to the Sellers Six Million (\$6,000,000) Dollars (the "Purchase Price") in immediately available funds at the Closing (defined below) by wire transfer to such accounts and divided among the Sellers as set forth on Schedule 1.2.1, Column A, attached hereto and made a part hereof; provided that to the extent any amount is owed to Jarecki by any member of the BDC Group, the amount which is set forth on Schedule 1.2.1, Column B for such member shall be deducted by the Buyer from the amount otherwise payable to such member of the BDC Group and shall be paid by the Buyer to Jarecki at the Closing. The net amount payable by the Buyer to each BDC Group member and Jarecki is set forth on Schedule 1.2.1, Column C.

1.3 The Closing. The closing of the transaction contemplated by this Agreement (the "Closing") shall take place promptly after each party has executed and delivered this Agreement to PENN, but not later than March 31, 2000, or such other date as the parties hereto may agree (the "Closing Date").

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ARTICLE 2

REPRESENTATIONS AND WARRANTIES

CONCERNING THE TRANSACTION

2.1 Representations and Warranties of the Sellers. Each Seller individually represents and warrants to the Buyer as

follows as of the date hereof and as of the Closing Date:

2.1.1 Authorization of Transaction. Each Seller has full power and authority to execute and deliver this Agreement and to perform his or its obligations hereunder. This Agreement constitutes the valid and legally binding obligation of each Seller enforceable in accordance with its terms. Each Seller has given notice to, made any filing with or obtained any authorization, consent or approval of any person, firm, corporation or federal or state government agency, commissioner or board (hereinafter referred to as a "Person") necessary in order to consummate the transaction contemplated by this Agreement.

2.1.2 Noncontravention. Neither the execution and the delivery of this Agreement nor the consummation of the transaction contemplated hereby will violate any judgment, order, decree, ruling, charge or other restriction of any government, governmental agency or court to which any Seller is subject or conflict with or result in a breach of or constitute a default under any agreement, contract, instrument or other arrangement to which any Seller is a party or by which any Seller or any of any Seller's assets is subject.

2.1.3 Broker's Fees. No Seller has any liability or obligation to pay any fees or commission to any broker, finder or agent with respect to the transaction contemplated by this Agreement for which the Buyer could become liable or obligated.

2.1.4 Seller Membership Interest. Except for the promissory notes executed by various BDC Group members to Jarecki, which promissory notes will be extinguished at the Closing when the amounts set forth on Schedule 1.2.1., Column B are paid to Jarecki pursuant to the provisions of Section 1.2 above, each Seller owns the Seller's Membership Interest of record and beneficially and has not issued or granted to any person, firm or corporation any present or future right to acquire the Seller's Membership Interest or any interest therein except as set forth in the Operating Agreement. The Sellers' Membership Interests in the aggregate constitute all the BDC Membership Interest and individually the entire Membership Interest of each Seller in the LLC.

2.1.5 No Seller Action. No Seller has taken any action or incurred any liability on behalf of the LLC. -----

2.1.6 No Litigation. No action, suit or proceeding is pending or threatened before any court or quasi-judicial or administrative agency of any federal, state, local or foreign jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling or charge would (i) prevent consummation of the transactions contemplated by this Agreement, (ii) cause the transaction contemplated by this Agreement to be rescinded following the consummation, or (iii) adversely affect the right of the Buyer to own each Seller's Membership Interest (and no such injunction, judgment, order, decree, ruling or charge is in effect).

2.2 Representations and Warranties of the Buyer. The Buyer and PENN, jointly and severally, represent and warrant to the Sellers as follows as of the date of this Agreement and as of the Closing Date:

2.2.1 Organization and Qualification. PENN and each of its subsidiaries is a corporation duly organized and existing in good standing under the laws of the jurisdiction in which it is incorporated, and has the requisite corporate power to own its properties and to carry on its business as now being

conducted. PENN and each of its subsidiaries is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted by it makes such qualification necessary and where the failure so to qualify would have a material adverse effect. The Buyer is an indirect wholly owned subsidiary of PENN.

2.2.2 Authorization of Transaction. The Buyer and PENN have full power and authority to execute and deliver this Agreement and to perform their respective obligations hereunder. This Agreement constitutes the valid and legally binding obligation of the Buyer and PENN enforceable in accordance with its terms and conditions. The Buyer and PENN have given notice to, made any filing with or obtained any authorization, consent or approval of any Person necessary in order to consummate the transaction contemplated by this Agreement.

2.2.3 Noncontravention. Neither the execution and the delivery of this Agreement nor the consummation of the transaction contemplated hereby will violate any judgment, order, decree, ruling, charge or other restriction of any government, governmental agency or court to which Buyer or PENN is subject or conflict with or result in a breach of or constitute a default under any agreement, contract, instrument or other arrangement to which Buyer or PENN is a party or by which Buyer or PENN or any of their assets is subject.

2.2.4 Broker's Fees. Neither Buyer nor PENN has any liability or obligation to pay any fees or commission to any broker, finder or agent with respect to the transaction contemplated by this Agreement for which any of the Sellers could become liable or obligated.

2.2.5 Investment. The Buyer is not acquiring the BDC Membership Interest with a view to or for sale in connection with any distribution in violation of the Securities Act of 1933, as amended (the "Act").

2.2.6 Full Knowledge. The Buyer is the Managing Member of the LLC and has full and complete knowledge of the assets, liabilities and financial affairs of the LLC and is not relying on any representations or warranties of the Sellers (other than those specifically set forth herein) in reaching its decision to enter into this Agreement.

2.2.7 No Litigation. No action, suit or proceeding is pending or threatened before any court or quasi-judicial or administrative agency of any federal, state, local or foreign jurisdiction or before any arbitrator wherein an unfavorable injunction, judgment, order, decree, ruling or charge would (i) prevent consummation of the transactions contemplated by this Agreement, or (ii) cause the transaction contemplated by this Agreement to be rescinded following the consummation (and no such injunction, judgment, order, decree, ruling or charge is in effect).

### ARTICLE 3

#### TAX MATTERS

3.1 In the case of termination of the LLC for tax purposes (or if such a termination is deemed to occur) at Closing, a final federal income tax return shall be filed through March 15, 2000, the effective date hereof. Except in the event of such termination (or a deemed termination), and in the case of state and local income tax returns, if there is no deemed termination for such tax purposes, with respect to each of the Sellers, the LLC shall close its books as of the Closing Date to determine each Seller's distributive share of income, gain, loss, deduction or credit for the year in which the Closing occurs.

### ARTICLE 4

#### CONDITIONS TO CLOSING

4.1 The obligation of Sellers to close hereunder shall be subject to the satisfaction or waiver of the following conditions on or prior to Closing:

4.1.1 Buyer shall have delivered to the Sellers and Jarecki, respectively, the cash amounts set forth on Schedule 1.2.1, Column C, by wire transfer, as more fully set forth on Schedule 1.2.1.

4.1.2 Buyer and PENN shall have delivered to each Seller a release substantially in the form of Exhibit "A", attached hereto and made a part hereof.

4.1.3 Each of the representations and warranties of Buyer and PENN contained in Section 2.2 above shall be true and correct on and as of the Closing Date to the same extent as if made on and as of the Closing Date.

4.2 The obligation of Buyer and PENN to close hereunder shall be subject to the satisfaction of the following conditions on or prior to Closing:

4.2.1 Each of the representations and warranties of each of the Sellers contained in Section 2.1 above shall be true and correct on and as of the Closing Date to the same extent as if made on and as of the Closing Date.

4.2.2 Each Seller shall have delivered to Buyer and PENN a release substantially in the form of Exhibit "B" attached hereto and made a part hereof.

## ARTICLE 5

### COVENANTS

5.1 Further Action. In case at any time, either before or after the Closing, any further action is necessary to carry out the purpose of this Agreement, each of the parties will take such further commercially reasonable action, including the execution and delivery of such further instruments and documents, as any other party may reasonably request.

5.2 Dissociation. Effective the close of business on March 15, 2000, each Seller shall be deemed to have dissociated from the LLC in accordance with Article 6 of the West Virginia Uniform Limited Liability Company Act and the Operating Agreement and shall thereafter cease to have any rights or obligations under the Operating Agreement or otherwise as a "Member" of the LLC.

5.3 Public Announcements. Neither party shall make any public announcement of the existence of this Agreement or the transaction contemplated hereby without the prior approval of the other parties; provided, however, if PENN determines it is required to make a public announcement pursuant to the Rules of the NASD or the Securities Exchange Act of 1934, as amended, it may do so.

5.4 Delivery of K-1's. The Buyer and PENN agree to furnish all BDC Group members with K-1's and any other necessary tax related information pertaining to the LLC concerning the period through March 15, 2000, prior to the filing of the LLC's federal tax return concerning such period; and each Seller shall be given a reasonable opportunity to review and comment on such tax return before it is filed by the LLC. Within 90 days after the Closing, the Buyer will provide each Seller with a reasonable estimate of the information that will appear in such Seller's final K-1 with respect to the LLC.

5.5. PENN Guaranty. PENN agrees that it shall cause the Buyer to perform all of its agreements and obligations under this Agreement, including, but not limited to, the purchase of the BDC Group Membership Interest pursuant to this Agreement.

## ARTICLE 6

### REMEDIES FOR BREACH OF THIS AGREEMENT

6.1 Survival. All the representations, warranties and covenants of the parties contained in this Agreement shall survive the Closing hereunder (even if the other party knew or had reason to know of any misrepresentation or breach of

any warranty at the time of Closing) and continue in full force and effect for the period of the applicable statute of limitations.

6.2 Indemnification Provision for the Benefit of the Buyer and PENN. In the event any Seller breaches any of his or its representations, warranties and covenants contained herein, provided that if the Buyer or PENN makes a written claim for indemnification against such Seller within the applicable survival period, then such Seller agrees to indemnify the Buyer from and against the entirety of any adverse consequences the Buyer or PENN may suffer (including legal fees and any adverse consequences the Buyer may suffer after the end of the applicable survival period) resulting from, arising out of, or relating to or caused by the breach.

6.3 Indemnification Provision for the Benefit of each Seller. In the event Buyer or PENN breaches any of their representations, warranties and covenants contained herein, provided that if one or more Sellers makes a written claim for indemnification against Buyer or PENN within the applicable survival period, then Buyer and PENN agree to indemnify such Sellers from and against the entirety of any adverse consequences such Sellers may suffer (including legal fees and any adverse consequences the Seller may suffer after the end of the applicable survival period) resulting from, arising out of, or relating to or caused by the breach.

## ARTICLE 7

### MISCELLANEOUS

7.1 No Third Party Beneficiaries. This Agreement shall not confer any right or remedy upon any Persons other than the ----- parties hereto and their respective successors and assigns.

7.2 Entire Agreement. This Agreement, including the documents and schedules referred to herein, constitute the entire agreement among the parties with respect to the subject matter hereof and supersedes any prior understandings, agreements or representations by and among the parties, written or oral, to the extent they relate in any way to the subject matter hereof.

7.3 Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the parties named herein and their respective successors and permitted assigns. No party may assign either this Agreement or any of his rights, interests or obligations hereunder without the prior approval of the other parties, which consent shall not be unreasonably withheld.

7.4 Counterparts. This Agreement may be executed in one or more counterparts each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

7.5 Headings. The Section headings contained are inserted for convenience only and shall not affect in any way the ----- meaning or interpretation of this Agreement.

7.6 Notices. All written notices, demands and requests of any kind which a party may be required or may desire to serve upon the other parties hereto in connection with this Agreement shall be delivered only by nationally recognized overnight courier or other means of personal service which provides written verification of receipt (a "Notice"). All Notices shall be addressed to each of the parties to be served as follows:

Buyer or PENN

Peter M. Carlino, Chairman  
Wyomissing Professional Center  
825 Berkshire Boulevard, Suite 200  
Wyomissing, Pennsylvania 19610

All Notices with a copy to:

Robert P. Krauss, Esquire  
Mesirov Gelman Jaffe Cramer & Jamieson, LLP  
1735 Market Street, 38th Floor  
Philadelphia, Pennsylvania 19103-7598

Sellers and Jarecki (all such Notices to go to one or more of the following, as appropriate) -----

James A. Reeder, with an address at:  
-----

c/o Patton Boggs, L.L.P.  
2550 M Street, N.W.  
Washington, D.C. 20037

Thomas Hale Boggs, Jr., with an address at:

-----  
c/o Patton Boggs, L.L.P.  
2550 M Street, N.W.  
Washington, D.C. 20037

William C. Bryant, with an address at:

-----  
c/o James A. Reeder  
Patton Boggs, L.L.P.  
2550 M. Street, N.W.  
Washington, D.C. 20037

Sun Mountain Development, LLC, with an address at:

c/o Gerald L. Diddy  
8525 N. 84th Place  
Scottsdale, AZ 85258-2401

Timber Nation Limited Partnership or Jarecki, with an address at:

c/o Falconwood Corporation  
565 Fifth Avenue, 3rd Floor  
New York, NY 10017

All Notices to Timber Nation Limited Partnership or Jarecki with a copy to:

Nancy A. Lieberman, Esquire  
Skadden, Arps, Slate, Meagher & Flom LLP  
Four Times Square

New York, New York 10036

or other such address as shall be furnished in writing by any such party to the other parties, and such Notice shall be effective and be deemed to have been given as of the date actually received.

7.7 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania without giving effect to any choice or conflict of law provisions or rules that would cause the application of the laws of any jurisdiction other than the Commonwealth of Pennsylvania.

7.8 Amendment and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the Buyer, PENN, each Seller and Jarecki. No waiver by any party of any default, misrepresentation or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation or breach of warranty or covenant hereunder or effect in any way any right arising by virtue of any prior or subsequent such occurrence.

7.9 Severability. Any term or provision of this Agreement that is invalid or unenforceable in any situation in any jurisdiction shall not affect the validity or enforceability of the remaining terms and provisions hereof, or the validity or enforceability of the offending term or provision in any other situation or in any other jurisdiction.

7.10 Expenses. Each of the parties shall bear his or its own costs or expenses (including legal fees and expenses) incurred in connection with this Agreement and the transaction contemplated hereby.

7.11 Construction. The parties have participated jointly in the negotiation and drafting of this Agreement. In the event an ambiguity or question of intent or interpretation arises, this Agreement shall be construed as if drafted jointly by the parties and no presumption or burden of proof shall arise favoring or disfavoring any party by virtue of the authorship of any of the provisions of this Agreement. Any reference to any federal, state, local or foreign statute or law shall be deemed to also refer to all rules and regulations promulgated thereunder, unless the context requires otherwise. The word "including" shall mean including without limitation.

IN WITNESS WHEREOF the parties hereto have executed this Agreement on the date first written above.

SELLERS:

\_\_\_/s/Thomas Hale Boggs\_\_\_\_\_  
Thomas Hale Boggs, Jr.  
Resident of Maryland

\_\_\_/s/William C. Bryant\_\_\_\_\_  
William C. Bryant  
Resident of Virginia

\_\_\_/s/James A. Reeder\_\_\_\_\_  
James A. Reeder  
Resident of Virginia

SUN MOUNTAIN DEVELOPMENT,  
LLC, a Nevada Limited Liability Company

By:\_\_\_/s/Gerald L. Diddy\_\_\_\_\_  
Gerald L. Diddy, Member

TIMBER NATION LIMITED  
PARTNERSHIP, a Delaware  
Limited Partnership

By:\_\_\_/s/Henry G. Jarecki\_\_\_\_\_  
Dr. Henry G. Jarecki,  
General Partner

\_\_\_/s/Henry G. Jarecki\_\_\_\_\_  
Dr. Henry G. Jarecki

BUYER

PENN NATIONAL GAMING OF  
WEST VIRGINIA, INC.

By: /s/William J. Bork  
William J. Bork, President

PENN NATIONAL GAMING, INC.

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

PNGI CHARLES TOWN GAMING  
LIMITED LIABILITY COMPANY

By: PENN NATIONAL GAMING OF  
WEST VIRGINIA, INC.,  
MANAGING MEMBER

By: /s/William J. Bork  
William J. Bork, President

EXHIBIT A

RELEASE

For and in consideration of the execution and delivery of that certain Agreement for Sale of Membership Interests dated as of March 15, 2000 (the "Sale Agreement") among the undersigned and others pertaining to the purchase and sale of Membership Interests in PNGI Charles Town Gaming Limited Liability Company, and a mutual Release being received by the undersigned on the date hereof, the undersigned does hereby remise, release and forever discharge PNGI Charles Town Gaming Limited Liability Company, Penn National Gaming of West Virginia, Inc. and Penn National Gaming, Inc. and their respective officers, directors, employees, successors and assigns (collectively referred to herein as the "Releasees") of and from any and all actions and causes of action, claims and demands whatsoever, at law or in equity, whether known or unknown, which the undersigned ever had, now has, or which the undersigned's heirs, executors, administrators, successors or assigns, or any of them, hereinafter can, shall or may have, for or by reason of or related to the undersigned having been a Member of PNGI Charles Town Gaming Limited Liability Company or any rights under the Second Amended and Restated Operating Agreement of PNGI Charles Town Gaming Limited Liability Company dated as of October 17, 1997 or of the undersigned arising out of or with respect to having been such a Member, from the beginning of the world to the date hereof, provided, however, that notwithstanding anything to the contrary in this Release, none of the undersigned are releasing any of the Releasees from any of their duties or obligations under the Sale Agreement.

IN WITNESS WHEREOF, the undersigned has executed this Release as of this 15th day of March, 2000.

\_\_\_\_/s/Thomas Hale Boggs\_\_\_\_\_  
Thomas Hale Boggs, Jr.

\_\_\_\_/s/William C. Bryant\_\_\_\_\_  
William C. Bryant

\_\_\_\_/s/James A. Reeder\_\_\_\_\_  
James A. Reeder

SUN MOUNTAIN DEVELOPMENT,  
LLC

By:/s/Gerald L. Diddy

Gerald L. Diddy, Member

PARTNERSHIP

TIMBER NATION LIMITED

By:\_/s/Dr. Henry G. Jarecki \_  
Dr. Henry G. Jarecki, General Partner

EXHIBIT B

RELEASE

For and in consideration of the execution and delivery of that certain Agreement for Sale of Membership Interests dated as of March 15, 2000 (the "Sale Agreement") among the undersigned and others pertaining to the purchase and sale of Membership Interests in PNGI Charles Town Gaming Limited Liability Company, and a mutual Release being received by the undersigned on the date hereof, the undersigned does hereby remise, release and forever discharge Thomas Hale Boggs, Jr., William C. Bryant, James A. Reeder, Sun Mountain Development, LLC, Timber Nation Limited Partnership and their respective officers, directors, members, partners, employees, successors and assigns (collectively referred to herein as the "Releasees") of and from any and all actions and causes of action, claims and demands whatsoever, at law or in equity, whether known or unknown, which the undersigned ever had, now has, or which the undersigned's successors or assigns, or any of them, hereinafter can, shall or may have, for or by reason of or related to the Releasees having been a Member of PNGI Charles Town Gaming Limited Liability Company, including, but not limited to, any obligations of the Releasees with respect to any financial or other obligations of PNGI Charles Town Gaming Limited Liability Company or any obligations of the Releasees under that certain Second Amended and Restated Operating Agreement of PNGI Charles Town Gaming Limited Liability Company dated October 17, 1997, as amended, or any rights of the Releasees arising out of or with respect to having been such a Member, from the beginning of the world to the date hereof, provided, however, that notwithstanding anything to the contrary in this Release, none of the undersigned are releasing any of the Releasees from any of their duties or obligations under the Sale Agreement.

IN WITNESS WHEREOF, the undersigned has executed this Release as of this 15th day of March, 2000.

PENN NATIONAL GAMING OF WEST VIRGINIA, INC.

By: /s/William J. Bork

William J. Bork, President

PENN NATIONAL GAMING, INC.

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

PNGI CHARLES TOWN GAMING  
LIMITED LIABILITY COMPANY  
By: PENN NATIONAL GAMING OF  
WEST VIRGINIA, INC.,

MANAGING MEMBER

By: \_\_\_/s/William J. Bork  
William J. Bork, President

SCHEDULE 1.2.1

I. Cash portion of the Purchase Price:

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Name		Column A	Column B	Column C
Thomas Hale Boggs, Jr.	2.9167%	\$1,590,909	\$(149,888)	1,441,021
William C. Bryant	1.25%	681,818	(41,816)	640,002
James A. Reeder	2.9166%	1,590,909	(149,888)	1,441,021
Sun Mountain Development, LLC	1.00%	545,455	(30,096)	515,359
Timber Nation Limited Partnership	2.9167%	1,590,909		1,590,909
Dr. Henry G. Jarecki		371,688		371,688
Total	11%	6,000,000	_____	6,000,000

II. Wire Instructions

	Phone	Fax	Wire Amount
Thomas Boggs	202-457-6040	202-457-6315	\$1,441,021
First Union Natl Bank			
ABA#		054001220	
A/C Thomas Boggs			
A/C#		100050335274	
James Reeder	202-457-5616	202-457-6315	\$1,441,021
Chase Manhattan Bank			
ABA #		021000021	
A/C James A. Reeder			
A/C #		066-296390	

	Phone	Fax	Wire Amount
William L. Bryant First Union Natl Bank Herndon Junction 47040 Community Plaza Sterling, VA 20164	703-430-3100	703-444-1052	\$ 640,002
ABA#		051400549	
A/C William L. Bryant			
A/C#		1050000847115	
Jerry Diddy Sun Mountain Development	480-948-6725	480-948-0065	\$ 515,359
Western Security Bank 7401 E. Camelback Road Scottsdale, AZ 85251			
ABA#		122105184	
A/C Sun Mountain Development, LLC			
A/C#		6376701021	
Timber National LP	212-984-1444	212-984-1442	\$1,590,909
Chase Manhattan Bank			
ABA#		021000021	
A/C Henry G. Jarecki			
A/C#		910-1-590157	
Dr. Henry G. Jarecki	212-984-1444	212-984-1442	\$ 371,688
Chase Manhattan Bank			
ABA#		021000021	
A/C Henry G. Jarecki			
A/C#		910-1-590157	

FIRST AMENDMENT TO LOAN AGREEMENT

This First Amendment to Loan Agreement (this "Amendment") is entered into with reference to the Senior Secured Multiple Draw Term Loan Agreement dated as of December 13, 1999 among Penn National Gaming of West Virginia, Inc. ("Borrower"), the Lenders party thereto and Bank of America, N.A., as Administrative Agent (as heretofore amended, the "Loan Agreement"). Capitalized terms used but not defined herein are used with the meanings set forth for those terms in the Loan Agreement.

Borrower and the Lenders hereby agree to amend the Loan Agreement as follows:

1. Definitions. Section 1.1 of the Loan Agreement is hereby amended to add the following definition:

"Charles Town Purchase Agreement" means the agreement for sale of membership interests in PNGI Charles Town Gaming Limited Liability Company, copies of which have been distributed to the Banks.

2. Consent to Charles Town Buy-Out. Section 6.18 of the Loan Agreement is hereby amended to read in full as follows:

"6.18 Acquisitions and Investments Acquisitions and Investments. Make any Acquisition or make any Investment other than (a) Acquisitions and Investments permitted by Section 8.05 of the PNGI Credit Agreement which do not constitute Significant Transactions and (b) Investments consisting of the purchase of the remaining ownership of PNGI Charles Town Gaming Limited Liability Company not owned by Borrower as of the Closing Date pursuant to the Charles Town Purchase Agreement."

3. Acknowledgment Regarding Casino Magic. Borrower confirms that it has entered into an agreement to purchase the Casino Magic Bay St. Louis and Boomtown Biloxi properties from Pinnacle Entertainment, Inc. (formerly known as "Hollywood Park Corporation"). Borrower acknowledges that the consummation of the proposed purchase will constitute a "Significant Transaction" as defined in the Loan Agreement and will require the concurrent repayment in full of all of the Obligations and the termination of the Commitment.

4. Expenses. Borrower confirms that pursuant to Section 11.3 of the Loan Agreement, it has agreed to pay all reasonable out-of-pocket cost and expenses of the Administrative Agent in connection with this Amendment.

5. Representations and Warranties. Borrower represents and warrants to the Administrative Agent and the Lenders that:

(a) no Default or Event of Default has occurred and remains continuing or will result from the consummation of the transactions contemplated by the Charles Town Purchase Agreement. (b) Borrower has delivered a true, correct and complete copy of the Charles Town Purchase Agreement to each of the Banks..

6. Confirmation. In all other respects, the terms of the Loan Agreement and the other Loan Documents are hereby confirmed.

IN WITNESS WHEREOF, Borrower and the Administrative Agent have executed this Amendment as of March 29, 2000 by their duly authorized representatives.

PENN NATIONAL GAMING OF WEST VIRGINIA, INC.

By: \_\_\_/s/Robert S. Ippolito

Title: \_Secretary/Treasurer\_\_\_\_\_

BANK OF AMERICA, N.A.

By: \_\_\_/s/Jeff Bailard\_\_\_\_\_

Title: \_Vice President\_\_\_\_\_

FIRST UNION NATIONAL BANK

By: \_/s/\_Lynn B. Eagleson\_\_\_\_\_

Title: \_\_Vice President\_\_\_\_\_

The undersigned hereby consent to the foregoing:

PENN NATIONAL GAMING, INC.

By: \_\_/s/Robert S. Ippolito

Title: \_Secretary/Treasurer\_\_\_\_\_

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

By: \_\_/s/Robert S. Ippolito

Title: \_Secretary/Treasurer\_\_\_\_\_

THIS AGREEMENT FOR CONSENT AND WAIVER UNDER SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this Agreement) is made this 31st day of March, 2000 by and among PENN NATIONAL GAMING, INC., a Pennsylvania corporation (Borrower); PENN NATIONAL GAMING OF WEST VIRGINIA, INC., a West Virginia corporation (PNGI WV); FIRST UNION NATIONAL BANK, a national banking association (for itself and in its capacity as agent hereunder, Agent); the banks signatory to this Agreement (together with the Agent, each individually a Bank and individually and collectively, the Banks) and PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY, a West Virginia limited liability company (Charles Town).

#### BACKGROUND

Borrower and Banks entered into a Second Amended and Restated Credit Agreement dated January 28, 1999, as amended by Amendment No. 1 to Second Amended and Restated Credit Agreement and Joinder of Subsidiary Guarantor dated July 22, 1999, Amendment No. 2 to and Consent under Second Amended and Restated Credit Agreement dated July 29, 1999 and Amendment No. 3 to and Consent and Waiver under Second Amended and Restated Credit Agreement (Amendment No. 3) dated December 13, 1999 (and as may be further amended from time to time, the Credit Agreement) for the purposes of providing a revolving credit facility, for the financing of a loan from Borrower to FR Park Racing L.P., the refinancing of certain then-existing indebtedness of Borrower, the issuance of letters of credit for the benefit of Borrower, and for the working capital needs and general corporate purposes of the Borrower.

PNGI WV, a wholly-owned Subsidiary of Borrower and a Subsidiary Guarantor, will acquire the eleven percent (11%) Minority Interest of Charles Town for a purchase price of Six Million Dollars (\$6,000,000) in cash (the Purchase), after which Charles Town will become a wholly-owned Subsidiary of PNGI WV.

In consideration of the foregoing and the premises and the agreements hereinafter set forth, and intending to be legally bound hereby, the parties hereto agree as follows:

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1. Consent and Waiver.

a. Section 8.02 of the Credit Agreement prohibits the Borrower and the Credit Parties from acquiring any part of the property or assets of any Person. Section 8.05 of the Credit Agreement prohibits the Borrower from making Investments; however Section 8.05(ix) of the Credit Agreement allows the Borrower and the Credit Parties to invest up to \$47,566,077 plus accrued interest in Charles Town. After the Purchase, PNGI WVs Investment in Charles Town will exceed \$47,566,077 plus accrued interest. Therefore, the Purchase is not permitted by Sections 8.02 and 8.05 of the Credit Agreement. Banks hereby consent to the Purchase and waive any Default or Event of Default resulting thereby.

b. Section 8.17(iii) of the Credit Agreement prohibits the Borrower or a Wholly-Owned Subsidiary from establishing, creating or acquiring any Subsidiary unless such Subsidiary executes a counterpart to the Subsidiaries Guaranty, the Pledge Agreement and the Security Agreement. Section 8.17(x) of the Credit Agreement requires any new Wholly-Owned Subsidiary to execute and deliver all documentation such Wholly-Owned Subsidiary would have had to deliver if it were a Credit Party on the Restatement Effective Date. Section 8.17(y) requires the Borrower, at such time as Charles Town becomes a Wholly-Owned Subsidiary of Borrower, to cause Charles Town to execute the Subsidiaries Guaranty, the Pledge Agreement and Security Agreement, to execute and deliver all documentation required by Section 8.17(x) of the Credit Agreement and deliver all additional collateral required by Agent or Required Banks. Banks hereby consent to the establishment of Charles Town as a Wholly-Owned Subsidiary of a Subsidiary and waive the requirements of Sections 8.17(iii), 8.17(x) and 8.17(y) with respect thereto; provided, however, that such waiver shall cease to be effective on or after June 30, 2000, on which date Borrower agrees to comply with the terms of Paragraph 3 hereof.

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## Acknowledgments.

a. PNGIWW, as evidenced by its signature below, hereby acknowledges and agrees that the interests it owns of Charles Town constitute Collateral (as defined in the Pledge Agreement) and are pledged to Agent, for the benefit of Banks, under the Pledge Agreement. Annex G to the Pledge Agreement, which lists the pledged limited liability company interests, is hereby amended and restated in its entirety as set forth on Exhibit A attached hereto.

b. Section 8.12(ii) prohibits modifications of the Charles Town Joint Venture Agreement, other than modifications that could reasonably be expected to be adverse to the interests of the Banks in any material respect. Banks hereby acknowledge the Purchase for purposes of Section 8.12(ii) of the Credit Agreement.

3. Affirmative Covenant. Borrower, PNGIWW and Charles Town each hereby covenant and agree that if: (i) any Banks Commitment under the Credit Agreement remains effective or (ii) any Indebtedness under the Credit Agreement remains outstanding, in each case on June 30, 2000, then Charles Town will (and Borrower and PNGIWW hereby agree to cause Charles Town to) deliver on or before June 30, 2000 the following documents to Agent:

a. a duly executed joinder to the Subsidiaries Guaranty, Security Agreement and Pledge Agreement, in form and substance satisfactory to Banks; b. executed UCC-1 financing statement to be filed against Charles Town in those jurisdictions required by Agent;

c. any and all pledged intercompany notes from or for the benefit of Charles Town;

d. a duly executed mortgage or deed of trust, in favor of Agent for the benefit of Banks, on each parcel of real property owned by Charles Town;

e. a marked-up title report of a title insurance company satisfactory to Agent, representing such title insurance companys commitment to issue in favor of Agent for the benefit of Banks, at Borrowers expense, a standard form title insurance policy insuring the lien of each mortgage delivered pursuant to subparagraph (e) above, subject to no other liens except as listed therein and acceptable to Agent;

f. a Phase I environmental report with respect to each property for which a mortgage is delivered pursuant to subparagraph (e) above, in form and substance satisfactory to Agent and prepared by a qualified environmental professional acceptable to Agent;

g. an opinion of counsel to Charles Town, in form and substance satisfactory to Agent;

h. a certificate of good standing dated as of a recent date for Charles Town in the jurisdiction of its formation;

i. a certificate from the secretary of Charles Town: (i) attaching the operating agreement of Charles Town or certifying that the operating agreement has not been modified since it was last delivered to Banks; (ii) attaching resolutions from the [board of managers] of Charles Town authorizing the execution by Charles Town of each mortgage and the joinder to the Security Agreement and Pledge Agreement; and (iii) attaching an incumbency certificate; and

j. such additional documents as Agent shall reasonably request.

4. Negative Covenants. Charles Town hereby covenants and agrees to comply with the terms of the negative covenants set forth in Section 8 of the Credit Agreement as if Charles Town were a Subsidiary Guarantor. PNGI WV hereby covenants and agrees to cause Charles Town to comply with the terms of the negative covenants set forth in Section 8 of the Credit Agreement as if Charles Town were a Subsidiary Guarantor.

5. Representations and Warranties. Borrower and each Subsidiary Guarantor hereby represents and warrants to Banks as follows:

a. Representations. The representations and warranties set forth in Section 6 of the Credit Agreement are true and correct in all material respects as of the date hereof, including as applied to Charles Town as a Subsidiary; there is no Event of Default or Default under the Credit Agreement, as amended hereby; and there has been no material adverse change in the financial condition or business of Borrower or any Subsidiary from the date on which Borrower last delivered financial statements to Banks.

b. Power and Authority. Borrower, PNGI WV and Charles Town each has the power and authority under the laws of each of their states of incorporation or formation and under their articles or certificates of incorporation and bylaws or other formation documents or other formation documents to enter into and perform this Agreement and the other documents and agreements required hereunder (collectively, the Agreement Documents); all actions (corporate or otherwise) necessary or appropriate for the execution and performance by each of Borrower, PNGI WV and Charles Town of the Agreement Documents have been taken; and that each of the Agreement Documents and the Credit Agreement constitute the valid and binding obligations of Borrower, PNGI WV, Charles Town and each other Subsidiary, enforceable in accordance with their respective terms.

c. No Violations of Law or Agreements. The making and performance of the Agreement Documents by Borrower, PNGI WV and Charles Town will not (i) violate any provisions of any law or regulation, federal, state or local, or the articles or certificates of incorporation or bylaws or other formation documents of any of Borrower, PNGI WV or Charles Town or (ii) result in any breach or violation of, or constitute a default or require the obtaining of any consent under, any agreement or instrument by which any of Borrower, PNGI WV or Charles Town or any of their property may be bound.

6. Conditions to Effectiveness of Amendment. This Agreement shall be effective upon Agents receipt of the following documents, each in form and substance satisfactory to Agent:

a. Agreement. This Agreement duly executed by Borrower, PNGIWW, Charles Town, Agent and Banks.

b. Opinion of Counsel to Charles Town. An opinion letter from counsel to Charles Town in form and substance satisfactory to Agent.

c. Purchase Agreement. A duly executed copy of the Agreement for Sale of Membership Interest in PNGI Charles Town Gaming Limited Liability Company dated the \_\_\_\_ day of March, 2000 by and between Thomas Hale Boggs, Jr., William C. Bryant, James A. Reeder, Sun Mountain Development, LLC and Timber Nation Limited Partnership, PNGIWW, or its affiliated designee, Charles Town and Borrower.

d. Consents and Approvals. Receipt by Borrower, PNGIWW and Charles Town of all necessary regulatory and other consents and approvals for the Purchase. e. Lien Searches against Charles Town. As soon as available, updated lien searches against Charles Town in such locations as Agent shall reasonably request.

f. Certificates of Membership Interest. Any and all certificate(s) of membership interest of Charles Town.

g. Other Documents. Such additional documents as Agent may reasonably request.

7. Affirmations. Borrower, PNGIWW and Charles Town hereby: (i) affirm all the provisions of the Credit Agreement, Security Agreement, Pledge Agreement and Contribution and Indemnification Agreement and (ii) agree that the terms and conditions of the Credit Agreement, Security Agreement, Pledge Agreement and Contribution and Indemnification Agreement shall continue in full force and effect.

8. Miscellaneous.

a. Borrower agrees to pay or reimburse Agent for all reasonable fees and expenses (including without limitation reasonable fees and expenses of counsel) incurred by Agent in connection with the preparation, execution and delivery of this Agreement.

b. This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania, without regard to conflicts-of-law or choice-of-law rules.

c. All terms and provisions of this Agreement shall be for the benefit of and be binding upon and enforceable by the respective successors and assigns of the parties hereto.

d. This Agreement may be executed in any number of counterparts with the same effect as if all the signatures on such counterparts appeared on one document and each such counterpart shall be deemed an original.

e. Except as expressly set forth herein, neither the execution, delivery and performance of this Agreement, nor anything contained herein shall be construed as or shall operate as a consent to or waiver of any provision of, or any right, power or remedy of Banks under the Credit Agreement and the agreements and documents executed in connection therewith.

IN WITNESS WHEREOF, the undersigned have executed this Agreement on the day and year first above written.

PENN NATIONAL GAMING, INC.

By: /s/Robert S. Ippolito\_\_\_\_  
Name: Robert S. Ippolito  
Title: Secretary/Treasurer

PENN NATIONAL GAMING OF WEST VIRGINIA, INC., as a Subsidiary Guarantor

By: /s/Robert S. Ippolito\_\_  
Name: Robert S. Ippolito  
Title:Secretary/Treasurer

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

By: /s/Robert S. Ippolito\_\_  
Name: Robert S. Ippolito  
Title:Secretary/Treasurer

[EXECUTIONS CONTINUED]  
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FIRST UNION NATIONAL BANK, as Agent

By: /s/Lynn B. Eagleson\_\_\_\_\_  
Name: Lynn B. Eagleson  
Title: Vice President

SUMMIT BANK

By: /s/Mary R. Balciar\_\_\_\_\_  
Name: Mary R. Balciar  
Title: Vice President

Accepted and Agreed:

MOUNTAINVIEW THOROUGHBRED  
RACING ASSOCIATION, as a Subsidiary  
Guarantor

By: /s/Robert S. Ippolito\_\_\_\_\_  
Name: Robert S. Ippolito  
Title:Secretary/Treasurer

PENNSYLVANIA NATIONAL TURF  
CLUB, INC., as a Subsidiary Guarantor

By: /s/Robert S. Ippolito\_\_\_\_\_  
Name: Robert S. Ippolito  
Title:Secretary/Treasurer

[EXECUTIONS CONTINUED]

PENN NATIONAL SPEEDWAY,  
INC., as a Subsidiary Guarantor

By: /s/Robert S. Ippolito\_\_  
Name: Robert S. Ippolito  
Title:Secretary/Treasurer

STERLING AVIATION, INC.,  
as a Subsidiary Guarantor

By: /s/Robert S. Ippolito\_\_  
Name: Robert S. Ippolito  
Title:Secretary/Treasurer

PENN NATIONAL HOLDING  
COMPANY, as a Subsidiary  
Guarantor

By: /s/Robert S. Ippolito\_\_  
Name: Robert S. Ippolito  
Title:Secretary/Treasurer

PNGI POCONO, INC.,  
as a Subsidiary Guarantor

By: /s/Robert S. Ippolito\_\_  
Name: Robert S. Ippolito  
Title:Secretary/Treasurer

TENNESSEE DOWNS, INC.,  
as a Subsidiary Guarantor

By: /s/Robert S. Ippolito\_\_  
Name: Robert S. Ippolito  
Title:Secretary/Treasurer

THE DOWNS RACING, INC.,  
as a Subsidiary Guarantor

By: /s/Joseph A. Lashinger  
Name: Joseph A. Lashinger  
Title: President/Secretary/Treasurer

NORTHEAST CONCESSIONS, INC.,  
as a Subsidiary Guarantor

By: /s/Robert S. Ippolito\_\_  
Name: Robert S. Ippolito  
Title: Vice President/Treasurer

BACKSIDE, INC.,  
as a Subsidiary Guarantor

By: /s/Robert S. Ippolito\_\_  
Name: Robert S. Ippolito  
Title: Assistant Secretary

MILL CREEK LAND, INC.,  
as a Subsidiary Guarantor

By: /s/Robert S. Ippolito\_\_  
Name: Robert S. Ippolito  
Title:Secretary/Treasurer

WILKES BARRE DOWNS, INC.,  
as a Subsidiary Guarantor

By: /s/Robert E. Abraham  
Name:Robert E. Abraham  
Title:President/Secretary/Treasurer

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