

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(MARK ONE)

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

FOR THE FISCAL YEAR ENDED DECEMBER 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
(State or other jurisdiction of
Incorporation or Organization)

23-2234473
(I.R.S. Employer
Identification No.)

WYOMISSING PROFESSIONAL CENTER
825 BERKSHIRE BLVD., SUITE 200
WYOMISSING, PENNSYLVANIA
(Address of principal executive offices)

19610
(Zip Code)

Registrant's telephone number, including area code: (610) 373-2400
Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
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None

None

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:
COMMON STOCK, PAR VALUE \$.01 PER SHARE
(Title of Class)

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. /

The aggregate market value of the voting stock held by non-affiliates of the registrant is approximately \$122,078,000. Such aggregate market value was computed by reference to the closing price of the Common Stock as reported on the Nasdaq National Market on March 19, 2001. For purposes of making this calculation only, the registrant has defined affiliates as including all directors, executive officers and beneficial owners of more than ten percent of the Common Stock of the Company.

The number of shares of the registrant's Common Stock outstanding as of March 19, 2001 was 15,053,600.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2001 annual meeting of shareholders are incorporated by reference into Part III.

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PART I

ITEM 1. BUSINESS

This document includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, regarding, among other things, our business strategy, our prospects and our financial position. These statements can be identified by the use of forward-looking terminology such as "believes," "estimates," "expects," "intends," "may," "will," "should," or "anticipates" or the negative or other variation of these or similar words, or by discussions of strategy or risks and uncertainties. Forward-looking statements in this document include, among others, statements concerning:

- projections of future results of operations or financial condition;
- our expectations for our Mississippi properties and the proposed CRC acquisition;
- the timing, cost and expected impact on our results of operations of our planned capital expenditures;
- the expected effect of regulatory changes that we are pursuing;
- our ability to consummate the proposed CRC acquisition; and
- expectations of the continued availability of capital resources.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, they are inherently subject to risks, uncertainties and assumptions about us and our subsidiaries and, accordingly, we cannot assure you that such expectations will prove to be correct. Important factors that could cause actual results to differ materially from the forward-looking statements made herein are set forth under the caption "Risk Factors" and elsewhere in this offering memorandum and include, without limitation, risks related to the following:

- our ability to integrate the full-scale casino operations of the Mississippi properties and the proposed CRC acquisition into our business;
- capital expansions at our gaming and pari-mutuel facilities;
- the Showboat option at the Charles Town Entertainment Complex;
- the activities of our competitors;
- our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for our new businesses;
- our dependence on key personnel;
- the maintenance of agreements with our horsemen and pari-mutuel clerks;
- the various conditions to closing for the proposed CRC acquisition; and
- our credit agreement.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document might not occur.

INTRODUCTION

We are a diversified gaming and pari-mutuel wagering company with facilities in West Virginia, Mississippi and Pennsylvania. On July 31, 2000, we entered into an agreement to acquire all of the gaming assets of CRC Holdings, Inc. for approximately \$181.3 million, including amounts required to refinance certain existing indebtedness, which will expand our gaming operations into Louisiana and Ontario, Canada.

The following table sets forth certain features of our owned (or leased) properties:

PROPERTY	LOCATION	TYPE OF FACILITY	AT DECEMBER 31, 2000		
			GAMING SQUARE FOOTAGE	GAMING MACHINES	TABLE GAMES
Charles Town Entertainment Complex	Charles Town, WV	Land-based gaming/Thoroughbred racing	58,000	1,974	--
Casino Magic Bay St. Louis	Bay St. Louis, MS	Dockside gaming	39,500	1,158	38
Boomtown Biloxi	Biloxi, MS	Dockside gaming	33,600	1,060	27
Penn National Race Course	Harrisburg, PA(1)	Thoroughbred racing	--	--	--
Pocono Downs	Wilkes-Barre, PA(1)	Harness racing	--	--	--
TOTALS			131,100	4,192	65

(1) In addition to our racetracks, Penn National Race Course and Pocono Downs have six and five off-track wagering facilities, respectively, located throughout Pennsylvania.

Our Charles Town Entertainment Complex in Charles Town, West Virginia features 1,974 gaming machines, a thoroughbred racetrack, simulcast wagering, entertainment and dining. The facility is located within easy driving distance of Baltimore, Maryland and Washington, D.C. and is the leading gaming property serving those areas. There is a total population of approximately 3.1 million persons within a 50-mile radius, and approximately 10.0 million persons within a 100-mile radius of the Charles Town Entertainment Complex, of which approximately 7.2 million persons are over the age of 20. We have experienced strong growth at the facility and have increased the number of gaming machines from 400 machines in September 1997 to 1,974 machines as of December 31, 2000. We recently expanded the gaming area to nearly 60,000 square feet and opened a 150-seat restaurant and bar. In addition, since receiving regulatory approval permitting the operation of reel-spinning, coin-out machines in April 1999, we have increased the number of reel-spinning machines relative to the number of paper ticket video lottery terminals, or VLTs. As a result of these initiatives, our monthly gaming revenues at Charles Town have grown from approximately \$5.8 million in January 2000 to approximately \$10.3 million in January 2001.

Our business strategy is focused on exploiting the higher margins and more stable cash flows associated with gaming operations compared to pari-mutuel operations. As part of this strategy, on August 8, 2000, we completed our acquisition of the Casino Magic Bay St. Louis casino and the Boomtown Biloxi casino from Pinnacle Entertainment, Inc. for an aggregate purchase price of approximately \$201.3 million, including acquisition costs of approximately \$6.3 million. Both properties operate in the Gulf Coast gaming market and are within easy driving distance of New Orleans, Louisiana, Mobile, Alabama and other points in the Southeast. We refer to these two casinos as the "Mississippi properties." Casino Magic Bay St. Louis in Bay St. Louis, Mississippi, offers approximately 39,500 square feet of gaming space, with approximately 1,158 slot machines and 38 table games, a 201-room hotel, an 1,800 seat arena, a recreational vehicle park and an 18-hole Arnold Palmer-designed championship golf course. Boomtown Biloxi in Biloxi, Mississippi, offers approximately 33,600 square feet of gaming space, with 1,060 slot machines, 27 table games and other gaming amenities including restaurants and a 20,000 square foot entertainment center.

The acquisition by merger of CRC Holdings, Inc., which does business as Carnival Resorts and Casinos, is expected to close in the first half of 2001. Immediately prior to the closing, CRC will divest itself of all of its non-gaming assets. CRC is the operator and 59.9% shareholder of Louisiana Casino Cruises, Inc., or LCCI, the owner of Casino Rouge, the leading riverboat gaming facility in Baton Rouge, Louisiana. We also have entered into a definitive agreement with the minority holders of LCCI to acquire their 40.1% interest of the business. Casino Rouge features a four-story riverboat casino with approximately 28,000 square feet of gaming space, 980 gaming machines and 42 table games. In addition to the Casino Rouge property, a wholly owned subsidiary of CRC operates Casino Rama on behalf of the Ontario Lottery and Gaming Corporation, an agency of the Province of Ontario. Casino Rama is a casino and full-service entertainment facility located approximately 90 miles north of Toronto, Canada, with approximately 75,000 square feet of gaming space, 2,202 gaming machines and 122 table games. We believe the CRC acquisition will build the critical mass of our gaming operations, further enhance our position in the gaming sector and diversify the geographic reach of our properties.

In addition to our gaming facilities, we own and operate Penn National Race Course, located outside of Harrisburg, one of two thoroughbred racetracks in Pennsylvania, and Pocono Downs, located outside of Wilkes-Barre, one of two harness racetracks in Pennsylvania. We also operate eleven off-track wagering facilities, or OTWs, in Pennsylvania and hold a 50% interest in Pennwood Racing, Inc., a joint venture that owns and operates Freehold Raceway and will operate Garden State Park in New Jersey through May 31, 2001.

We are the successor to several businesses that have operated the Penn National Race Course since 1972. We were incorporated in Pennsylvania in 1982 as PNR Corp. and adopted our present name in 1994. Our principal offices are located in the Wyomissing Professional Center, 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610; our telephone number is (610) 373-2400.

RECENT DEVELOPMENTS

In February 2001, Kevin DeSanctis joined the company. He will assume the titles of President and Chief Operating Officer upon receipt of necessary licensing and regulatory approvals in applicable jurisdictions. Mr. DeSanctis has over 20 years of experience in managing and developing gaming operations in various jurisdictions including, Las Vegas, Atlantic City, New Orleans and Colorado. Prior to joining us, Mr. DeSanctis was Chief Operating Officer, North America for Sun International Hotels Limited from 1995 to 2000.

On February 20, 2001, we commenced a consent solicitation and cash tender offer to purchase all of the 11% Senior Secured Notes of LCCI, the majority-owned subsidiary of CRC. On March 6, 2001, we announced that all of the holders of the LCCI notes had tendered notes and delivered consents. The closing of the tender offer is conditioned upon the closing of the proposed CRC acquisition.

On March 12, 2001, we completed the sale of \$200 million in aggregate principal amount of 11 1/8% Senior Subordinated Notes due March 1, 2008. The net proceeds of the notes will be used, in part, to finance the proposed CRC acquisition and to complete the tender offer for the LCCI notes. If we are unable to consummate the CRC acquisition by October 31, 2001, we will use the entire net proceeds from the sale of the notes to repay outstanding term loan indebtedness under our senior secured credit facility.

BUSINESS STRATEGY

Our business strategy is to create a broad, diversified base of gaming and pari-mutuel properties that provides our customers with high quality experiences that build significant customer loyalty. We continue to improve our gaming operations to take advantage of their higher margins and less seasonal cash flow compared to our pari-mutuel operations, while we seek expansion in the more profitable areas of the pari-mutuel business, such as OTWs and at-home wagering. We intend to integrate our

gaming properties to exploit operating synergies and marketing and promotional activities. We have focused strategies for Charles Town, the Mississippi properties, the racetracks and related assets, and CRC as follows:

- CHARLES TOWN ENTERTAINMENT COMPLEX--The Charles Town Entertainment Complex has provided us with substantial internal growth over the past two years. Revenue at the property grew from \$80.0 million for the year ended December 31, 1999 to \$135.3 million for the year ended December 31, 2000. Charles Town currently has 1,974 gaming machines and a customer database with over 126,000 people. We intend to continue to capitalize on the strong demographics of the mid-Atlantic gaming market and the property's leading position in the Baltimore and Washington D.C. markets by adding amenities such as a hotel, entertainment venue, showroom and structured parking facility. A hotel at Charles Town should allow us to create a regional destination that will attract customers from a broader geographic area. Additionally, we believe we can increase the length of stay from existing customers with these additional amenities. Finally, we are pursuing legislative initiatives to increase the maximum \$2 per pull West Virginia wagering limit, which we believe will positively impact our cash flow.
- CASINO MAGIC BAY ST. LOUIS AND BOOMTOWN BILOXI--Casino Magic Bay St. Louis and Boomtown Biloxi provide us with the opportunity to cross-sell to a large database of local casino customers. Each of the properties has operated in the Gulf Coast market for over 6 years. We believe the properties have loyal employee and local customer bases, and offer superior customer service through focused marketing and promotional campaigns. While both properties are primarily aimed at local residents, we feel that Casino Magic Bay St. Louis provides us with the ability to create a regional destination property where we can reward loyal customers from any Penn National facility with a quality casino, hotel and golf experience. We are planning to construct a new 300-room hotel, new restaurants and a reconfigured gaming floor, which collectively are anticipated to cost \$35 million and be completed within two years. We intend to drive our returns on invested capital at Casino Magic Bay St. Louis by cross-selling the expanded property to customers in the databases of all the Penn National facilities.
- PENN NATIONAL RACE COURSE AND POCONO DOWNS AND THEIR OTWS--We believe that our racetracks and OTWs will continue to provide us with strong, stable cash flows. While pari-mutuel operations are an increasingly smaller component of our business, the pari-mutuel business may provide us with significant upside if certain legislative initiatives are adopted. These initiatives include permitting OTW and account wagering in New Jersey and at-home wagering, including telephone wagering, throughout the country. Coupled with our existing OTWs, these initiatives would provide us with significant high growth, high margin opportunities. Additionally, we have implemented a casino style customer tracking system throughout our pari-mutuel facilities that should permit us to increase customer loyalty and attract new customers.
- CASINO ROUGE AND CASINO RAMA--The anticipated purchase of the CRC gaming division continues our strategy of acquiring strong assets in emerging gaming markets at attractive valuations. The Casino Rouge caters to a local and, we believe, loyal customer base. The property continues to be the market leader in Baton Rouge in gaming revenue and admissions. If we are successful in consummating the CRC acquisition, we intend to cross-sell the Casino Magic Bay St. Louis property to the Casino Rouge's customer base as a regional destination opportunity thereby generating additional returns on our Bay St. Louis investment. Casino Rama draws its customers from the Toronto metropolitan area and has been successful in drawing patrons through targeted bussing and marketing programs. A 5,000-seat entertainment complex and 300-room hotel are currently under construction at the property. We anticipate that this expansion will increase the average customer's length of stay, as there is a lack of overnight accommodations in the area. If we complete the CRC acquisition, the Casino Rama

management contract will provide us with an additional source of income without any capital requirements by us.

THE CHARLES TOWN ENTERTAINMENT COMPLEX

The Charles Town Entertainment Complex is located in Charles Town, West Virginia, and is a leading gaming facility in the Baltimore, Maryland and Washington, D.C. area. The facility is approximately a 60-minute drive from Baltimore and a 70-minute drive from Washington, D.C. There is a total population of approximately 3.1 million persons within a 50-mile radius, and approximately 10.0 million persons within a 100-mile radius of the Charles Town Entertainment Complex, of which approximately 7.2 million persons are over the age of 20. The average household income within this 100-mile radius is approximately \$66,000 a year.

The Charles Town Entertainment Complex features gaming machines, live racing, simulcast wagering and dining. Since we began operating gaming machines at the facility in September 1997, we have experienced strong growth at the facility and have increased the number of gaming machines from 400 machines at September 1997 to 1,974 machines at December 2000. Currently, there is no statutory cap on the number of gaming machines that may be installed at a location, although any increases in the number of gaming machines is subject to regulatory approval. Given the success of the Charles Town Entertainment Complex, we have undertaken certain property enhancements and have formulated plans for other improvements. Specifically, in November 2000, we completed our expansion of the gaming facility to nearly 60,000 square feet of gaming space, opened a new 150-seat restaurant and bar and increased the number of gaming machines at the facility from 1,500 machines to approximately 2,000 machines. In the next phase of the expansion, which we anticipate completing by early 2003, we intend to construct additional gaming space, a structured parking facility, a 300-room hotel with meeting rooms and conference space and an entertainment venue, at an estimated cost of \$55 million.

Of the 1,974 machines at December 31, 2000, approximately 1,300 machines are coin out gaming machines that we installed since the passage of legislation in West Virginia in April 1999 permitting this type of gaming machine. The remaining gaming machines are dollar bill-fed video gaming machines that replicate traditional spinning reel gaming machines and video card games, such as blackjack and poker. We intend to convert some or all of the remaining video gaming machines to coin out spinning reel machines and hope to increase the total number of gaming machines beyond our current level, pending approval by the West Virginia Lottery Commission.

Our marketing efforts at the Charles Town Entertainment Complex include print and radio advertising and are focused on the Washington, D.C., Baltimore, Maryland, Northern Virginia, Eastern West Virginia and Southern Pennsylvania markets. In 1999, we installed a computerized player tracking system called Player's Choice at the Charles Town Entertainment Complex. This system has helped to further refine our marketing efforts and our database now consists of approximately 126,000 players as of February 1, 2001. Our marketing efforts also include a bus program and cash and merchandise give-aways.

THE MISSISSIPPI PROPERTIES

The Mississippi Gulf Coast has a long tradition as a vacation destination. Boomtown Biloxi and Casino Magic Bay St. Louis are within 65 and 46 miles of New Orleans, Louisiana and 63 and 90 miles of Mobile, Alabama, respectively. The Gulf Coast area draws an estimated two million visitors annually, primarily from Louisiana, Mississippi, Alabama, Florida and Georgia. The Gulf Coast area also boasts a local population of approximately 350,000, of which 66% are over the age of 20, an average household income of approximately \$33,000 and a median age of 33. Approximately 6.3 million people live within a 200-mile radius around Biloxi and Bay St. Louis with an average age of 32. Gross casino

gaming revenues on the Mississippi Gulf Coast totaled approximately \$1,030 million and \$814 million in 1999 and 1998, respectively, a year over year increase of approximately 27%.

CASINO MAGIC BAY ST. LOUIS CASINO AND RESORT

The Casino Magic Bay St. Louis casino and resort commenced operation in September 1992, as the first dockside casino in Mississippi to operate on a barge rather than a traditional riverboat. The casino is located on a 17-acre marina with the adjoining land-based facilities situated on 591 acres. Casino Magic Bay St. Louis offers approximately 39,500 square feet of gaming space, with approximately 1,158 slot machines and 38 table games. The three story land-based building houses a steak and seafood restaurant, buffet-style restaurant, cafe, gift shop and live entertainment lounge. The property has a 200-room hotel that includes 24 suites, banquet and meeting space and an outdoor pool. The Casino Magic Bay St. Louis complex also includes an 1,800 seat arena for concerts and sporting events, a 100-space recreational vehicle park, a child entertainment center, and the Bridges Golf Resort, an 18-hole Arnold Palmer-designed championship golf course that includes a clubhouse, pro shop, and a casual dining restaurant.

We are planning a number of focused enhancements to the Casino Magic Bay St. Louis property, including plans to construct a 300-room hotel adjacent to the property that we anticipate could be completed by mid 2002. We believe that the new hotel will enhance mid-week business at the facility and will geographically extend the casino's target market. We also are planning to add two new restaurant venues to the property to meet customer needs, to improve access to the gaming floor by adding new escalators and elevators and to expand available parking facilities.

Casino Magic Bay St. Louis is located 1.5 miles north of U.S. Highway 90, approximately nine miles south of Interstate 10, the main thoroughfare connecting New Orleans, Louisiana and Mobile, Alabama.

BOOMTOWN BILOXI CASINO

Boomtown Biloxi commenced operations in July 1994 and occupies nine acres on Biloxi, Mississippi's historic back bay. The dockside property consists of a land-based facility which houses all non-gaming operating space and an approximately 33,600 square foot casino constructed on a 400 by 100-foot barge permanently moored to the land-based building. There is approximately 14,000 square feet on the barge that remains available for development. The casino offers 1,060 gaming machines, 27 table games and other non-gaming amenities including a full service buffet/menu service restaurant, a 120 seat deli-style restaurant, a full-service bakery, a western dance hall/cabaret and a 20,000 square foot family entertainment center. The western-themed family entertainment center, complete with a dynamic motion theater, distinguishes Boomtown Biloxi from other casinos on the Mississippi Gulf Coast as a destination offering entertainment for the entire family.

Boomtown Biloxi offers gaming and entertainment amenities to primarily middle income, value-oriented customers. The casino has an "old west" theme with western memorabilia in its interior decor, country/western music and employees dressed in western attire. We believe Boomtown Biloxi has a relaxed and friendly environment and a broad and loyal customer base. We intend to continue to focus on this target market by providing moderately priced, high value amenities and by utilizing a broad array of marketing programs, including charter flights and bus programs, among others.

Boomtown Biloxi is located one-half mile from Interstate 110, the main highway connecting Interstate 10 and the Gulf of Mexico. Interstate 10 is the main thoroughfare connecting New Orleans, Louisiana and Mobile, Alabama. According to the Mississippi Department of Transportation, over 12 million vehicles travel past the Boomtown Biloxi site on Interstate 110 each year. The site is easily accessible by car when approaching from the north due to its immediate proximity to the Interstate 110 spur from Interstate 10, which provides the bulk of traffic to the Gulf Coast region. Boomtown Biloxi is constructed in the Back Bay and is the first casino visible to auto traffic traveling south on Interstate 110.

We have an exclusive license to use the Boomtown Biloxi name, logo and internet world wide web address. The term of the license is contingent upon certain events, but in no event will it be for less than two years from August 2000. If our license to use the Boomtown Biloxi name expires, we would have to identify an alternative name for this casino.

RACING AND PARI-MUTUEL OPERATIONS

Our racing and pari-mutuel revenues are derived from:

- wagering on our live races at our racetracks, at our OTWs, at other Pennsylvania racetracks and their OTWs and through telephone account wagering, as well as wagering at our racetracks on certain stakes races run at out-of-state racetracks;
- wagering on full-card import simulcasts at our racetracks and OTWs and through telephone account wagering; and
- fees from wagering on export simulcasting our races at out-of-state locations.

We also derive revenues from admissions, program sales, food and beverage sales and concessions and certain other ancillary activities.

Pari-mutuel wagering on thoroughbred or harness racing is pooled wagering in which a pari-mutuel wagering system totals the amounts wagered and adjusts the payouts to reflect the relative amounts bet on different horses and various possible outcomes. The pooled wagers are paid out to bettors as winnings in accordance with the payoffs determined by the pari-mutuel wagering system, paid to the applicable regulatory or taxing authorities and distributed to the track's horsemen in the form of "purses" which encourage owners and trainers to enter their horses in that track's live races. The balance of the pooled wagers is retained by the wagering facility. Pari-mutuel wagering is currently authorized in more than 40 states in the United States, all provinces in Canada and approximately 100 other countries around the world.

We are seeking to increase wagering by broadening our customer base and increasing the wagering activity of our existing customers. To attract new customers, we seek to increase the racing knowledge of our customers through our television programming, and by providing "user friendly" automated wagering systems and comfortable surroundings. We also seek to attract new customers by offering various types of promotions including family fun days, premium give-away programs, contests and handicapping seminars.

LIVE RACING

THE PENN NATIONAL RACE COURSE. The Penn National Race Course is located on approximately 225 acres approximately 15 miles northeast of Harrisburg, Pennsylvania, 100 miles west of Philadelphia and 200 miles east of Pittsburgh. There is a total population of approximately 1.4 million persons within a radius of approximately 35 miles around the Penn National Race Course and approximately 2.2 million persons within a 50-mile radius. The property includes a one-mile all-weather thoroughbred racetrack and a 7/8-mile turf track. The property also includes approximately 400 acres surrounding the Penn National Race Course that are available for future expansion or development.

POCONO DOWNS. Pocono Downs is located on approximately 400 acres in Plains Township, outside Wilkes-Barre, Pennsylvania. There is a total population of approximately 785,000 persons within a radius of approximately 35 miles around Pocono Downs and approximately 1.5 million persons within a 50-mile radius. The property includes a 5/8-mile all-weather, lighted harness track.

THE CHARLES TOWN RACES. The Charles Town Races at the Charles Town Entertainment Complex is located on a portion of a 250-acre parcel in Charles Town, West Virginia. The property includes a 3/4-mile thoroughbred racetrack. The property surrounding the Charles Town Entertainment Complex,

including the site of the former Shenandoah Downs Racetrack, is available for future expansion or development. In addition, we have a right of first refusal for an additional 250 acres that are adjacent to the Charles Town Entertainment Complex.

OTWS

Our OTWs provide areas for viewing import simulcasts and televised sporting events, placing pari-mutuel wagers and dining. The facilities also provide convenient parking. We presently operate 11 of the 20 OTWs now open in Pennsylvania. There are two remaining OTWs that have been authorized in Pennsylvania for our competitors. Some states, such as New York, operate off-track betting locations that are independent of racetracks. Under the Pennsylvania Racehorse Industry Reform Act, only licensed racing associations, such as Penn National, can operate OTWs or accept customer wagers on simulcast races at Pennsylvania racetracks. The following is a list of our OTW locations:

FACILITY/LOCATION -----	DATE OPENED -----
PENN NATIONAL FACILITIES:	
Reading, PA	May 1992
Chambersburg, PA	April 1994
York, PA	March 1995
Lancaster, PA	July 1996
Williamsport, PA	February 1997
Johnstown, PA	September 1998
POCONO DOWNS FACILITIES:	
Erie, PA	May 1991
Allentown, PA	July 1993
Carbondale, PA	March 1998
Hazleton, PA	March 1998
East Stroudsburg, PA	July 2000

We have been transmitting simulcasts of our races to other wagering locations and receiving simulcasts of races from other locations for wagering by our customers at our facilities year-round for more than seven years. During the year ended December 31, 2000, we received import simulcasts from approximately 96 racetracks, including premier racetracks such as Belmont Park, Church Hill Downs, Gulfstream Park, Hollywood Park, Santa Anita and Saratoga and transmitted export simulcasts of our races to approximately 116 locations.

TELEPHONE ACCOUNT WAGERING/INTERNET WAGERING

In 1983, we pioneered Telebet-Registered Trademark-, Pennsylvania's first telephone account wagering system. A Telebet customer opens an account by depositing funds with us. Account holders can then place wagers by telephone on Penn National races and import simulcast races to the extent of the funds on deposit in the account; any winnings are posted to the account and are available for withdrawal or future wagers. In December 1995, Pocono Downs instituted Dial-A-Bet-Registered Trademark-, a similar telephone account betting system.

eBetUSA.com, Inc., our wholly owned subsidiary, is a closed-loop, subscriber-based system that operates a pari-mutuel wagering platform across the Internet. eBetUSA.com operates in selected jurisdictions with the approval of the Pennsylvania State Horse Racing Commission and the Pennsylvania State Harness Racing Commission. The website technology is provided under a license agreement with eBet Limited of Australia.

NEW JERSEY JOINT VENTURE -- PENNWOOD RACING, INC.

On October 30, 1998, we formed a 50%-50% joint venture with Greenwood New Jersey, Inc., a subsidiary of Greenwood Racing, Inc. (the owner of Philadelphia Park Race Track) to acquire certain assets of Garden State Park and Freehold Raceway from International Thoroughbred Breeders, Inc. In

January 1999, Greenwood New Jersey, Inc. consummated the acquisition on behalf of the joint venture. On July 29, 1999, after receiving New Jersey Racing Commission approval, we completed our investment in the New Jersey joint venture, Pennwood Racing, Inc. The purchase price for the acquisition was \$46 million, however, if the joint venture receives various approvals for off-track wagering or phone betting in New Jersey, it will be required to pay additional purchase price of up to \$10 million.

Through our interest in Pennwood Racing, Inc., we own Freehold Raceway in Freehold, New Jersey and hold a leasehold interest in Garden State Park in Cherry Hill, New Jersey. Freehold Raceway is located on a 51-acre site in western Monmouth County, New Jersey and is the nation's oldest harness track. Daytime racing has been conducted at Freehold Raceway since 1853; pari-mutuel wagering commenced in 1941. The grandstand at Freehold Raceway is an approximately 150,000 square foot, five level, steel frame, enclosed, fully heated and air conditioned facility constructed in 1986 that can accommodate up to 10,000 spectators. The grandstand also has a sit-down restaurant and seven concession stands. Freehold Raceway is located less than 50 miles from New York City and less than 30 miles from Princeton and Trenton, New Jersey.

Garden State Park is located on approximately 220 acres of land in Cherry Hill, New Jersey. Cherry Hill forms part of the Philadelphia metropolitan area and is approximately eight miles from downtown Philadelphia. The grandstand at Garden State Park is an approximately 50,000 square foot facility that can accommodate up to 24,000 spectators. On November 30, 2000, the owner of Garden State Park, International Thoroughbred Breeders, Inc., announced that it had completed the sale of the Garden State Park property, excluding a 10-acre parcel owned by our joint venture, to Turnberry/ Cherry Hill, LLC. As a result of the sale and a decision by the new owner to develop the property for non-racing uses, Pennwood Racing's lease at Garden State Park will be terminated on May 31, 2001. We do not believe that the termination of the Garden State Park lease and the cessation of racing at that facility will have a material adverse effect on our business, financial conditions or results of operations.

We have agreed to guarantee up to 50% of the obligations of the New Jersey joint venture, including but not limited to: rent, real estate taxes, insurance and utilities under a seven year lease at Garden State Park expiring January 2006, subject to the termination of the lease discussed above; the \$10 million contingent purchase price due to International Thoroughbred Breeders if the joint venture receives various approvals for off-track wagering or phone betting in New Jersey; and the obligations of the joint venture under its original \$23 million credit facility with Commerce Bank, N.A.

AGREEMENTS WITH HORSEMEN AND PARI-MUTUEL CLERKS

We have agreements with the horsemen at each of our racetracks. The continuation of these agreements is required to allow us to conduct live racing and export and import simulcasting. In addition, our simulcasting agreements are subject to the horsemen's approval.

In February 1999, the Pennsylvania Thoroughbred Horsemen stopped racing at Penn National Race Course and withdrew their permission for us to import simulcast races from other racetracks, resulting in the closure of Penn National Race Course and six of our OTW facilities. As a result of the closure, our operations at Penn National Race Course were suspended for more than five weeks, we lost 46 race days at Penn National Race Course, and it took nearly six months from the beginning of the action before we returned to pre-action levels of operations. In March 1999, we signed a new agreement with the Pennsylvania Thoroughbred Horsemen that has an initial term that expires on January 1, 2004.

In December 1999, we signed a new horsemen agreement with the Pennsylvania Harness Horsemen that expires on January 16, 2003. We also have an agreement with the Charles Town Horsemen that expires on December 31, 2002.

In addition to our horsemen agreements, in order to operate gaming machines in West Virginia, we are required to enter into written agreements regarding the proceeds of our gaming machines at the Charles Town Entertainment Complex with the pari-mutuel clerks at Charles Town. Our agreement with the pari-mutuel clerks at Charles Town expires on December 31, 2004.

In addition, our New Jersey joint venture, Pennwood Racing, must maintain written agreements with the horsemen at Freehold Raceway and Garden State Park in order to simulcast races to the Atlantic City casinos. Horsemen agreements are currently in effect at both facilities.

OPTION TO MANAGE THE CHARLESTOWN ENTERTAINMENT COMPLEX

We acquired the Charles Town Entertainment Complex by exercising an option previously held by a subsidiary of Showboat, Inc., now a wholly owned subsidiary of Harrah's Entertainment, Inc. In assigning the option, Showboat retained the right to operate a casino at the Charles Town Entertainment Complex in return for a management fee, to be negotiated at the time of exercise, based on reasonable rates payable for similar properties. The express terms of the Showboat option do not specify what activities at the Charles Town Entertainment Complex would constitute operation of a casino. We do not believe that our installation and operation of gaming devices linked to the West Virginia lottery at the Charles Town Entertainment Complex constitutes the operation of a casino under the Showboat option or under West Virginia law or triggers Showboat's right to exercise the Showboat option. The rights under the Showboat option extend until November 2001.

EMPLOYEES AND LABOR RELATIONS

As of December 31, 2000, we had 4,310 permanent employees, of whom 3,261 were full-time and 1,049 were part-time. Our employees in the admissions department and pari-mutuel department at Penn National Race Course, Pocono Downs and our OTWs are represented under collective bargaining agreements between us and the Sports Arena Employees' Union Local 137. The agreements extend until September 30, 2002 for track employees and September 30, 2001 for OTW employees. The pari-mutuel clerks at Pocono Downs voted to unionize in June 1997. We have held negotiations with this union, but do not have a contract to date. The failure to reach an agreement with this union would not result in the suspension or termination of our license to operate live racing at Pocono Downs or to conduct simulcast or OTW operations.

In order to operate gaming machines in West Virginia, we are required to enter into written agreements regarding the proceeds of the gaming machines with a representative of a majority of the horse owners and trainers, a representative of a majority of the pari-mutuel clerks and a representative of a majority of our horse breeders. We have an agreement with the Charles Town Horsemen that expires on December 31, 2002. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks, which expires on December 31, 2004.

COMPETITION

GAMING OPERATIONS

The gaming industry is highly fragmented and characterized by a high degree of competition among a large number of participants, many of which have financial and other resources that are greater than our resources. Competitive gaming activities include casinos, video lottery terminals and other forms of legalized gaming in the United States and other jurisdictions.

Legalized gambling is currently permitted in various forms throughout the United States and in several Canadian provinces. Other jurisdictions may legalize gaming in the near future through the introduction of proposals to legalize gaming in their state legislatures. In addition, established gaming

jurisdictions could award additional gaming licenses or permit the expansion of existing gaming operations. New or expanded operations by other persons can be expected to increase competition for our gaming operations and could have a material adverse impact on us.

CHARLES TOWN, WEST VIRGINIA. Our gaming machine operations at the Charles Town Entertainment Complex face competition from other gaming machine venues in West Virginia and in neighboring states (including Dover Downs, Delaware Park and Harrington Raceway in Delaware and the casinos in Atlantic City, New Jersey). These venues also offer significantly higher stakes for their gaming machines than in West Virginia. Atlantic City, New Jersey does not have a per-pull limit on its gaming machines, while Delaware has a \$25 per-pull limit. Per-pull limits in West Virginia are only \$2 per gaming machine. In addition to existing competition, both Pennsylvania and Maryland have in the past considered legislation to expand gaming in their respective states. The failure to attract or retain gaming machine customers at the Charles Town Entertainment Complex, whether arising from such competition or from other factors, could have a material adverse effect on our business, financial condition and results of operations.

MISSISSIPPI GULF COAST. Dockside gaming has grown rapidly on the Mississippi Gulf Coast, increasing from no dockside casinos in March 1992 to 12 operating casinos as of December 31, 2000. Nine of these facilities are located in Biloxi, two are located in Gulfport and one is located in Bay St. Louis. Our Mississippi casino operations have numerous competitors, many of which have greater name recognition, and financial and marketing resources than we have. Competition in the Mississippi gaming market is significantly more intense than the competition our gaming operations face in West Virginia or our pari-mutuel operations face in Pennsylvania and New Jersey. We cannot be sure that we will succeed in the competitive Mississippi Gulf Coast gaming market. The failure to do so would have a material adverse effect on our business, financial condition and results of operations.

Mississippi law does not limit the number of gaming licenses that may be granted. A number of operators have completed or announced new construction or expansions of existing casinos that will directly compete with us. The development of the Gulf Coast gaming markets has resulted in market dilution and any additional casinos could dilute gaming win even further, each of which could have a material adverse effect on our operations.

RACING AND PARI-MUTUEL OPERATIONS

Our racing and pari-mutuel operations face significant competition for wagering dollars from other racetracks and OTWs (some of which also offer other forms of gaming), other gaming venues such as casinos and state-sponsored lotteries, including the Pennsylvania, New Jersey, Delaware and West Virginia lotteries. We may also face competition in the future from new OTWs or from new racetracks. From time to time, states consider legislation to permit other forms of gaming. If additional gaming opportunities become available in or near our racing and pari-mutuel operations, such gaming opportunities could have a material adverse effect on our business, financial condition and results of operations.

Our OTWs compete with the OTWs of other Pennsylvania racetracks, and new OTWs may compete with our existing wagering facilities. Our competitors have a number of OTW facilities that are relatively close in distance to our OTWs. Although only two competing OTWs remain authorized by law for future opening, the opening of a new OTW in close proximity to our existing or future OTWs could have a material adverse effect on our business, financial condition and results of operations.

REGULATION

GENERAL

We are subject to federal, state and local regulations related to our current and proposed live racing, pari-mutuel, gaming machine and casino operations. The following description of the regulatory environment in which we operate is only a summary and not a complete recitation of all applicable regulatory laws. Moreover, our current and proposed operations could be subjected at any time to additional or more restrictive regulations, or banned entirely.

WEST VIRGINIA RACING AND GAMING REGULATION

Our operations at the Charles Town Entertainment Complex are subject to regulation by the West Virginia Racing Commission under the West Virginia Horse and Dog Racing Act, and by the West Virginia Lottery Commission under the West Virginia Racetrack Video Lottery Act. The powers and responsibilities of the West Virginia Racing Commission under the West Virginia Horse and Dog Racing Act extend to the approval and/or oversight of all aspects of racing and pari-mutuel wagering operations. We have obtained from the West Virginia Racing Commission a license to conduct racing and pari-mutuel wagering at the Charles Town Entertainment Complex. Pursuant to the West Virginia Racetrack Video Lottery Act, we have obtained approval for and currently are operating approximately 2,000 gaming machines and video lottery terminals at the Charles Town Entertainment Complex. In addition to licensing, in West Virginia, the legality of gaming machine operation in a particular county is determined by local option election in the county where the racetrack is located. The West Virginia Racetrack Video Lottery Act further provides that 5% of the qualified voters in the county where gaming machines have been permitted by local option election can petition for another election that may be held no sooner than five years after the first election.

The West Virginia Racetrack Video Lottery Act provides that the transfer of more than 5% of the voting stock of a corporation that holds a gaming machine license, or that controls another entity that holds such a license, or the transfer of the assets of a license holder may only be to persons who have met the licensing requirements of the West Virginia Racetrack Video Lottery Act or which transfer has been pre-approved by the West Virginia Lottery Commission. Any transfer that does not comply with this requirement voids the license.

MISSISSIPPI REGULATORY COMPLIANCE

Our operation of the Casino Magic Bay St. Louis casino and Boomtown Biloxi casino is subject to Mississippi regulatory compliance, a summary of which is provided below.

The ownership and operation of casino gaming facilities in Mississippi are subject to extensive state and local regulation primarily through the licensing and regulatory control of the Mississippi Gaming Commission and the Mississippi State Tax Commission. We must register and be licensed under the Mississippi Gaming Control Act, or the Mississippi Act, and our gaming operations are subject to the regulatory control of the Mississippi Gaming Commission, the Mississippi State Tax Commission and various local, city and county regulatory agencies. The Mississippi Act, which legalized dockside casino gaming in Mississippi, was enacted on June 29, 1990 and, effective October 29, 1991, the Mississippi Gaming Commission adopted regulations in furtherance of the Mississippi Act.

The laws, regulations and supervisory procedures of Mississippi and the Mississippi Gaming Commission seek to: (1) prevent unsavory or unsuitable persons from having direct or indirect involvement with gaming at any time or in any capacity; (2) establish and maintain responsible accounting practices and procedures; (3) maintain effective control over the financial practices of licensees, including establishing minimum procedures for internal fiscal affairs and safeguarding assets and revenues, providing reliable record keeping and making periodic reports to the Mississippi Gaming

Commission; (4) prevent cheating and fraudulent practices; (5) provide a source of state and local revenues through taxation and licensing fees; and (6) ensure that gaming licensees, to the extent practicable, employ Mississippi residents. The regulations are subject to amendment and interpretation by the Mississippi Gaming Commission.

The Mississippi Act provides for legalized dockside gaming at the discretion of the 14 counties that either border the Gulf Coast or the Mississippi River but only if the voters in such counties have not voted to prohibit gaming in that county. Dockside gaming is permissible in nine of the 14 eligible counties in the state and gaming operations have commenced in Adams, Coahoma, Hancock, Harrison, Tunica, Warren and Washington counties. The law permits unlimited stakes gaming on permanently moored vessels on a 24-hour basis and does not restrict the percentage of space that may be utilized for gaming. There are no limitations on the number of gaming licenses which may be issued in Mississippi. The legal age for gaming in Mississippi is 21.

We are required to submit detailed financial, operating and other reports to the Mississippi Gaming Commission and Mississippi State Tax Commission. We must report or seek approval for substantially all loans, leases, sales of securities and similar financing transactions.

We have been investigated and on August 8, 2000, the Mississippi Gaming Commission issued us a gaming operator's license for Boomtown Biloxi and for Casino Magic Bay St. Louis. In addition, the Mississippi Gaming Commission has found certain of our key principals suitable.

Each of our directors, officers and key employees who are actively and directly engaged in the administration or supervision of gaming, or who have any other significant involvement with our activities must be found suitable therefor, and may be required to be licensed by the Mississippi Gaming Commission. The finding of suitability is comparable to licensing, and both require submission of detailed personal financial information followed by a thorough investigation. In addition, any individual who is found to have a material relationship to, or material involvement with, us may be investigated in order to be found suitable or to be licensed as a business associate of ours. Key employees, controlling persons or others who exercise significant influence upon our management or affairs may also be deemed to have such a relationship or involvement. We cannot assure you that such persons will be found suitable by, and maintain such a suitability finding from, the Mississippi Gaming Commission. An application for licensing may be denied for any cause deemed reasonable by the Mississippi Gaming Commission. Changes in licensed positions must be reported to the Mississippi Gaming Commission. In addition to its authority to deny an application for a license, the Mississippi Gaming Commission has jurisdiction to disapprove a change in a corporate position. If the Mississippi Gaming Commission were to find a director, officer or key employee unsuitable for licensing or unsuitable to continue having a relationship with us, we would have to suspend, dismiss and sever all relationships with such person. We would have similar obligations with regard to any person who refuses to file appropriate applications. Each gaming employee must obtain a work permit that may be revoked upon the occurrence of certain specified events.

Mississippi statutes and regulations give the Mississippi Gaming Commission the discretion to require a suitability finding with respect to anyone who acquires any of our securities, regardless of the percentage of ownership. The current policy of the Mississippi Gaming Commission is to require anyone acquiring 5% or more of any voting securities of a public company with a licensed subsidiary or private company licensee to be found suitable. However, the Mississippi Gaming Commission generally permits certain "institutional" investors to beneficially own up to 15% of the voting securities of a registered public company without a finding of suitability. If the owner of voting securities who is required to be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any owner of voting securities found unsuitable and who holds, directly or indirectly, any beneficial ownership of our equity interests beyond such period of time as may be prescribed by the Mississippi Gaming Commission may be guilty of a misdemeanor. Any person who fails or refuses to apply for a finding of suitability or a license within 30 days of being ordered to do so by the Mississippi Gaming Commission may be found unsuitable. We are subject to disciplinary action if we, after receiving notice that a person is unsuitable to be an owner of or to have any other relationship with us, (1) pay the unsuitable person any dividends or interest upon any of our securities or any payments or distribution of any kind whatsoever, (2) recognize the exercise, directly or indirectly, of any voting rights of our securities by the unsuitable person, or (3) pay the unsuitable person any remuneration in any form for services rendered or otherwise, except in certain limited and specific circumstances. In addition, if the Mississippi Gaming Commission finds any owner of voting securities unsuitable, such owner must immediately surrender all securities to us, and we must purchase the securities so offered for cash at fair market value within 10 days.

We will be required to maintain current ownership ledgers in the State of Mississippi that may be examined by the Mississippi Gaming Commission at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to the Mississippi Gaming Commission. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner. We may be required to disclose to the Mississippi Gaming Commission, upon request, the identities of the holders of certain of our indebtedness. In addition, the Mississippi Gaming Commission under the Mississippi Act may, in its discretion, (1) require holders of debt securities, including these notes, to file applications, (2) investigate such holders, and (3) require such holders to be found suitable to own such debt securities. Although the Mississippi Gaming Commission generally does not require the individual holders of obligations such as notes to be investigated and found suitable, the Mississippi Gaming Commission retains the discretion to do so for any reason, including but not limited to a default, or where the holder of the debt instrument exercises a material influence over the gaming operations of the entity in question. Any holder of the debt securities required to apply for a finding of suitability must pay all investigative fees and costs of the Mississippi Gaming Commission in connection with such an investigation.

The regulations provide that we may not engage in any transaction that would result in a change of our control without the prior approval of the Mississippi Gaming Commission. Mississippi law prohibits us from making a public offering or private placement of our securities without the approval of or waiver of approval by the Mississippi Gaming Commission if any part of the proceeds of the offering is to be used to finance the construction, acquisition or operation of gaming facilities in Mississippi, or to retire or extend obligations incurred for one or more of such purposes. The Mississippi Gaming Commission has the authority to grant a continuous approval of securities offerings and has granted us such approval, subject to an annual renewal.

Regulations of the Mississippi Gaming Commission prohibit certain repurchases of securities of publicly traded corporations registered with the Mississippi Gaming Commission without prior approval of the Mississippi Gaming Commission. Transactions covered by these regulations are generally aimed at discouraging repurchases of securities at a premium over market price from certain holders of greater than 3% of the outstanding securities of the registered publicly traded corporation. The regulations of the Mississippi Gaming Commission also require prior approval for a "plan of recapitalization" as defined in such regulations.

The Mississippi Act requires that certificates representing our securities bear a legend to the general effect that the securities are subject to the Mississippi Act and regulations of the Mississippi Gaming Commission. The Mississippi Gaming Commission through the power to regulate licensees, has the power to impose additional restrictions on the holders of our securities at any time.

We may not engage in gaming activities in Mississippi while also conducting gaming operations outside of Mississippi without approval of the Mississippi Gaming Commission. Such approvals were initially granted to us by the Mississippi Gaming Commission as part of the original licensure process, and additional approvals must be obtained on a jurisdiction-by-jurisdiction basis. The failure to obtain or retain any such approval could have a material adverse effect on us.

We may not transfer any of our licenses and we must renew each license every three years. There can be no assurance that any of our renewal applications will be approved. The Mississippi Gaming Commission may at any time dissolve, suspend, condition, limit or restrict a license or approval to own equity interests in us for any cause it deems reasonable. We may have substantial fines levied against us in Mississippi for each violation of gaming laws or regulations. A violation under any gaming license held by us may be deemed a violation of the Mississippi licenses held by us. Suspension or revocation of the Mississippi licenses or of the Mississippi Gaming Commission's approval of us would have a material adverse effect upon our business.

In October 1994, the Mississippi Gaming Commission adopted a regulation requiring, as a condition of licensure or license renewal, that a gaming establishment's site development plan include an approved 500-car parking facility in close proximity to the casino complex, and infrastructure facilities that amount to at least 25% of the casino cost. Such facilities may include any of the following: a 250-room hotel of at least a two star rating, as defined by the current edition of the Mobil Travel Guide; a theme park; a golf course; marinas; a tennis complex; entertainment facilities; or any other such facility as approved by the Mississippi Gaming Commission as infrastructure. Parking facilities, roads, sewage and water systems or facilities normally provided by governmental entities are excluded. The Mississippi Gaming Commission may, in its discretion, reduce the number of hotel rooms required where it is shown, to the satisfaction of the Mississippi Gaming Commission, that sufficient rooms are available to accommodate the anticipated visitor load. Such reduction in the number of rooms does not affect the 25% investment requirement imposed by the regulation. Casino Magic Bay St. Louis, Boomtown Biloxi and related facilities have complied with these requirements. In January 1999, the Mississippi Gaming Commission amended its infrastructure regulation thereby increasing the minimum level of infrastructure investment from 25% to 100% of the casino cost. However, the 100% infrastructure investment requirement would apply only to new casino developments and existing casino developments that are not in operation at the time of their acquisition or purchase, and therefore does not apply to Casino Magic Bay St. Louis and Boomtown Biloxi. In any event, Casino Magic Bay St. Louis and Boomtown Biloxi will attempt to comply with such requirements.

License fees and taxes are payable to the State of Mississippi and to the counties and cities in which our Mississippi subsidiaries operate. One of the license fees payable to the state of Mississippi is based upon gross revenue of the licensee (generally defined as gaming receipts less payout to customers as winnings) and equals 4% of gross revenue of \$50,000 or less per month, 6% of gross revenue over \$50,000 and less than \$134,000 per calendar month, and 8% of gross revenue over \$134,000 per calendar month. The foregoing license fees are allowed as a credit against the licensee's Mississippi income tax liability for the year paid. Additionally, a licensee must pay a \$5,000 annual license fee and an annual fee based upon the number of games it operates. Mississippi communities and counties may impose fees on licensees equaling 0.4% of gross revenue of \$50,000 or less per calendar month, 0.6% of gross revenue over \$50,000 and less than \$134,000 per calendar month and 0.8% of gross revenue over \$134,000 per calendar month. These fees have been imposed in, among other cities and counties, Biloxi, Vicksburg, Tunica County and Coahoma County. Certain local and private laws of the State of Mississippi may impose fees or taxes on our Mississippi subsidiaries in addition to the fees described above.

The Mississippi Gaming Commission requires, as a condition of licensure or license renewal, that casino vessels on the Mississippi Gulf Coast that are not self-propelled must be moored to withstand a

Category 4 hurricane with 155 mile-per-hour winds and 15-foot tidal surge. We believe that all of our Mississippi gaming operations currently meet this requirement. A 1996 Mississippi Gaming Commission regulation prescribes the hurricane emergency procedure to be used by the Mississippi Gulf Coast casinos.

The sale of alcoholic beverages, including beer and wine, at Casino Magic Bay St. Louis and Boomtown Biloxi is subject to licensing, control and regulation by the Mississippi State Tax Commission. The Miscellaneous Tax Division of the Mississippi State Tax Commission regulates the sale of beer and light wine. The Alcoholic Beverage Control Division of the Mississippi State Tax Commission, or the ABC, regulates the sale of alcoholic beverages containing more than 5% alcohol by weight. The ABC requires that all equity owners and managers file personal record forms and fingerprint cards for their licensing process. In addition, owners of more than 5% of Casino Magic Bay St. Louis or Boomtown Biloxi equity as well as officers and managers must submit detailed financial information to the ABC for licensing. All such licenses are revocable and are non-transferable. The Mississippi State Tax Commission has full power to limit, condition, suspend or revoke any such license, and any such disciplinary action could, and revocation would, have a material adverse effect on the operations of Casino Magic Bay St. Louis and Boomtown Biloxi.

PENNSYLVANIA RACING REGULATIONS

Our horse racing operations at Penn National Race Course and Pocono Downs are subject to extensive regulation under the Pennsylvania Racing Act, which established the Pennsylvania State Horse Racing Commission and the Pennsylvania State Harness Racing Commission (referred to herein as the Pennsylvania Racing Commissions) which are responsible for, among other things:

- granting permission annually to maintain racing licenses and schedule races;
- approving, after a public hearing, the opening of additional OTWs;
- approving simulcasting activities;
- licensing all officers, directors, racing officials and certain other employees of a company; and
- approving all contracts entered into by a company affecting racing, pari-mutuel wagering and OTW operations.

As in most states, the regulations and oversight applicable to our operations in Pennsylvania are intended primarily to safeguard the legitimacy of the sport and its freedom from inappropriate or criminal influences. The Pennsylvania Racing Commissions have broad authority to regulate in the best interests of racing and may, to that end, disapprove the involvement of certain personnel in our operations, deny approval of certain acquisitions following their consummation or withhold permission for a proposed OTW site for a variety of reasons, including community opposition. The Pennsylvania legislature also has reserved the right to revoke the power of the Pennsylvania Racing Commissions to approve additional OTWs and could, at any time, terminate pari-mutuel wagering as a form of legalized gaming in Pennsylvania or subject such wagering to additional restrictive regulation; such termination would, and any further restrictions could, have a material adverse effect upon our business, financial condition and results of operations.

We may not be able to obtain all necessary approvals for the continued operation or expansion of our business. Even if all such approvals are obtained, the regulatory process could delay implementation of our plans to open additional OTWs. We have had continued permission from the Pennsylvania State Horse Racing Commission to conduct live racing at the Penn National Race Course since we commenced operations in 1972, and have obtained permission from the Pennsylvania State Harness Racing Commission to conduct live racing at Pocono Downs. Currently, we have approval from the Pennsylvania Racing Commissions to operate the eleven OTWs that are currently open. A

Commission may refuse to grant permission to open additional OTWs or to continue to operate existing facilities. The failure to obtain or maintain required regulatory approvals would have a material adverse effect upon our business, financial condition and results of operations.

The Pennsylvania Racing Act requires that any shareholder proposing to transfer beneficial ownership of 5% or more of our shares file an affidavit with us setting forth certain information about the proposed transfer and transferee, a copy of which we are required to furnish to the Pennsylvania Racing Commissions. The certificates representing our shares owned by 5% beneficial shareholders are required to bear certain legends prescribed by the Pennsylvania Racing Act. In addition, under the Pennsylvania Racing Act, the Pennsylvania Racing Commissions have the authority to order a 5% beneficial shareholder of a company to dispose of his common stock of such company if it determines that continued ownership would be inconsistent with the public interest, convenience or necessity or the best interest of racing generally.

NEW JERSEY REGULATION

Our joint venture's operations at Garden State Park and Freehold Raceway in New Jersey are subject to regulation (i) by the New Jersey Racing Commission under the Racing Act of 1940, as amended and supplemented and the rules and regulations of the Racing Commission and (ii) by the New Jersey Casino Control Commission under the Casino Control Act and Casino Simulcasting Act.

Under the Racing Act, all pari-mutuel employees and all others who are connected with the training of horses or the conduct of races, must be licensed by the Racing Commission. In addition, no person may hold or acquire, directly or indirectly, beneficial ownership of 5% or more of the voting securities of the joint venture without the prior approval of the Racing Commission.

At least 85% of the persons employed by the New Jersey joint venture at Garden State Park and Freehold Raceway must be residents of New Jersey (excluding jockeys, drivers or apprentices, exercise boys, owners, trainers, clockers, governing and managing officials and heads of departments of the track). The Racing Commission has the authority to require that the joint venture discharge any employee who: (i) fails or refuses for any reason to comply with the rules and regulations of the Racing Commission; (ii) in the opinion of the Racing Commission is guilty of fraud, dishonesty or incompetency; (iii) has been convicted of a crime involving moral turpitude; or (iv) fails or refuses for any reason to comply with any of the provisions of the Racing Act.

Additional restrictions and/or requirements imposed by the Racing Commission on the joint venture's racetrack operations include, but are not limited to, the setting of the admission price required to be charged by the joint venture, a requirement that the joint venture (and all other racetracks operating in New Jersey) must schedule at least one race per day limited to registered New Jersey-bred foals and the methods the joint venture may use to distribute pari-mutuel pools and "breaks" (the odd cents remaining after computing the amount due holders of winning pari-mutuel tickets). The Racing Commission also regulates the manner of keeping of certain of the joint venture's books and records.

The Racing Commission is also responsible for the allocation of racing dates based upon the annual application of the permit holder. The joint venture is entitled to race the same number of dates as in the preceding year, when it is in the public interest to do so, or for such other dates, not exceeding 100 days in the aggregate for harness racing and 75 days in the aggregate for thoroughbred racing, as the Racing Commission shall designate; provided, however that if another permit holder rejects any of the dates to which they may be entitled the Racing Commission may allot those dates among other permitholders. The Racing Commission has discretion to allot harness race permitholders an additional 200 days and thoroughbred race permitholders an additional 100 days.

The failure to comply with the Racing Act and the rules and regulations of the Racing Commission could result in monetary fines, operations restrictions or the loss of our license.

Because the joint venture simulcasts to Atlantic City casinos, the joint venture's simulcasting agreements are required to be filed with and approved by the Casino Control Commission and the New Jersey Racing Commission. In addition, the joint venture is required to be approved and licensed by the Casino Control Commission as a non-gaming casino service industry. Certain of the joint venture's employees and its directors and significant stockholders are also required to be approved by the Casino Control Commission. As of the date hereof, all of the joint venture's employees and directors required to be approved have been approved by the Casino Control Commission or have filed applications seeking such approval. There can be no assurance that all parties seeking Casino Control Commission approval will obtain such approval or the effect on the joint venture if such approvals are not obtained.

STATE AND FEDERAL SIMULCAST REGULATION

The Federal Interstate Horseracing Act, the Pennsylvania Racing Act, the West Virginia Racing Act and the New Jersey Simulcasting Racing Act require that we have a written agreement with each applicable horsemen's organization in order to simulcast races. We have entered into the horsemen agreements, and in accordance therewith have agreed on the allocations of our revenues from import simulcast wagering to the purse funds for the Penn National Race Course, Charles Town Races, Pocono Downs, Freehold Raceway and Garden State Park. Because we cannot conduct import simulcast wagering in the absence of the Horsemen Agreements, the termination or non-renewal of such horsemen agreements could have a material adverse effect on our business, financial condition and results of operations.

TAXATION

We believe that the prospect of significant additional revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and, in Canada, provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state, local and provincial legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws. Such changes, if adopted, could have a material adverse effect on our business, financial condition and results of operations.

IRS REGULATIONS AND CURRENCY TRANSACTION REPORTING

The Internal Revenue Service, or IRS, requires operators of casinos located in the United States to file information returns for U.S. citizens, including names and addresses of winners, for all winnings in excess of stipulated amounts. The IRS also requires operators to withhold taxes on certain winnings of nonresident aliens. We are unable to predict the extent, if any, to which such requirements, if extended, might impede or otherwise adversely affect operations of, and/or income from, such other games.

Regulations adopted by the Financial Crimes Enforcement Network of the Treasury Department and the gaming regulatory authorities in certain domestic jurisdictions in which we operate casinos, or in which we have applied for licensing to operate a casino, require the reporting of currency transactions in excess of \$10,000 occurring within a gaming day, including identification of the patron by name and social security number. This reporting obligation commenced in May 1985 and may have resulted in the loss of casino revenues to jurisdictions outside the United States that are exempt from

the ambit of such regulations. The operation of Casino Rama is subject to similar requirements under Canadian federal law and gaming legislation.

COMPLIANCE WITH OTHER LAWS

Our operations are also subject to a variety of other rules and regulations, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages. We derive a significant portion of our non-racing revenues from the sale of alcoholic beverages to patrons of our facilities. Any interruption or termination of our existing ability to serve alcoholic beverages would have a material adverse effect on our business, financial condition and results of operations.

RISKS RELATED TO OUR BUSINESS

AN INVESTMENT IN SHARES OF OUR COMMON STOCK IS SUBJECT TO A NUMBER OF RISKS. YOU SHOULD CAREFULLY CONSIDER THE FOLLOWING FACTORS, AS WELL AS THE ADDITIONAL INFORMATION CROSS-REFERENCED TO THE BODY OF THIS DOCUMENT AND THE OTHER MATTERS DESCRIBED IN THIS DOCUMENT.

WE HAVE LIMITED EXPERIENCE OPERATING CASINOS AND, PRIOR TO AUGUST 2000, HAVE NOT MANAGED CASINO OPERATIONS SUCH AS THOSE THAT ARE PART OF OUR MISSISSIPPI PROPERTIES OR THAT WILL BE A PART OF THE CRC PROPERTIES, IF WE COMPLETE THAT ACQUISITION.

We have limited experience in operating full-scale casino operations like those associated with our Mississippi properties and that will be a part of the CRC properties, if we complete that acquisition. Our Charles Town Entertainment Complex features gaming machines, but does not include the full complement of casino, entertainment and other amenities available at Casino Magic Bay St. Louis, Boomtown Biloxi, Casino Rouge or Casino Rama. In addition, the Charles Town Entertainment Complex faces limited direct competition, unlike the substantial competition faced by the operations at Casino Magic Bay St. Louis, Boomtown Biloxi, Casino Rouge and Casino Rama. We cannot be sure that we will be successful in managing and operating our business in response to the new challenges of conducting full-scale casino operations in highly competitive gaming markets. The significant expansion of our business and the operational and geographic expansion associated with the completed Mississippi acquisition and the proposed CRC acquisition has and will place demands on our administrative, operational and financial resources. Such strain, together with demands related to our contemplated expansion of the Charles Town Entertainment Complex and Casino Magic Bay St. Louis properties, may have a material adverse effect on our business, financial condition and results of operations.

WE MAY FACE DISRUPTION IN INTEGRATING OUR OPERATIONS ASSUMING THE CONSUMMATION OF THE CRC ACQUISITION AND IN MANAGING FACILITIES WE MAY ACQUIRE OR EXPAND.

The integration of the CRC operations assuming the consummation of the acquisition will require the dedication of management resources that may temporarily detract attention from our day-to-day business. The process of integrating this organization may also interrupt the activities of that business, which could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that we will be able to manage the combined operations effectively or realize any of the anticipated benefits of the proposed acquisition.

Our ability to achieve our objectives in connection with the proposed CRC acquisition is highly dependent on, among other things, our ability to maintain effective senior management teams at Casino Rouge and Casino Rama. We plan to maintain such management through the retention of certain current executives and the attraction of new executives. If, for any reason, these executives do not continue to be active in management after the acquisition or if we fail to attract new capable

executives, our operations assuming the consummation of the CRC acquisition could be materially adversely affected.

In addition, we may pursue expansion and acquisition opportunities in the future and would face significant challenges not only in managing and integrating the combined operations, but also in managing our expansion projects and any other gaming operations that we might acquire in the future. Management of such new projects will require that we increase our managerial resources. If we fail to manage our growth effectively it could materially adversely affect our operating results.

WE FACE RISKS RELATED TO THE DEVELOPMENT AND EXPANSION OF OUR CURRENT PROPERTIES.

We will use a portion of our available cash for capital expenditures at the Charles Town Entertainment Complex and at Casino Magic Bay St. Louis, including the construction of new hotels at each of these facilities. The construction of hotels involves substantial risks, including the possibility of construction cost over-runs and delays due to various factors (including regulatory approvals, inclement weather, and labor or material shortages), market or site deterioration after construction has begun, and the emergence of competition from unanticipated sources. The opening of the new hotels will be contingent upon, among other things, receipt of all required licenses, permits and authorizations. The scope of the approvals required for a new hotel is extensive, including, without limitation, state and local land-use permits, building and zoning permits and health and safety permits. In addition, unexpected changes or concessions required by local, regulatory and state authorities could involve significant additional costs and could delay or prevent the completion of construction or the opening of a new hotel. We cannot be sure that we will obtain the necessary permits, licenses and approvals for the construction and operation of the new hotels, or that we will obtain such permits, licenses and approvals within the anticipated time frame.

In addition to the new hotels, we are planning enhancements at the Charles Town Entertainment Complex, including the expansion of the gaming floor and the construction of a structured parking lot and an entertainment venue; at Casino Magic Bay St. Louis, we are planning to reconfigure the gaming floor and construct three new restaurants. These planned enhancements involve similar risks to hotel construction risks including cost over-runs, delays, market deterioration and receipt of required licenses, permits or authorizations, among others.

The opening of the new hotels and the other proposed enhancements also will require the establishment of new work forces of significant sizes. We cannot be certain that management will be able to hire and retain a sufficient number of employees to operate these facilities at their optimum levels. The failure to employ the proper work force could result in inadequate customer service which could ultimately harm profitability.

WE FACE SIGNIFICANT COMPETITION.

GAMING OPERATIONS

The gaming industry is highly fragmented and characterized by a high degree of competition among a large number of participants, many of which have financial and other resources that are greater than our resources. Competitive gaming activities include casinos, video lottery terminals and other forms of legalized gaming in the United States and other jurisdictions.

Legalized gambling is currently permitted in various forms throughout the United States and in several Canadian provinces. Other jurisdictions may legalize gaming in the near future through the introduction of proposals to legalize gaming in their state legislatures. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion of existing gaming operations. New or expanded operations by other persons can be expected to increase competition for our gaming operations and could have a material adverse impact on us.

CHARLES TOWN, WEST VIRGINIA. Our gaming machine operations at the Charles Town Entertainment Complex face competition from other gaming machine venues in West Virginia and in neighboring states (including Dover Downs, Delaware Park and Harrington Raceway in Delaware and the casinos in Atlantic City, New Jersey). These venues also offer significantly higher stakes for their gaming machines than in West Virginia. Atlantic City, New Jersey does not have a per-pull limit on its gaming machines, while Delaware has a \$25 per-pull limit. Per-pull limits in West Virginia are only \$2 per gaming machine. In addition to existing competition, both Pennsylvania and Maryland have in the past considered legislation to expand gaming in their respective states. The failure to attract or retain gaming machine customers at the Charles Town Entertainment Complex, whether arising from such competition or from other factors, could have a material adverse effect on our business, financial condition and results of operations.

MISSISSIPPI GULF COAST. Dockside gaming has grown rapidly on the Mississippi Gulf Coast, increasing from no dockside casinos in March 1992 to 12 operating dockside casinos at December 31, 2000. Nine of these facilities are located in Biloxi, two are located in Gulfport and one is located in Bay St. Louis. Our Mississippi casino operations have numerous competitors, many of which have greater name recognition and financial and marketing resources than we have. Competition in the Mississippi gaming market is significantly more intense than the competition our gaming operations face in West Virginia or our pari-mutuel operations face in Pennsylvania and New Jersey. We cannot be sure that we will succeed in the competitive Mississippi Gulf Coast gaming market. The failure to do so would have a material adverse effect on our business, financial condition and results of operations.

RACING AND PARI-MUTUEL OPERATIONS

Our racing and pari-mutuel operations face significant competition for wagering dollars from other racetracks and OTWs (some of which also offer other forms of gaming), other gaming venues such as casinos and state-sponsored lotteries, including the Pennsylvania, New Jersey, Delaware and West Virginia lotteries. We may also face competition in the future from new OTWs or from new racetracks. From time to time, states consider legislation to permit other forms of gaming. If additional gaming opportunities become available in or near our racing and pari-mutuel operations, such gaming opportunities could have a material adverse effect on our business, financial condition and results of operations.

Our OTWs compete with the OTWs of other Pennsylvania racetracks, and new OTWs may compete with our existing wagering facilities. Our competitors have a number of OTW facilities that are relatively close in distance to our OTWs. Although only two competing OTWs remain authorized by law for future opening, the opening of a new OTW in close proximity to our existing or future OTWs could have a material adverse effect on our business, financial condition and results of operations.

WE FACE EXTENSIVE REGULATION FROM GAMING AUTHORITIES.

LICENSING REQUIREMENTS. As owners and operators of gaming and pari-mutuel betting facilities, we are subject to extensive state and local regulation. State and local authorities require us and our subsidiaries to demonstrate suitability to obtain and retain various licenses and require that we have registrations, permits and approvals to conduct gaming operations. Various regulatory authorities, including the Pennsylvania State Horse Racing Commission, the Pennsylvania State Harness Racing Commission, the New Jersey Racing Commission, the New Jersey Casino Control Commission, the West Virginia Racing Commission, the West Virginia Lottery Commission and the Mississippi Gaming Commission may, for any reason set forth in the applicable legislation, limit, condition, suspend or revoke a license or registration to conduct gaming operations or prevent us from owning the securities of any of our gaming subsidiaries. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses or registrations. We cannot assure you that we

will be able to obtain such renewals. Regulatory authorities may also levy substantial fines against or seize the assets of our company, our subsidiaries or the people involved in violating gaming laws or regulations. Any of these events could have a material adverse effect on our business, financial condition and results of operation.

We have demonstrated suitability to obtain and have obtained all governmental licenses, registrations, permits and approvals necessary for us to operate our existing gaming facilities. We cannot assure you that we will be able to retain them or demonstrate suitability to obtain any new licenses, registrations, permits or approvals. If we expand our gaming operations in West Virginia, Mississippi, Pennsylvania, New Jersey or to new areas, we will have to meet suitability requirements and obtain additional licenses, registrations, permits and approvals from gaming authorities in these jurisdictions. The approval process can be time-consuming and costly and we cannot be sure that we will be successful.

Gaming authorities in the United States can generally require that any beneficial owner of our securities file an application for a finding of suitability. If a gaming authority requires a record or beneficial owner of our securities to file a suitability application, the owner must apply for a finding of suitability within 30 days or at an earlier time prescribed by the gaming authority. The gaming authority has the power to investigate an owner's suitability and the owner must pay all costs of the investigation. If the owner is found unsuitable, then the owner may be required, either by law or the terms of our securities, to dispose of such securities. In addition, the issuance of our securities is subject to approval by the West Virginia Racing Commission and the West Virginia Lottery Commission.

POTENTIAL CHANGES IN REGULATORY ENVIRONMENT. From time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations in the jurisdictions in which we operate. Any expansion of gaming or restriction on or prohibition of our gaming operations could have a material adverse effect on our operating results.

TAXATION. We believe that the prospect of significant additional revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state and local legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws. Such changes, if adopted, could have a material adverse effect on our business, financial condition and results of operations.

COMPLIANCE WITH OTHER LAWS. We are also subject to a variety of other rules and regulations, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages.

WE DEPEND ON OUR KEY PERSONNEL.

We are highly dependent on the services of Peter M. Carlino, our Chairman and Chief Executive Officer, and other officers and key employees. We have entered into employment agreements with Mr. Carlino and certain other officers. However, the loss of the services of any of these individuals could have a material adverse effect on our business, financial condition and results of operations.

INCLEMENT WEATHER AND OTHER CONDITIONS COULD SERIOUSLY DISRUPT OUR OPERATIONS.

The operations of our facilities are subject to disruptions or reduced patronage as a result of severe weather conditions. Our dockside facilities in Mississippi are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, mechanical failure,

extended or extraordinary maintenance, flood, hurricane or other severe weather conditions. Reduced patronage and the loss of a dockside casino from service for any period of time due to severe weather could adversely affect our business, financial condition and results of operations.

WE DEPEND ON AGREEMENTS WITH OUR HORSEMEN AND PARI-MUTUEL CLERKS TO OPERATE OUR BUSINESS.

The Federal Horseracing Act, the West Virginia Racing Act and the Pennsylvania Racing Act require that, in order to simulcast races, we have written agreements with the horse owners and trainers at our West Virginia and Pennsylvania race tracks. In addition, in order to operate gaming machines in West Virginia, we are required to enter into written agreements regarding the proceeds of the gaming machines with a representative of a majority of the horse owners and trainers, a representative of a majority of the pari-mutuel clerks and a representative of a majority of the horse breeders. On March 23, 1999, we signed a new horsemen agreement with the Pennsylvania Thoroughbred Horsemen at Penn National Race Course with an initial term that expires on January 1, 2004. Our agreement with the Pennsylvania Harness Horsemen was entered into in November 1999 and expires on January 16, 2003. At the Charles Town Entertainment Complex, we have an agreement with the Charles Town Horsemen that expires on December 31, 2002. Our agreement with the pari-mutuel clerks at Charles Town expires on December 31, 2004.

If we fail to maintain operative agreements with the horsemen at a track, we will not be permitted to conduct live racing and export and import simulcasting at that track, and, in West Virginia, we will not be permitted to operate our gaming machines. In addition, our simulcasting agreements are subject to the horsemen's approval. In February 1999, the Pennsylvania Thoroughbred Horsemen stopped racing at Penn National Race Course and withdrew their permission for us to import simulcast races from other racetracks, resulting in the closure of Penn National Race Course and its six OTWs. As a result of this action, our operations at Penn National Race Course and its OTWs were suspended for more than five weeks, we lost 46 race days at Penn National Race Course, and it took nearly six months from the beginning of the action before we returned to pre-action levels of racing and operations. If we fail to renew or modify existing agreements on satisfactory terms, this failure could have a material adverse effect on our business, financial condition and results of operations.

In addition, pursuant to the New Jersey Simulcasting Racing Act, our New Jersey joint venture, Pennwood Racing, Inc., must maintain written agreements with the horsemen at Freehold Raceway and Garden State Park in order to simulcast races to the Atlantic City casinos. Horsemen agreements are currently in effect at both facilities.

ITEM 2. PROPERTIES

The following describes our principal real estate properties as of December 31, 2000:

CHARLES TOWN ENTERTAINMENT COMPLEX. We own a 250-acre parcel in Charles Town, West Virginia, a portion of which contains the Charles Town Entertainment Complex. The property also includes a 3/4-mile thoroughbred racetrack and an enclosed grandstand/clubhouse. We have a right of first refusal on an additional 250 acres that are adjacent to the facility.

CASINO MAGIC BAY ST. LOUIS. We own approximately 591 acres in the city of Bay St. Louis, Mississippi, including the 17-acre marina where the gaming barge is moored. The property includes an 18-hole golf course, a hotel, and other land-based facilities, all of which we own.

BOOMTOWN BILOXI. We lease substantially all of the 19 acres on which Boomtown Biloxi is located under a 99-year lease that began in 1994. The lease stipulates base rent based on adjusted gaming win, as provided in the lease, with a minimum of \$500,000 and a maximum of \$2 million annually, plus 5 percent of adjusted gaming win in excess of \$25 million but less than \$50 million. To the extent adjusted gaming win exceeds \$50 million dollars, the percentage rent increases to 11% of all gaming

revenue over \$50 million. For the year ended December 31, 2000, rental payments totaled \$3.8 million. In addition, we lease property for parking under several lease agreements ranging from 10 to 25 years. We also lease approximately 5.1 acres of submerged tidelands at the casino site from the State of Mississippi under a ten-year lease with a five-year option to renew. We own the barge on which the casino is located and all of the land-based facilities.

PENN NATIONAL RACE COURSE. We own approximately 225 acres in Grantville, Pennsylvania where the Penn National Race Course is located. The property includes a one mile all-weather thoroughbred racetrack and a 7/8-mile turf track. The property also includes approximately 400 acres surrounding the Penn National Race Course that are available for future expansion or development.

POCONO DOWNS. We own approximately 400 acres in Plains Township, outside of Wilkes-Barre, Pennsylvania where Pocono Downs is located. The property includes a 5/8-mile all weather, lighted harness track, a grandstand and a clubhouse. A two-story 14,000 square foot building that houses the Pocono Downs office is also located on the property.

FREEHOLD RACEWAY. Through our joint venture, we own a 51-acre site in Western Monmouth County, New Jersey where Freehold Raceway is located. The property features a half-mile oval harness track and a 150,000 square foot grandstand.

GARDEN STATE PARK. Through our joint venture, we lease approximately 220 acres of land in Cherry Hill, New Jersey. The property includes a one-mile racetrack and a 50,000 square foot grandstand. On November 29, 2000, the owner of Garden State Park, International Thoroughbred Breeders, Inc., announced that it had completed the sale of the Garden State Park property, excluding a 10-acre parcel owned by our joint venture, to Turnberry/Cherry Hill, LLC. As a result of the sale, our lease at Garden State Park will be terminated on May 31, 2001. We do not believe that the termination of the Garden State Park lease and the cessation of racing at that facility will have a material adverse effect on our business, financial conditions or results of operations.

OTWS. We own four of our existing OTW facilities and lease the remaining seven facilities.

OTHER. We lease 6,674 square feet of office space in an office building in Wyomissing, Pennsylvania for our executive offices. The office building is owned by an affiliate of Peter M. Carlino, our Chairman and Chief Executive Officer. We also lease an aircraft from a company owned by one of our directors. We believe that the lease terms for both the executive office and aircraft are not less favorable than such lease terms that could have been obtained from unaffiliated third parties.

ITEM 3. LEGAL PROCEEDINGS

We are from time to time involved in litigation that we believe is ordinary and customary in our industry. We do not believe that any of our pending or threatened litigation will result in an outcome that will materially affect our business, financial condition or results of operations.

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

None.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our common stock is quoted on The Nasdaq National Market under the symbol "PENN". The following table sets forth for the periods indicated the high and low sales prices per share of our common stock as reported on The Nasdaq National Market.

	HIGH ----	LOW -----
1999		
First Quarter.....	\$10.000	\$5.813
Second Quarter.....	9.938	7.250
Third Quarter.....	10.375	8.250
Fourth Quarter.....	9.563	7.500
2000		
First Quarter.....	\$11.250	\$6.813
Second Quarter.....	15.750	10.375
Third Quarter.....	15.375	12.500
Fourth Quarter.....	18.375	8.000

The closing sale price per share of common stock on The Nasdaq National Market on March 19, 2001, was \$12.563. As of March 19, 2001, there were 623 holders of record of common stock.

DIVIDEND POLICY

Since our initial public offering of common stock in May 1994, we have not paid any cash dividends on our common stock. We intend to retain all of our earnings to finance the development of our business, and thus, do not anticipate paying cash dividends on our common stock for the foreseeable future. Payment of any cash dividends in the future will be at the discretion of our Board of Directors and will depend upon, among other things, our future earnings, operations and capital requirements, our general financial condition and general business conditions. Moreover, our existing credit facility prohibits us from authorizing, declaring or paying any dividends until our commitments under the credit facility have been terminated and all amounts outstanding thereunder have been repaid. In addition, future financing arrangements may prohibit the payment of dividends under certain conditions.

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial and operating data of Penn National for the years ended December 31, 1996, 1997, 1998, 1999 and 2000, except for Other data, are derived from financial statements that have been audited by BDO Seidman, LLP, independent certified public accountants. The selected consolidated financial and operating data should be read in conjunction with the consolidated financial statements of Penn National and Notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included herein.

	YEAR ENDED DECEMBER 31,				
	1996	1997(1)	1998	1999	2000(2)
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE DATA)				
INCOME STATEMENT DATA:					
Revenue					
Gaming.....	\$ --	\$ 5,730	\$37,665	\$55,415	\$159,589
Racing.....	55,066	98,402	106,850	102,827	113,230
Other.....	7,768	7,404	9,550	13,216	21,304
Total revenues.....	62,834	111,536	154,065	171,458	294,123
Operating expenses:					
Gaming.....	--	4,134	26,544	34,951	94,087
Racing.....	36,114	65,810	70,303	68,808	77,063
Selling, general and administrative.....	13,881	26,234	29,680	38,709	58,310
Other.....	3,379	5,623	8,080	11,173	18,776
Total operating expenses.....	53,374	101,801	134,607	153,641	248,236
Income from operations.....	9,460	9,735	19,458	17,817	45,887
Other income (expenses).....	(156)	(3,658)	(7,436)	(7,307)	(17,175)
Income before income taxes and extraordinary item.....	9,304	6,077	12,022	10,510	28,712
Taxes on income.....	3,794	2,308	4,519	3,777	10,137
Income before extraordinary item.....	5,510	3,769	7,503	6,733	18,575
Extraordinary item--loss on early extinguishment of debt, net of income taxes of \$1,001 in 1997 and \$4,615 in 2000.....	--	1,482	--	--	6,583
Net income.....	\$ 5,510	\$ 2,287	\$ 7,503	\$ 6,733	\$ 11,992
PER SHARE DATA:					
Basic income per share before extraordinary item.....	\$ 0.41	\$ 0.25	\$ 0.50	\$ 0.45	\$ 1.24
Basic net income per share.....	\$ 0.41	\$ 0.15	\$ 0.50	\$ 0.45	\$ 0.80
Diluted income per share before extraordinary item.....	\$ 0.40	\$ 0.24	\$ 0.49	\$ 0.44	\$ 1.20
Diluted net income per share.....	\$ 0.40	\$ 0.15	\$ 0.49	\$ 0.44	\$ 0.78
Weighted shares outstanding--basic.....	13,302	14,925	15,015	14,837	14,968
Weighted shares outstanding--diluted.....	13,822	15,458	15,374	15,196	15,443
OTHER DATA:					
Depreciation and amortization.....	\$ 1,433	\$ 4,040	\$ 5,748	\$ 8,679	\$ 13,594
Interest expense.....	506	4,591	8,374	8,667	19,089
EBITDA(3).....	10,893	13,775	25,206	26,496	59,481
Capital expenditures.....	6,995	29,196	22,333	13,243	27,295

	AS OF DECEMBER 31,				
	1996	1997(1)	1998	1999	2000(2)
BALANCE SHEET DATA:					
Cash and cash equivalents.....	\$ 5,634	\$21,854	\$ 6,826	\$ 9,434	\$ 23,287
Total assets.....	96,723	158,878	160,798	189,712	439,900
Total debt.....	47,517	80,336	78,256	91,213	309,299
Shareholders' equity.....	27,881	53,856	59,036	66,272	79,221

(1) Reflects our November 27, 1996 acquisition of Pocono Downs and our January 15, 1997 acquisition of a joint venture interest in the Charles Town Entertainment Complex.

(2) Reflects the August 8, 2000 acquisition of the Casino Magic Bay St. Louis casino and the Boomtown Biloxi casino.

(3) EBITDA consists of income from operations plus depreciation and amortization. EBITDA is presented because we believe it is frequently used by securities analysts, investors and other interested parties in the evaluation of companies in our industry. However, other companies in our industry may calculate EBITDA differently than we do. EBITDA is not a measurement of financial performance under generally accepted accounting principles and should not be considered as an alternative to cash flow from operating activities or as a measure of liquidity or an alternative to net income as an indicator of operating performance or any other measure of performance derived in accordance with generally accepted accounting principles.

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

We derive substantially all of our revenues from gaming and pari-mutuel operations. Since September 1997, revenues from our gaming machines at the Charles Town Entertainment Complex have accounted for an increasingly large share of our total revenues. Our pari-mutuel revenues have been derived from wagering on our live races, wagering on import simulcasts at our racetracks and OTWs and through telephone account wagering, and fees from wagering on export simulcasting our races at out-of-state locations. Our other revenues have been derived from admissions, program sales, food and beverage sales, concessions and certain other ancillary activities.

Our acquisition of the Mississippi properties and the consummation of the CRC acquisition will impact our revenue mix between gaming and pari-mutuel revenues on a prospective basis. We expect that in future periods gaming revenue as a percentage of our total revenues will continue to increase as we continue to focus on our gaming operations. For the year ended December 31, 1999 and 2000, gaming revenue represented approximately 32% and 54% of our total revenue, respectively.

MISSISSIPPI ACQUISITION

On August 8, 2000, we completed our acquisition of the Casino Magic Bay St. Louis casino and the Boomtown Biloxi casino from Pinnacle Entertainment for approximately \$201.3 million in cash, which includes acquisition costs totaling \$6.3 million. The purchase price was funded with a portion of the proceeds from our \$350 million senior secured credit facility. As a result of the refinancing and repayment of existing debt, we recorded an \$11.2 million extraordinary charge, which was included in our results of operations for the year ended December 31, 2000. The results of operations for these properties from the period August 8, 2000 to December 31, 2000 are included in the results of operations discussed below.

THE PENDING CRC ACQUISITION

On July 31, 2000, we entered into an agreement to acquire by merger all of the gaming assets of CRC Holdings, Inc. for approximately \$181.3 million, including amounts required to refinance certain existing indebtedness and to acquire the minority interest in Louisiana Casino Cruises, Inc., or LCCI, CRC's majority owned subsidiary. The closings of the agreements with the LCCI minority owners and CRC are conditioned upon one another. We expect to close the CRC acquisition in the first half of 2001 and in no event later than October 31, 2001. We expect to incur approximately \$15.7 million in one-time acquisition and financing related costs related to the closing of the CRC acquisition.

RECENT DEVELOPMENTS

On February 20, 2001, we commenced a cash tender offer to purchase all of the LCCI 11% Senior Secured Notes and a related consent solicitation. On March 6, 2001, we announced that all of the holders of the LCCI Notes had tendered notes and delivered consents. The consummation of the tender offer is conditioned upon the closing of the pending CRC acquisition. The tender offer is currently set to expire on March 29, 2001, unless we further extend such expiration to coincide with the anticipated closing of the pending CRC acquisition.

On March 12, 2001, we completed the sale of \$200 million in aggregate principal amount of 11 1/8% Senior Subordinated Notes due March 1, 2008. The net proceeds of these notes will be used, in part, to finance the CRC acquisition and to complete the tender offer for the LCCI notes; however, if we do not consummate the CRC acquisition by October 31, 2001, we will use the entire net proceeds of these notes to repay outstanding term loan indebtedness under our senior credit facility.

RESULTS OF OPERATIONS

The results of operations by property level for the years ended December 31, 1998, 1999 and 2000 are summarized below:

	REVENUES(1)			EBITDA(1)		
	1998	1999	2000	1998	1999	2000
Charles Town Entertainment Complex.....	\$ 56,883	\$ 80,015	\$135,290	\$ 7,103	\$16,023	\$35,469
Casino Magic Bay St. Louis(2).....	--	--	31,571	--	--	6,092
Boomtown Biloxi(2).....	--	--	24,634	--	--	3,460
Penn National Race Course and its OTWs....	63,620	55,609	64,364	13,039	9,065	10,380
Pocono Downs and its OTWs.....	35,576	36,324	37,573	8,719	8,955	7,792
Earnings from Pennwood Racing, Inc. (New Jersey joint venture).....	--	1,098	2,832	--	1,098	2,832
Corporate eliminations(3).....	(2,014)	(1,588)	(1,630)	--	--	--
Corporate overhead.....	--	--	--	(3,655)	(5,361)	(6,033)
TOTAL.....	\$154,065	\$171,458	\$294,634	\$25,206	\$29,780	\$59,992

(1) Reflects property level revenues and EBITDA and excludes non-recurring charges and expenses.

(2) Reflects results since the August 8, 2000 acquisition from Pinnacle Entertainment.

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

YEAR ENDED DECEMBER 31, 2000 COMPARED TO YEAR ENDED DECEMBER 31, 1999

Revenues for the year ended December 31, 2000 increased 71.8% to \$294.6 million from \$171.5 million for the year ended December 31, 1999. EBITDA rose 101.3% to \$60.0 million from \$29.8 million for the year ended December 31, 1999. Income before extraordinary item for the year ended December 31, 2000 was \$18.6 million compared to net income of \$6.7 million for the year ended December 31, 1999. Reflecting an extraordinary charge net of taxes of \$6.6 million incurred in the third quarter for the early extinguishment of debt, we recorded net income of \$12.0 million for the year ended December 31, 2000.

CHARLES TOWN ENTERTAINMENT COMPLEX

Revenues increased at Charles Town by approximately \$55.3 million, or 69.1%, to \$135.3 million in 2000 from \$80.0 million in 1999. Gaming revenue increased by \$53.9 million, or 97.3%, to \$109.3 million in 2000 from \$55.4 million in 1999 due to the addition of 136 new video lottery machines, 565 new reel spinning, coin-out gaming machines and 452 gaming machines in the OK Corral slots center, which opened on November 25, 2000, since January 1999. The average number of machines in play increased to 1,494 in 2000 from 923 in 1999 and the average win per machine increased to \$199 in 2000 from \$163 in 1999. Racing revenue increased by \$1.0 million, or 5.2% to \$20.3 million in 2000 from \$19.3 million in 1999. This increase is due primarily to a change in the schedule from a Wednesday afternoon race program to a Thursday evening race program in 2000 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 \$2.2 million in 2000 compared to \$1.0 million in 1999. Operating expenses increased by \$30.1 million, or 43.2%, to \$99.8 million in 2000 from \$69.7 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 and the opening of the OK Corral slot center), export simulcast expenses and expanded concession and dining capability and

capacity. EBITDA attributable to Charles Town increased by \$19.5 million, or 121.9%, to \$35.5 million in 2000 from \$16.0 million in 1999.

MISSISSIPPI CASINOS

The Casino Magic Bay St Louis and Boomtown Biloxi acquisitions were completed on August 8, 2000. For the period August 8 to December 31, 2000, these two casinos had combined revenues of \$56.2 million, and EBITDA of \$9.6 million.

PENN NATIONAL RACE COURSE AND ITS OTW FACILITIES

Penn National Race Course had an increase in revenue of approximately \$8.8 million, or 15.8%, to \$64.4 million in 2000 from \$55.6 million in 1999. Pari-mutuel wagering was \$386.6 million in 2000 compared to \$333.8 million in 1999. The increase in wagering and revenues is attributed to Penn National Race Course running 201 live race days in 2000 compared to 153 live races days in 1999. Penn National only ran 153 live race days in 1999 due to the Horsemen action in the first quarter that resulted in the closure of all of the facilities from February 16 to March 24, 1999. Operating expenses increased by approximately \$6.2 million, or 13.0%, to \$54.0 million in 2000 from \$47.8 million in 1999. Adjusting for the Horsemen action in 1999, EBITDA attributable to these properties increased by \$1.3 million, or 14.3%, to \$10.4 million in 2000 from \$9.1 million in 1999.

POCONO DOWNS AND ITS OTW FACILITIES

Revenues at Pocono Downs increased by \$1.3 million, or 3.6%, to \$37.6 million in 2000 from \$36.3 million in 1999. Pari-mutuel wagering was \$161.6 million in 2000 compared to \$160.2 million in 1999. Expenses increased by approximately \$2.4 million, or 8.8%, to \$29.8 million in 2000 from \$27.4 million in 1999. The opening of the new OTW facility in East Stroudsburg and the increase in purse expense per the terms of the new Horsemen's contract executed in January 2000 accounted for most of the increase in expenses. EBITDA decreased \$1.2 million, or 13.3%, to \$7.8 million in 2000 from \$9.0 million in 1999.

NEW JERSEY JOINT VENTURE

We completed our investment in Pennwood Racing, Inc., the New Jersey joint venture, on July 29, 1999. Pennwood Racing operates Freehold Raceway and Garden State Park. Revenues of the joint venture increased to \$61.5 million in 2000 from \$28.0 million in 1999 as a result of the operating results in 2000 reflecting a full twelve-month period. Net income was \$5.6 million in 2000, before non-recurring charges of \$1.0 million relating to the termination of the Garden State lease, compared to \$2.2 million in 1999. Our 50% share of net income was \$2.8 million in 2000 compared to \$1.1 million in 1999 and was recorded as other revenues on the income statement.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Revenues in 1999 increased by approximately \$17.4 million, or 11.3%, to \$171.5 million from \$154.1 million in 1998. Operating expenses in 1999 increased by approximately \$19.0 million, or 14.1%, to \$153.6 million from \$134.6 million in 1998. Included in operating expenses were nonrecurring expenses in 1999 for the Horsemen's strike (\$1.3 million) at Penn National Race Course, Tennessee development and licensing expenses (\$0.5 million) and litigation expenses (\$1.5 million) to settle a lawsuit with a totalisator company. Income from operations decreased by \$1.7 million, or 8.7%, to \$17.8 million in 1999 from \$19.5 million in 1998 due to the Horsemen's strike and nonrecurring expenses. Net interest expense for the years ended December 31, 1999 and 1998 consisted of approximately \$7.3 million and \$7.4 million, respectively, of net interest primarily due to the 10.625% senior notes and our existing credit facility. Taxes on income decreased by \$0.7 million to \$3.8 million

in 1999 from \$4.5 million in 1998 and net income decreased by \$0.8 million, or 10.7%, to \$6.7 million in 1999 from \$7.5 million in 1998 due substantially to the factors described above.

CHARLES TOWN ENTERTAINMENT COMPLEX

Revenues increased at Charles Town by approximately \$23.1 million, or 40.6%, to \$80.0 million in 1999 from \$56.9 million in 1998. Gaming revenue at Charles Town increased by \$17.7 million, or 46.9%, to \$55.4 million in 1999 from \$37.7 million in 1998 due to the addition of 136 new video lottery machines and 565 new reel spinning, coin-out gaming machines during the year. At year end there were 1,500 gaming machines in operation compared to 799 machines at year end in 1998. The average number of machines increased to 923 in 1999 from 704 in 1998 and the average win per machine increased to \$163 in 1999 from \$145 in 1998. Racing revenue increased by \$3.8 million, or 24.5%, to \$19.3 million in 1999 from \$15.5 million in 1998. The live meet consisted of 213 race days in 1999 compared to 206 race days in 1998 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 \$0.9 million for the year. Concession revenues increased by approximately \$1.5 million, or 39.5%, to \$5.3 million in 1999 from \$3.8 million in 1998 due to increased attendance for gaming and racing and the expansion of the concession areas, dining room and buffet area. Operating expenses increased by \$14.2 million, or 28.5%, to \$64.0 million in 1999 from \$49.8 million in 1998 due to the 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 gaming facility), export simulcast expenses and expanded concession and dining capability and capacity. In addition to the operating expenses, Charles Town had a non-recurring expense of \$1.5 million in litigation settlement expenses for the settlement of a lawsuit involving a former totalisator company vendor.

PENN NATIONAL RACE COURSE AND ITS OTW FACILITIES

Penn National Race Course had a decrease in revenue of approximately \$8.0 million, or 12.6%, to \$55.6 million in 1999 from \$63.6 million in 1998. The decrease was primarily due to the expiration of the Horsemen's Agreement that resulted in the closure of the facilities from February 16 to March 24, 1999. Penn National re-opened for simulcast wagering on March 25, live racing on a limited basis on April 23 and resumed a full live racing schedule the week of June 26, 1999. For the year 1999, Penn National ran 153 live race days compared to 206 live race days in 1998 and ran nine-race cards instead of ten-race cards following the April reopening. Of the scheduled 210 live races for 1999, 46 race days were lost due to the strike and 11 days were cancelled due to weather compared to four days cancelled due to weather in 1998. Expenses decreased by approximately \$2.7 million, or 5.2%, to \$49.6 million in 1999 from \$52.3 million in 1998. Included in the 1999 expenses is \$1.3 million for the Horsemen's strike. The results of operations also includes the operation of the Johnstown OTW facility for 12 months in 1999 compared to three months in 1998.

POCONO DOWNS AND ITS OTW FACILITIES

Pocono Downs live race meet, which runs from April to November, consisted of 130 race days in 1999 compared to 135 races days in 1998. Revenues at Pocono Downs increased by \$0.7 million, or 2.0%, to \$36.3 million in 1999 from \$35.6 million in 1998. The increase resulted from a full year of operations at the Carbondale (\$1.4 million) and Hazleton (\$0.8 million) OTWs, which was partially offset by a decrease in revenue at the Pocono Downs Racetrack (\$1.0 million). The decrease was due to the close proximity of the two new OTWs to the track. Revenue also decreased at the racetrack due to a 7.1% decrease in export simulcast wagering on Pocono live races due to the temporary closing of the barn area during the winter to accommodate improvements we made to the track that resulted in

starting the racing season with a shortage of horses. Expenses increased by approximately \$0.7 million, or 2.4%, to \$29.5 million in 1999 from \$28.8 million in 1998.

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 our 1997 senior notes, we completed our investment in Pennwood Racing, Inc., our New Jersey joint venture. Pennwood operates Freehold Raceway and Garden State Park. Summarized results of operations of the unconsolidated joint venture (commencing on July 30, 1999) for the period ended December 31, 1999 include \$28.0 million in revenue, \$23.0 million in operating expenses, \$5.0 million in EBITDA and net income of \$2.2 million. Our 50% share of the net income, or \$1.1 million, is recorded as other revenues on the income statement.

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash provided by operating activities was \$42.0 million for the year ended December 31, 2000. This consisted of net income (\$12.0 million), non-cash items (\$24.5 million) and increases in balance sheet accounts (\$5.5 million) related primarily to the Mississippi acquisitions.

Cash flows used in investing activities totaled \$230.3 million for the year ended December 31, 2000. The acquisitions of the Mississippi properties (\$197.2 million) and the remaining 11% minority interest in Charles Town (\$5.8 million) totaled \$203.0 million. Expenditures for property, plant and equipment totaled \$27.3 million and included the construction of the East Stroudsburg OTW facility (\$2.1 million), the OK Corral slots center at Charles Town (\$8.8 million), new gaming machines and a player tracking system at Charles Town (\$7.6 million), office expansion at Charles Town (\$1.2 million), land and building acquisitions at Charles Town (\$1.0 million), new hotel planning and design at Casino Magic (\$1.3 million), other projects (\$0.3 million) and maintenance capital expenditures (\$5.0 million).

Cash flows from financing activities provided net cash of \$202.1 million in 2000. This cash flow consisted of proceeds from the exercise of options to purchase our common stock of \$1.0 million and borrowings under our new credit facility of \$323.4 million. The proceeds from our new credit facility were used to repay certain existing long-term debt (\$105.2 million), pay the senior note tender fees (\$6.7 million) and financing costs associated with the new credit facility (\$10.4 million), and to consummate the acquisition of our Mississippi properties.

CAPITAL EXPENDITURES

The following table summarizes our planned capital expenditures, other than maintenance capital expenditures, by property level for fiscal years 2001 and 2002:

PROPERTY	YEAR ENDED DECEMBER 31,	
	2001	2002
	----- (IN THOUSANDS) -----	
Charles Town Entertainment Complex.....	\$ 9,200	\$34,000
Casino Magic Bay St. Louis.....	18,500	16,500
Boomtown Biloxi.....	2,000	--
Casino Rouge.....	2,000	5,000
Pennsylvania Racetracks and OTW's.....	800	--
	-----	-----
Totals.....	\$32,500	\$55,500
	-----	-----

Beginning in late 2000 and continuing through the end of 2002, we expect to expend significant amounts on capital expenditures at the Charles Town Entertainment Complex and Casino Magic Bay St. Louis. At Charles Town, we expect to spend approximately \$43.2 million on capital expenditures through 2002. Specifically, we expect to construct a structured parking facility, at an estimated cost of \$9.0 million, and a 300-room hotel with meeting and conference facilities, at an estimated cost of \$25.0 million, and expand the gaming and entertainment facility at Charles Town, at an estimated cost of \$9.2 million.

At Casino Magic Bay St. Louis, our capital expenditures in 2001 and 2002 are anticipated to be approximately \$35.0 million. We expect to construct a 300-room hotel with meeting and conference facilities, at an estimated cost of \$30.0 million and three new restaurant venues, renovations to the existing buffet restaurant, and certain amenities to the gaming floor, at an estimated cost of \$5.0 million.

At the Boomtown Biloxi property, we do not expect to incur significant capital expenditures. However, we are presently exploring a buy-out of the existing ground lease at the Boomtown Biloxi property; if we are successful, we would consider additional expansion opportunities, which could include structured parking at the facility and a hotel. At Casino Rouge, we anticipate spending approximately \$6.5 million to construct an entertainment facility at the property. At our Pennsylvania racetracks and OTWs, we do not expect to incur significant capital expenditures.

CREDIT FACILITY

On August 8, 2000, we entered into a \$350 million senior secured credit facility with a syndicate of lenders led by Lehman Brothers Inc. and CIBC World Markets Corp. that replaced our then-existing credit facilities. The credit facility is comprised of a \$75 million revolving credit facility maturing on August 8, 2005, a \$75 million Tranche A term loan maturing on August 8, 2005 and a \$200 million Tranche B term loan maturing on August 8, 2006. Up to \$10 million of the revolving credit facility may be used for the issuance of standby letters of credit, of which \$2.0 million was outstanding as of September 30, 2000. In addition, up to \$10 million of the revolving credit facility may be used for short-term credit to be provided to us on a same-day basis, which must be repaid within five days.

At our option, the revolving credit facility and the Tranche A term loan may bear interest at (1) the highest of 1/2 of 1% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 2.25%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 3.25%, in either case with the applicable rate based on our total leverage. At our option, the Tranche B term loan may bear interest at (1) the highest of 1/2 of 1% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 3.25%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 4.00%, in either case with the applicable rate based on our total leverage. The eurodollar rate is defined as the rate that appears on page 3750 of the Dow Jones Telerate Screen as of 11:00 a.m. London time two days before the applicable funding date (adjusted for statutory reserve requirements for eurocurrency liabilities) at which eurodollar deposits for one, two, three or six months, as selected by us, are offered in the interbank eurodollar market. At December 31, 2000, our applicable Tranche A and Tranche B loan rates were 9.89% and 10.64%, respectively. In addition, as of December 22, 2000, we have entered into a \$100.0 million interest rate swap contract obligating us to pay a fixed rate of 5.825% for three years against the 90-day eurodollar rate.

As of December 31, 2000, \$71.3 million was outstanding on the Tranche A term loan, \$199.0 million was outstanding on the Tranche B term loan and \$39.0 million was outstanding under the revolving credit portion of the facility. Proceeds from the credit facility to date have been used to

finance the acquisition of the Mississippi properties, to replace our existing term loan and revolving credit facilities, to complete a tender offer for our 1997 senior notes and for working capital purposes.

SENIOR SUBORDINATED NOTES

On March 12, 2001, we completed the sale of \$200 million in aggregate principal amount of 11 1/8% Senior Subordinated Notes due March 1, 2008. The proceeds of the notes will be used, in part, to finance the consummation (subject to certain conditions) of our pending CRC acquisition, including the completion of our tender offer for the LCCI notes. If we do not consummate the CRC acquisition by October 31, 2001, we will use the entire proceeds of the offering to repay outstanding term loan indebtedness under our senior credit facility. Pending the anticipated closing of the CRC acquisition, the net proceeds from our senior subordinated note offering are being invested in interest bearing cash equivalents. Accordingly, until such time as the proceeds are used to consummate the CRC acquisition or repay amounts outstanding under our senior credit facility, we will incur the net interest cost of the senior subordinated notes without the benefit of either the cash flow we expect to derive from the CRC operations or the reduction in the outstanding amounts under the senior credit facility. The after-tax net interest expense on the senior subordinated notes is expected to impact our operating results by approximately \$23,000 a day, beginning March 12, 2001 and until the consummation of CRC or the repayment of indebtedness under the credit facility.

The senior subordinated notes rank equally with our other future senior indebtedness and junior to our senior debt, including debt under our senior secured credit facility. The senior subordinated notes are guaranteed by all of our current and future wholly owned domestic subsidiaries. The senior subordinated notes will not be registered under the Securities Act of 1933 and may not be offered or sold in the United States absent registration or an applicable exemption from the registration requirements of the Securities Act of 1933. It is anticipated that we will file a registration statement under the Securities Act of 1933 to effect an exchange offer of registered senior subordinated notes.

CONTINGENT OBLIGATIONS

In connection with our 50% ownership interest in Pennwood Racing, we have agreed to guarantee up to 50% of certain obligations of the New Jersey joint venture. These obligations include, but are not limited to, rent, real estate taxes, insurance and utilities under a seven year lease at Garden State Park expiring January 2006, subject to the termination of the lease on May 31, 2001; a \$10 million contingent purchase price due to International Thoroughbred Breeders, former owner of certain of the joint venture's assets, if the joint venture receives various approvals for off-track wagering or phone betting in New Jersey; and the obligations of the joint venture under its \$23 million credit facility with Commerce Bank, N.A.

OUTLOOK

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

On December 20, 2000, we entered into an interest rate swap agreement with a financial institution in the notional amount of \$100 million. The interest rate swap agreement hedges our exposure on our outstanding floating rate obligations, which were \$309,250,000 at December 31, 2000. The purpose of the interest rate swap is to convert a portion of our floating rate interest obligations to obligations having a fixed rate of 5.835% plus an applicable margin up to 4.00% per annum through December 20, 2003. The fixing of interest rates reduces in part our exposure to the uncertainty of floating interest rates. The differentials paid or received by us on the interest rate swap agreement is recognized as adjustments to interest expense in the period incurred. For the year ended December 31, 2000, we reduced interest expense by approximately \$16,000 as a result of the interest rate swap agreement. We are exposed to credit loss in the event of nonperformance by our counter party to the interest rate swap agreement. We do not anticipate nonperformance by such financial institution, and no material loss would be expected from the nonperformance of such financial institution. Our interest rate swap agreement expires in December 2003.

For the period from August 8, 2000 to December 20, 2000, we had approximately \$309,250,000 of variable rate debt not covered by the interest rate swap agreement. Based on average floating rate borrowings outstanding for the period from August 8, 2000 to December 20, 2000, a 100 basis point change in LIBOR would have caused our interest expense to change by approximately \$1,073,000.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Penn National Gaming, Inc. and subsidiaries
Wyomissing, Pennsylvania

We have audited the accompanying consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 1999 and 2000, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Penn National Gaming, Inc. and subsidiaries at December 31, 1999 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

\s\ BDO Seidman, LLP

BDO Seidman, LLP

Philadelphia, Pennsylvania
March 12, 2001

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

DECEMBER 31,	1999	2000
-----	-----	-----
(In thousands, except share and per share data)		
Assets		
Current assets		
Cash and cash equivalents.....	\$ 9,434	\$ 23,287
Accounts receivable.....	4,779	10,341
Prepaid expenses and other current assets.....	1,793	5,312
Prepaid income taxes.....	1,088	1,905
	-----	-----
Total current assets.....	17,094	40,845
	-----	-----
Property, plant and equipment, at cost		
Land and improvements.....	27,988	81,177
Building and improvements.....	70,870	142,753
Furniture, fixtures and equipment.....	36,195	79,606
Transportation equipment.....	860	1,015
Leasehold improvements.....	9,802	11,704
Construction in progress.....	1,980	3,643
	-----	-----
	147,695	319,898
Less accumulated depreciation and amortization.....	20,824	31,582
	-----	-----
	126,871	288,316
	-----	-----
Other assets		
Investment in and advances to unconsolidated affiliate....	12,862	14,584
Cash in escrow.....	5,000	5,107
Excess of cost over fair market value of net assets acquired net of accumulated amortization of \$2,611 and \$3,858, respectively.....	21,582	78,161
Deferred financing costs, net.....	5,014	9,585
Miscellaneous.....	1,289	3,302
	-----	-----
Total other assets.....	45,747	110,739
	-----	-----
	\$189,712	\$439,900
	-----	-----
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt.....	\$ 5,160	\$ 11,390
Accounts payable.....	10,210	18,436
Purses due horsemen.....	2,114	2,262
Uncashed pari-mutuel tickets.....	1,351	1,393
Accrued expenses.....	2,694	6,913
Accrued interest.....	433	1,289
Accrued salaries and wages.....	1,098	3,957
Customer deposits.....	800	834
Taxes, other than income taxes.....	1,491	2,816
	-----	-----
Total current liabilities.....	25,351	49,290
	-----	-----
Long-term liabilities		
Long-term debt, net of current maturities.....	86,053	297,909
Deferred income taxes.....	12,036	13,480
	-----	-----
Total long-term liabilities.....	98,089	311,389
	-----	-----
Commitments and contingencies		
Shareholders' equity		
Preferred stock, \$.01 par value, authorized 1,000,000 shares; no shares issued.....	--	--
Common stock, \$.01 par value, authorized 20,000,000 shares; shares issued and outstanding 15,314,175 and 15,459,175, respectively.....	153	155
Treasury stock, at cost 424,700 shares.....	(2,379)	(2,379)
Additional paid-in capital.....	38,527	39,482
Retained earnings.....	29,971	41,963
	-----	-----
Total shareholders' equity.....	66,272	79,221
	-----	-----
	\$189,712	\$439,900
	-----	-----

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED DECEMBER 31,	1998	1999	2000
-----	-----	-----	-----
(In thousands, except per share data)			
Revenues			
Gaming.....	\$ 37,665	\$ 55,415	\$159,589
Racing.....	106,850	102,827	113,230
Other.....	9,550	13,216	21,304
	-----	-----	-----
Total revenues.....	154,065	171,458	294,123
	-----	-----	-----
Operating expenses			
Gaming.....	26,544	34,951	94,087
Racing.....	70,303	68,808	77,063
Other.....	8,080	11,173	18,776
General and administrative.....	23,932	30,030	44,716
Depreciation and amortization.....	5,748	8,679	13,594
	-----	-----	-----
Total operating expenses.....	134,607	153,641	248,236
	-----	-----	-----
Income from operations.....	19,458	17,817	45,887
Other income (expense)			
Interest expense.....	(8,374)	(8,667)	(19,089)
Interest income.....	825	1,368	1,875
Other.....	113	(8)	39
	-----	-----	-----
Total other expense.....	(7,436)	(7,307)	(17,175)
	-----	-----	-----
Income before income taxes and extraordinary item.....	12,022	10,510	28,712
Taxes on income.....	4,519	3,777	10,137
	-----	-----	-----
Income before extraordinary item.....	7,503	6,733	18,575
Extraordinary item, loss on early extinguishment of debt, net of income taxes of \$4,615.....	--	--	6,583
	-----	-----	-----
Net income.....	\$ 7,503	\$ 6,733	\$ 11,992
	-----	-----	-----
Per share data			
Basic			
Income before extraordinary item.....	\$.50	\$.45	\$ 1.24
Extraordinary item.....	--	--	(.44)
	-----	-----	-----
Net income.....	\$.50	\$.45	\$.80
	=====	=====	=====
Diluted			
Income before extraordinary item.....	\$.49	\$.44	\$ 1.20
Extraordinary item.....	--	--	(.42)
	-----	-----	-----
Net income.....	\$.49	\$.44	\$.78
	=====	=====	=====
Weighted shares outstanding			
Basic.....	15,015	14,837	14,968
Diluted.....	15,374	15,196	15,443

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	COMMON STOCK		TREASURY STOCK	ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT				
(In thousands, except share data)						
Balance, December 31, 1997.....	15,152,580	\$152	\$ --	\$37,969	\$15,735	\$53,856
Exercise of stock options and warrants.....	11,500	--	--	56	--	56
Acquisition of treasury stock.....	--	--	(2,379)	--	--	(2,379)
Net income for the year.....	--	--	--	--	7,503	7,503
Balance, December 31, 1998.....	15,164,080	152	(2,379)	38,025	23,238	59,036
Exercise of stock options and warrants.....	150,095	1	--	502	--	503
Net income for the year.....	--	--	--	--	6,733	6,733
Balance, December 31, 1999.....	15,314,175	153	(2,379)	38,527	29,971	66,272
Exercise of stock options.....	145,000	2	--	955	--	957
Net income for the year.....	--	--	--	--	11,992	11,992
Balance, December 31, 2000.....	15,459,175	\$155	\$(2,379)	\$39,482	\$41,963	\$79,221

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEAR ENDED DECEMBER 31, ----- (In thousands)	1998 -----	1999 -----	2000 -----
Cash flows from operating activities			
Net income.....	\$ 7,503	\$ 6,733	\$ 11,992
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization.....	5,748	8,679	13,594
Write-off of deferred financing costs.....	376	--	--
Income from unconsolidated affiliates.....	--	(1,098)	(1,722)
Extraordinary loss on early extinguishment of debt, before income tax benefit.....	--	--	11,198
Deferred income taxes.....	390	1,023	1,444
Decrease (increase) in			
Accounts receivable.....	(1,583)	(939)	(5,562)
Prepaid expenses and other current assets.....	(690)	338	(3,752)
Prepaid income taxes.....	2,144	(229)	(817)
Miscellaneous other assets.....	(463)	(202)	(2,025)
Increase (decrease) in			
Accounts payable.....	(1,188)	3,993	8,226
Purses due horsemen.....	887	1,227	148
Uncashed pari-mutuel tickets.....	93	(246)	42
Accrued expenses.....	(1,364)	1,631	4,219
Accrued interest.....	142	(35)	856
Accrued salaries and wages.....	(61)	346	2,859
Customer deposits.....	78	252	34
Taxes, other than income taxes.....	(146)	988	1,325
Net cash provided by operating activities.....	11,866	22,461	42,059
Cash flows from investing activities			
Expenditures for property, plant and equipment.....	(22,333)	(13,243)	(27,295)
Proceeds from sale of property and equipment.....	--	--	151
Investment in and advances to unconsolidated affiliate....	--	(11,764)	--
Acquisition of business, net of cash acquired.....	--	251	(203,030)
Increase in cash in escrow.....	--	(5,000)	(107)
Net cash used in investing activities.....	(22,333)	(29,756)	(230,281)
Cash flows from financing activities			
Proceeds from exercise of options and warrants.....	56	503	957
Acquisition of treasury stock.....	(2,379)	--	--
Proceeds from long-term debt.....	9,000	24,350	323,395
Principal payments on long-term debt.....	(11,080)	(11,393)	(105,185)
Increase in unamortized financing cost.....	(158)	(3,557)	(10,407)
Payment of tender fees on senior notes.....	--	--	(6,685)
Net cash provided by (used in) financing activities.....	(4,561)	9,903	202,075
Net increase (decrease) in cash and cash equivalents.....	(15,028)	2,608	13,853
Cash and cash equivalents at beginning of year.....	21,854	6,826	9,434
Cash and cash equivalents at end of year.....	\$ 6,826	\$ 9,434	\$ 23,287
	=====	=====	=====

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BUSINESS

Penn National Gaming, Inc. (the "Company") owns and operates the Charles Town Entertainment Complex in Charles Town, West Virginia, which features 1,974 gaming machines and live thoroughbred racing; two Mississippi casinos: the Casino Magic Bay St. Louis casino, hotel, golf resort and marina in Bay St. Louis, and the Boomtown Biloxi casino in Biloxi; and two racetracks and eleven off-track wagering (OTW) facilities located in Pennsylvania. The Company expects (subject to certain conditions) to complete the acquisition of CRC Holdings, Inc. ("CRC") and the minority interest in Louisiana Casino Cruises, Inc. ("LCCI") not currently owned by CRC in 2001. LCCI owns and operates the Casino Rouge, a riverboat gaming facility in Baton Rouge, Louisiana and CRC has a management contract for the operation of Casino Rama, a casino located approximately ninety miles north of Toronto, Canada on the Chippewas of Mnjikaning First Nation land.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

DEPRECIATION AND AMORTIZATION

Depreciation of property, plant and equipment and amortization of leasehold improvements are computed by the straight-line method at rates adequate to allocate the cost of applicable assets over their estimated useful lives ranging from three to forty years. The excess of cost over fair value of net assets acquired is being amortized on the straight-line method over forty years.

The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable based on undiscounted estimated future operating cash flows. As of December 31, 2000, the Company has determined that no impairment has occurred.

GAMING REVENUES AND PROMOTIONAL ALLOWANCES

In accordance with common industry practice, casino revenues are the net of gaming wins less losses. Revenues exclude the retail value of complimentary rooms, food and beverage furnished gratuitously to customers. The estimated cost of providing these promotional allowances (which are included in gaming expenses) during the year ended December 31, 2000 was \$8,806,000. These complimentary items were not significant to the Company's total revenues prior to 2000 when the Company operated primarily as a pari-mutual company.

INCOME TAXES

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

CUSTOMER DEPOSITS

Customer deposits represent amounts held by the Company for telephone wagering.

CASH AND CASH EQUIVALENTS

The Company considers all cash balances and highly liquid investments with original maturities of three months or less to be cash equivalents.

NET INCOME PER COMMON SHARE

Basic net income per share includes no dilution and is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Dilutive net income per share reflects the potential dilution of net income per share that could result upon the exercise of outstanding stock options to purchase the Company's common stock (using the treasury stock method).

DEFERRED FINANCING COSTS

Deferred financing costs which are incurred by the Company in connection with the issuance of debt are deferred and amortized to income over the life of the underlying indebtedness using the interest method adjusted to reflect any early repayments.

CONCENTRATION OF CREDIT RISK

Financial instruments that potentially subject the Company to credit risk consist of cash equivalents and accounts receivable.

The Company's policy is to limit the amount of credit exposure to any one financial institution and place investments with financial institutions evaluated as being creditworthy, or in short-term money market and tax-free bond funds which are exposed to minimal interest rate and credit risk. At December 31, 2000, the Company had bank deposits which exceeded federally insured limits by approximately \$2,753,000 and money market and tax-free bond funds of approximately \$2,517,000.

Concentration of credit risk, with respect to accounts receivable, is limited through the Company's credit evaluation process. The Company does not require collateral on its receivables. The Company's receivables consist principally of amounts due from other racetracks and their OTWs. Historically, the Company has not incurred any significant credit-related losses.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practical to estimate:

Cash and Cash Equivalents: The carrying amount approximates the fair value due to the short maturity of the cash equivalents.

Long-Term Debt: The fair value of the Company's long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The carrying amount approximates fair value since the Company's interest rates approximate current interest rates.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements,

and the reported amounts of revenue and expenses for the reporting periods. Actual results could differ from those estimates.

INTEREST RATE SWAPS

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

The Company currently uses interest rate swaps to assist in managing interest incurred on its long-term debt. The difference between amounts received and amounts paid under such agreements, as well as any costs or fees, is recorded as a reduction of, or addition to, interest expense as incurred over the life of the swap or similar financial instrument. On December 20, 2000, the Company entered into a forward interest rate swap with a notional amount of \$100 million, which has an effective date of December 22, 2000 and a termination date of December 22, 2003. Under this agreement, the Company pays a fixed rate of 5.835% against a variable interest rate based on the 90-day eurodollar rate. At December 31, 2000, the 90 day eurodollar rate was 6.5%.

RECENT ACCOUNTING STANDARDS

In March 2000, the Financial Accounting Standards Board issued Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation", an interpretation of Accounting Principles Board Opinion No. 25 ("APB 25"). FIN 44 clarifies the application of APB 25 for (a) the definition of employee for purposes of applying APB 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequences of various modifications to the previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. The Company's adoption of FIN 44 in fiscal 2000 did not have a material effect on the Company's financial statements.

In December 1999, the Securities and Exchange Commission ("SEC") issued Staff Accounting Bulletin No. 101, which summarizes certain of the SEC staff's accounting principles for revenue recognition in financial statements. The adoption of this guidance did not have a material impact on the Company's results of operations or financial position.

2. ACQUISITIONS

MISSISSIPPI ACQUISITIONS

On December 10, 1999, the Company entered into definitive agreements to purchase all of the assets of the Casino Magic Bay St. Louis casino, hotel, golf resort, recreational vehicle park and marina in Bay St. Louis, Mississippi and the Boomtown Biloxi casino in Biloxi, Mississippi, from Pinnacle Entertainment, Inc. (formerly Hollywood Park, Inc.) for \$195 million. The purchase price was funded with a portion of the proceeds from our \$350 million Senior Secured Credit Facility. In addition to acquiring all of the operating assets and related operations of the Casino Magic Bay St. Louis and Boomtown Biloxi properties, the Company entered into a licensing agreement to use the Boomtown and Casino Magic names and marks at the properties being acquired. The Company accounted for

these acquisitions as a purchase in accordance with Accounting Principles Board Opinion No. 16. On August 8, 2000, the Mississippi Acquisitions were consummated. Included in the consolidated statement of income are the operations of the Mississippi properties from August 8, 2000 through December 31, 2000.

Unaudited pro forma financial information for the years ended December 31, 2000 and 1999, as though the Mississippi Acquisitions had occurred on January 1, 1999, is as follows:

	1999	2000
	-----	-----
Revenues.....	\$328,179	\$391,836
Income before extraordinary item.....	\$ 8,601	\$ 19,574
Extraordinary item, net of income tax benefit.....	--	(6,583)
Net income.....	\$ 8,601	\$ 12,991
Net income per common share		
Basic.....	\$.58	\$.87
Diluted.....	\$.57	\$.84
Weighted shares outstanding		
Basic.....	14,837	14,968
Diluted.....	15,196	15,443

CHARLES TOWN MINORITY INTEREST

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 the Charles Town Entertainment Complex, for \$6.0 million in cash. The investment is recorded net of the minority interest tax liability of \$155,000 or \$5.845 million. As a result of the purchase, PNGI Charles Town Gaming Limited Liability Company is now a 100% owned subsidiary of the Company.

3. LONG-TERM DEBT

Long-term debt is as follows:

DECEMBER 31,	1999	2000
-----	-----	-----
\$350 million senior secured credit facility. This credit facility is secured by substantially all of the assets of the Company.....	\$ --	\$309,250
\$80 million Senior Notes, due December 15, 2004 with interest at 10.625% per annum payable semi-annually. The notes are unsecured and are unconditionally guaranteed by certain subsidiaries of the Company.....	69,000	--
Revolving credit facility payable to a bank group.....	12,900	
Term loan payable to a bank group due on December 31, 2002 with interest at various rates. This note is secured by certain assets of the Company.....	9,100	
Other notes payable.....	213	49
	-----	-----
	91,213	309,299
Less current maturities.....	5,160	11,390
	-----	-----
	\$ 86,053	\$297,909
	-----	-----

CREDIT FACILITY

On August 8, 2000, the Company entered into a \$350 million senior secured credit facility with Lehman Brothers, Inc. and CIBC World Markets Corp. as co-arrangers, among others. The proceeds of the credit facility were used to finance the Mississippi Acquisitions, to pay off the Company's existing long-term debt and for working capital purposes. The credit facility provides for a \$75 million revolving credit facility maturing on August 8, 2005, a \$75 million Tranche A term loan maturing on August 8, 2005 and a \$200 million Tranche B term loan maturing on August 8, 2006. The Company is required to repay the principal balance of the debt based upon a payment as stipulated in the loan agreement.

At the Company's option, the revolving credit facility and the Tranche A term loan may bear interest at (1) the highest of 1/2 of 1% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 2.25%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 3.25%. At the Company's option, the Tranche B term loan may bear interest at (1) the highest of 1/2 of 1% in excess of the federal funds effective rate or the rate that the bank group announces from time to time as its prime lending rate plus an applicable margin of up to 3.25%, or (2) a rate tied to a eurodollar rate plus an applicable margin up to 4.00%. The credit facility provides for certain covenants, including those of a financial nature. Substantially all of the Company's assets are pledged as collateral under the credit agreement.

The weighted average effective interest rate at December 31, 2000 was 10.5%.

The outstanding amounts under the credit facility as of December 31, 2000 (in thousands) are as follows:

Revolving credit facility.....	\$ 39,000
Tranche A.....	71,250
Tranche B.....	199,000

Total.....	\$309,250

As a result of the refinancing, the Company charged to operations deferred financing costs of \$4,513,000 related to the repayment of existing outstanding debt. In addition, the Company paid a tender premium of \$6,685,000. The total, \$11,198,000 has been reflected as an extraordinary item, net of an income tax benefit of \$4,615,000 in the consolidated statement of income for the year ended December 31, 2000.

The following is a schedule of future minimum repayments of long-term debt as of December 31, 2000:

DECEMBER 31,
(In thousands)

2001.....	\$ 11,390
2002.....	15,140
2003.....	18,894
2004.....	22,625
2005.....	107,250
Thereafter.....	134,000

Total minimum payments.....	309,299
Current maturities.....	11,390

Total noncurrent maturities.....	\$297,909

At December 31, 2000, the Company was contingently obligated under letters of credit issued pursuant to the senior secured credit facility with face amounts aggregating \$2,055,500.

4. COMMITMENTS AND CONTINGENCIES

OPERATING LEASES

The Company is liable under numerous operating leases for automobiles, other equipment and buildings, which expire through 2007. Total rental expense under these agreements was \$1,169,000, \$1,296,000 and \$2,054,000 for the years ended December 31, 1998, 1999, and 2000, respectively.

The future lease commitments relating to noncancelable operating leases as of December 31, 2000 are as follows:

(IN THOUSANDS)

2001.....	\$ 3,241
2002.....	2,927
2003.....	2,620
2004.....	1,962
2005.....	915
Thereafter.....	942

	\$12,607

In addition, the Company leases land for use by Boomtown Biloxi. The lease term is 99 years and is cancelable upon one year's notice. The lease called for an initial deposit by the Company of \$2,000,000 and for annual base lease rent payments of \$2,000,000 and percentage rent equal to 5.0% of adjusted gaming win (as defined in the lease) over \$25,000,000.00 and 6.0% of the amount by which the adjusted gaming win exceeds \$50,000,000. During the period from August 8, 2000 to December 31, 2000, the Company paid lease rent under this agreement of \$1,281,000.

OPTION TO MANAGE THE CHARLES TOWN ENTERTAINMENT COMPLEX

The Company acquired the Charles Town Entertainment Complex by exercising an option previously held by a subsidiary of Showboat, Inc., now a wholly owned subsidiary of Harrah's Entertainment, Inc. In assigning the option, Showboat retained the right to operate a casino at the Charles Town Entertainment Complex in return for a management fee, to be negotiated at the time of exercise, based on reasonable rates payable for similar properties. The express terms of the Showboat option do not specify what activities at the Charles Town Entertainment Complex would constitute operation of a casino. The Company does not believe that its installation and operation of gaming devices linked to the West Virginia lottery at the Charles Town Entertainment Complex constitutes the operation of a casino under the Showboat option or under West Virginia law or triggers Showboat's right to exercise the Showboat option. The rights under the Showboat option extend until November 2001.

POCONO DOWNS COMMITMENT

Pursuant to the terms of the Pocono Downs purchase agreement dated November 27, 1996, the Company will be required to pay the sellers of Pocono Downs an additional \$10 million if, within five years after the consummation of the Pocono Downs acquisition, Pennsylvania authorizes any additional form of gaming in which the Company may participate. The \$10 million payment would be payable in annual installments of \$2 million for five years, beginning on the date that the Company first offers such additional form of gaming.

PROFIT SHARING PLANS

The Company has profit sharing plans under the provisions of Section 401(k) of the Internal Revenue Code that cover all eligible employees who are not members of a bargaining unit. The plans enable employees choosing to participate to defer a portion of their salary in a retirement fund to be administered by the Company. The Company's contributions to the plans are set at 50% of employees' elective salary deferrals up to a maximum of 6% of employee compensation. The Company also has a defined contribution plan called the Charles Town Races Future Service Retirement Plan covering substantially all of its union employees at the Charles Town Entertainment Complex. The Company makes monthly contributions equal to the amount accrued for retirement expense, which is calculated as .25% of the daily mutual handle and .5% of the net video lottery revenues. Total contributions to the plans for the years ended December 31, 1998, 1999 and 2000 were \$357,000, \$408,000 and \$1,096,000, respectively.

AGREEMENTS WITH HORSEMEN AND PARI-MUTUEL CLERKS

The Company has agreements with the horsemen at each of the racetracks. The continuation of these agreements is required to allow the Company to conduct live racing and export and import simulcasting. In addition, the simulcasting agreements are subject to the horsemen's approval.

On March 23, 1999, the Company entered into a new four-year, nine-month purse agreement with the Horsemen's Benevolent and Protection Association, which represents the horsemen at the Company's Penn National Race Course facility in Grantville, Pennsylvania. The agreement ended an action by the horsemen which began on February 16, 1999 and caused the Company to close Penn National Race Course and its six affiliated OTWs. As a result of the action the Company incurred a nonrecurring \$1,250,000 expense, primarily related to costs incurred to maintain the closed facilities inclusive of employee salaries and rents, for Horsemen's Action Expense. The initial term of the agreement ends on January 1, 2004 and automatically renews for another two year period, without change, unless notice is given by either party at least ninety days prior to the end of the initial term.

On December 17, 1999, the Company entered into a new three-year purse agreement with the Pennsylvania Harness Horsemen's Association, Inc. which represents the owners, trainers, and drivers at the Company's The Downs Racing, Inc. facility in Wilkes-Barre, Pennsylvania. The contract term begins on January 16, 2000 and ends on January 15, 2003. The Company also has an agreement with the Charles Town Horsemen that expires on December 31, 2002.

In addition to the horsemen agreements, in order to operate gaming machines in West Virginia, the Company is required to enter into written agreements regarding the proceeds of the gaming machines at the Charles Town Entertainment Complex with the pari-mutuel clerks at Charles Town. The agreement with the pari-mutuel clerks at Charles Town expires on December 31, 2004.

CRC HOLDINGS, INC. ACQUISITION

On July 31, 2000, the Company entered into a definitive agreement to acquire the gaming assets of CRC which does business as Carnival Resorts and Casinos for \$95.8 million and the assumption of approximately \$32 million in net debt (the "CRC Acquisition"). CRC is an experienced operator of gaming facilities and the owner of approximately 59% of LCCI, the owner and operator of the Casino Rouge, a riverboat gaming facility located on the east bank of the Mississippi River in Baton Rouge, Louisiana. The Company also entered into a definitive agreement with the minority owners of LCCI to acquire their approximately 41% stake for \$32.5 million. CRC also has a management contract to operate the Casino Rama casino through 2011. Casino Rama is located approximately 90 miles north of Toronto, Canada, in Orillia, Canada, on land owned by the Chipewas of Mnjikaning First Nation. Under the terms of the agreement, CRC will divest all of its nongaming related assets prior to closing. The transaction, expected to close in 2001, is subject to regulatory and other approvals in both Louisiana and Canada, financing, the expiration of the applicable Hart-Scott-Rodino waiting period and other customary closing conditions. The Company expects to finance the acquisition with proceeds from its senior subordinated notes offering. See Note 12, Subsequent Events.

NEW JERSEY JOINT VENTURE

On January 28, 1999, the Company, along with its Joint Venture partner, Greenwood New Jersey, Inc. ("Greenwood") agreed to purchase certain assets of the Garden State Race Track and Freehold Raceway, both located in New Jersey (the "Acquisition"). The partners each received a 50% ownership interest in the joint venture.

The purchase price for the Acquisition was approximately \$46 million and consisted of \$23 million in cash and \$23 million pursuant to two deferred purchase price promissory notes.

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; (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, 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 Company's investment in the Joint Venture is accounted for under the equity method. The original investment was recorded at cost and adjusted by the Company's share of income or losses of the Joint Venture. The Company's 50% share of the income of the Joint Venture is included in other revenues in the accompanying Consolidated Statements of Income for the years ended December 31, 1999 and 2000.

Summarized balance sheet information for the Joint Venture as of December 31, 1999 and 2000 is as follows (in thousands):

	1999	2000
	-----	-----
Current assets.....	\$ 7,324	\$12,122
Property, plant and equipment, net.....	30,786	29,818
Other.....	18,158	16,435
	-----	-----
Total assets.....	\$56,268	\$58,375
	-----	-----
Current liabilities.....	\$ 7,453	\$ 8,698
Long-term liabilities.....	46,221	43,466
Members' equity.....	2,594	6,211
	-----	-----
Total liabilities and members' equity.....	\$56,268	\$58,375
	-----	-----

Summarized results of operations of the unconsolidated Joint Venture for the period July 30, 1999 through December 31, 1999 and for the year ended December 31, 2000 is as follows (in thousands):

	1999	2000
	-----	-----
Revenues.....	\$27,982	\$61,492
Operating expenses.....	23,005	48,771
	-----	-----
EBITDA*.....	4,977	12,721
	-----	-----
Net income.....	\$ 2,196	\$ 4,643
	-----	-----

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

5. INCOME TAXES

The provision for income taxes charged to operations was as follows:

YEAR ENDED DECEMBER 31, -----	1998	1999	2000
(in thousands)			
Current tax expense			
Federal.....	\$3,374	\$2,759	\$ 6,199
State.....	755	108	660
	-----	-----	-----
Total current.....	4,129	2,867	6,859
	-----	-----	-----
Deferred tax expense (benefit)			
Federal.....	378	1,227	3,447
State.....	12	(317)	(169)
	-----	-----	-----
Total deferred.....	390	910	3,278
	-----	-----	-----
Total provision.....	\$4,519	\$3,777	\$10,137
	-----	-----	-----

Net deferred tax liabilities are comprised of the following:

DECEMBER 31, -----	1999	2000
Deferred tax assets		
State net operating losses.....	\$ 888	\$ 2,027
	-----	-----
Deferred tax liabilities		
Property, plant and equipment.....	\$12,924	\$15,507
	-----	-----

The following is a reconciliation of the statutory federal income tax rate to the actual effective income tax rate for the following periods:

YEAR ENDED DECEMBER 31, -----	1998	1999	2000
Percent of pretax income			
Federal tax rate.....	34.0%	34.0%	34.0%
State and local income taxes, net of federal tax benefit.....	4.2	2.0	1.1
Permanent difference relating to amortization of goodwill.....	.4	.2	.1
Other miscellaneous items.....	(1.0)	(.3)	.1
	-----	-----	-----
	37.6%	35.9%	35.3%
	=====	=====	=====

6. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash paid during the year for interest was \$8,192,000, \$8,742,000 and \$18,426,000 in 1998, 1999 and 2000, respectively.

Cash paid during the year for income taxes was \$4,207,000, \$2,970,000 and \$3,886,000 in 1998, 1999 and 2000, respectively.

7. STOCK BASED COMPENSATION

In April 1994, the Company's Board of Directors and shareholders adopted and approved the Stock Option Plan (the "Plan"). The Plan permits the grant of options to purchase up to 3,000,000 shares of Common Stock, subject to antidilution adjustments, at a price per share no less than 100% of the fair market value of the Common Stock on the date an option is granted with respect to incentive

stock options only. The price would be no less than 110% of fair market value in the case of an incentive stock option granted to any individual who owns more than 10% of the total combined voting power of all classes of outstanding stock. The Plan provides for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, and nonqualified stock options which do not so qualify. Unless the Plan is terminated earlier by the Board of Directors, the Plan will terminate in April 2004.

Stock options that expire between May 26, 2001 and February 8, 2010 have been granted to officers and directors to purchase Common Stock at prices ranging from \$3.33 to \$17.63 per share. All options were granted at market prices at date of grant. The following table contains information on stock options issued under the Plan for the three-year period ended December 31, 2000:

	OPTION SHARES	EXERCISE PRICE PER SHARE RANGE	AVERAGE EXERCISE PRICE
	-----	-----	-----
Outstanding at January 1, 1998.....	1,040,500	\$3.33 to 17.63	\$ 7.31
Granted.....	195,000	6.44 to 15.50	9.06
Exercised.....	(11,500)	3.33 to 5.63	4.88
Canceled.....	(39,500)	5.63 to 15.50	13.36

Outstanding at December 31, 1998.....	1,184,500	3.33 to 17.63	9.50
Granted.....	149,500	6.88 to 9.13	6.98
Exercised.....	(27,000)	5.63	5.63
Canceled.....	(31,750)	5.63 to 15.50	13.40

Outstanding at December 31, 1999.....	1,275,250	3.33 to 17.63	7.27
Granted.....	294,500	8.12 to 17.31	9.65
Exercised.....	(145,000)	3.33 to 11.50	4.77
Canceled.....	(11,000)	8.25 to 12.37	10.36

Outstanding at December 31, 2000.....	1,413,750	\$3.33 to 17.63	\$ 8.01

In addition, 300,000 Common Stock options were issued to the Company's Chairman outside the Plan on October 23, 1996. These options were issued at \$17.63 per share and are exercisable through October 23, 2006.

Exercisable at year end:

	OPTION SHARES	EXERCISE PRICE PER SHARE RANGE	WEIGHTED AVERAGE EXERCISE PRICE
	-----	-----	-----
1998.....	1,034,666	\$3.33 to 17.63	\$ 8.36
1999.....	1,242,625	3.33 to 17.63	9.49
2000.....	1,228,792	3.33 to 17.63	10.03
	-----	-----	-----
Options available for future grant:....			1994 PLAN

2000.....			1,253,250

The following table summarizes information about stock options outstanding at December 31, 2000:

	EXERCISE PRICE RANGE		TOTAL
	\$3.33 TO \$5.58	\$5.58 TO \$17.63	\$3.33 TO \$17.63
Outstanding options			
Number outstanding at December 31, 2000.....	548,000	1,165,750	1,713,750
Weighted average remaining contractual life (years).....	3.26	5.62	4.86
Weighted average exercise price.....	\$ 3.92	\$ 12.40	\$ 9.69
Exercisable options			
Number outstanding at December 31, 2000.....	548,000	680,792	1,228,792
Weighted average exercise price.....	\$ 3.93	\$ 14.95	\$ 10.03

In accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), the Company has adopted fair value as the measurement basis for transactions in which the Company acquires goods or services from nonemployees in exchange for equity instruments. In addition, SFAS 123 also has certain disclosure provisions. Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employers" ("APB 25"), uses an intrinsic value based method of accounting. The Company has decided to continue to apply APB 25 for its stock-based employee compensation arrangements. Accordingly, no compensation cost has been recognized. Had compensation cost for the Company's employee stock option plan been determined based on the fair value at the grant date for awards under the plan consistent with the method of SFAS 123, the Company's net income and net income per share would have been as follows:

YEAR ENDED DECEMBER 31,	1998	1999	2000
Net income			
As reported.....	\$7,503,000	\$6,733,000	\$11,992,000
Pro forma.....	6,827,000	6,143,000	11,702,000
Basic net income per share			
As reported.....	\$.50	\$.45	\$.80
Pro forma.....	.45	.41	.78
Diluted net income per share			
As reported.....	\$.49	\$.44	\$.78
Pro forma.....	.44	.40	.76

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1998, 1999 and 2000: dividend yield of 0%; expected volatility of 35%; risk-free interest rate of 6%; and expected lives of five years. The effects of applying SFAS 123 in the above pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to 1995. Additional awards in future years are anticipated.

8. SHAREHOLDER RIGHTS PLAN

On May 20, 1998, the Board of Directors of the Company authorized and declared a dividend distribution of one Preferred Stock purchase right (the "Rights") for each outstanding share of the Company's common stock, par value \$.01 per share (the "Common Shares"), payable to shareholders of record at the close of business on March 19, 1999. Each Right entitles the registered holder to

purchase from the Company one one-hundredth of a share (a "Preferred Stock Fraction"), or a combination of securities and assets of equivalent value, at a purchase price of \$40.00 per Preferred Stock Fraction (the "Purchase Price"), subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") dated March 2, 1999 between the Company and Continental Stock Transfer and Trust Company as Rights Agent. All terms not otherwise defined herein are used as defined in the Rights Agreement.

The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock (the "Stock Acquisition Date"), announces a tender or exchange offer that will result in such person or group acquiring 20% or more of the outstanding common stock or is a beneficial owner of a substantial amount of Common Shares (at least 10%) whose ownership may have a material adverse impact ("Adverse Person") on the business or prospects of the Company. The Company will be entitled to redeem the Rights at a price of \$.01 per Right (payable in cash or stock) at any time until 10 days following the Stock Acquisition Date or the date on which a person has been determined to be an Adverse Person. If the Company is involved in certain transactions after the Rights become exercisable, a Holder of Rights (other than Rights owned by a shareholder who has acquired 15% or more of the Company's outstanding common stock or is determined to be an Adverse Person, which Rights become void) is entitled to buy a number of the acquiring company's Common Shares or the Company's common stock, as the case may be, having a market value of twice the exercise price of each Right. A potential dilutive effect may exist upon the exercise of the Rights. Until a Right is exercised, the holder will have no rights as a stockholder of the Company, including, without limitations, the right to vote as a stockholder or to receive dividends. The Rights are not exercisable until the Distribution Date and will expire at the close of business on March 18, 2009, unless earlier redeemed or exchanged by the Company.

9. LITIGATION SETTLEMENT

In December 1997, Amtote International, Inc. ("Amtote"), filed an action against the Company and the Charles Town Joint Venture in the United States District Court for the Northern District of West Virginia. In its complaint, Amtote stated that the Company and the Charles Town Joint Venture allegedly breached certain contracts with Amtote and its affiliates when it entered into a wagering services contract with a third party. On September 30, 1999, the United States District Court for the Northern District of West Virginia rendered a decision, which awarded liquidated damages to Amtote. On February 1, 2000, the Company and Amtote entered into a settlement agreement in which the Company paid Amtote, in full satisfaction of the judgement, the sum of \$1.5 million, which was recorded as an expense in 1999.

10. SUMMARIZED QUARTERLY DATA (UNAUDITED)

Following is a summary of the quarterly results of operations for the years ended December 31, 1999 and 2000:

IN THOUSANDS, EXCEPT PER SHARE AMOUNTS	FISCAL QUARTER			
	FIRST	SECOND	THIRD	FOURTH
1999				
Total revenues.....	\$32,789	\$45,383	\$47,567	\$45,719
Income from operations.....	1,865	6,000	6,346	3,605
Net income.....	22	2,539	2,838	1,333
Basic earnings per share.....	--	.17	.19	.09
Diluted earnings per share.....	--	.17	.19	.09
2000				
Total revenues.....	\$52,712	\$61,753	\$87,795	\$91,863
Income from operations.....	7,846	11,678	14,868	11,495
Net income (loss).....	3,619	6,226	(581)	2,728
Basic earnings (loss) per share.....	.24	.42	(.04)	.18
Diluted earnings (loss) per share.....	.24	.40	(.04)	.18

In accordance with gaming industry practice, total revenues for the first three quarters of 2000 have been adjusted since the filing of the Company's quarterly reports on Form 10Q to exclude the retail value of complimentary rooms, food and beverages furnished gratuitously to customers. These complimentary items were not significant to the Company's total revenues prior to 2000 when the Company operated primarily as a pari-mutuel company and thus, are included in total revenues for 1999.

11. SEGMENT INFORMATION

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

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

The table below presents information about reported segments:

Revenues YEAR ENDED DECEMBER 31, ----- (in thousands)	1998 -----	1999 -----	2000 -----
Gaming(1).....	\$ 56,883	\$ 80,015	\$191,495
Racing.....	99,196	93,031	104,258
Eliminations(2).....	(2,014)	(1,588)	(1,630)
Total.....	\$154,065	\$171,458	\$294,123

EBITDA YEAR ENDED DECEMBER 31, ----- (in thousands)	1998 -----	1999 -----	2000 -----
Gaming(1).....	\$ 3,448	\$ 8,628	\$38,988
Racing.....	21,758	17,868	20,493
Total.....	\$25,206	\$26,496	\$59,481

Total Assets AS OF DECEMBER 31, ----- (in thousands)	1999 -----	2000 -----
Gaming(1).....	\$280,270	\$673,682
Racing.....	89,744	91,756
Eliminations (2).....	(179,414)	(323,511)
	\$190,600	\$441,927

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

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

12. SUBSEQUENT EVENTS

SENIOR SUBORDINATED NOTES OFFERING

On March 12, 2001, the Company consummated an offering of \$200 million aggregate principal of 11 1/8% Senior Subordinated Notes due March 1, 2008. The proceeds of these notes will be used, in part, to finance the CRC acquisition; however, if the Company does not consummate the CRC acquisition by October 31, 2001, the Company will use the entire net proceeds of the offering to repay outstanding loan indebtedness under the Company's senior credit facility.

LCCI NOTES TENDER OFFER

On February 20, 2001, the Company commenced a cash tender offer to purchase all of the LCCI 11% Senior Secured Notes due 2005 (the "LCCI Notes") and a related consent solicitation to eliminate certain restrictive covenants and related provisions in the indenture pursuant to which the LCCI Notes were issued. The tender offer is scheduled to expire at 5:00 p.m., New York City time, on March 22, 2001 unless extended. The principal purpose of the tender offer is to acquire all of the outstanding LCCI Notes in connection with the CRC Acquisition. Consummation of the tender offer is conditioned upon closing of the CRC Acquisition. The tender offer and the consent solicitation are subject to the terms and conditions set forth in the Offer to Purchase and Consent Solicitation Statement and the related Consent and Letter of Transmittal that are being sent to all holders of LCCI Notes. Subject to

the terms and conditions of the tender offer and consent solicitation, the Company will make all payments promptly after the acceptance date.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item concerning directors is hereby incorporated by reference to the Company's definitive proxy statement for its 2001 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after December 31, 2000 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended.

The following table provides information regarding our executive officers as of March 15, 2001 (except as to Mr. DeSanctis):

NAME	AGE	POSITION
Peter M. Carlino.....	54	Chairman of the Board and Chief Executive Officer
William J. Bork.....	67	President, Chief Operating Officer and Director(1)
Kevin DeSanctis.....	48	President and Chief Operating Officer(2)
Robert S. Ippolito.....	49	Chief Financial Officer, Secretary and Treasurer
Joseph A. Lashinger, Jr.....	47	Vice President and General Counsel
Robert E. Abraham.....	48	Vice President/Controller
George A. Connolly.....	63	Vice President of Human Resources

(1) Upon Mr. DeSanctis' approval by applicable jurisdictions, Mr. Bork is expected to assume the title of President, Racing Division.

(2) Mr. DeSanctis will become President and Chief Operating Officer upon the receipt of necessary licensing and regulatory approval in applicable jurisdictions.

Our current executive officers, along with their backgrounds, are as follows:

PETER M. CARLINO. Mr. Carlino has served as our Chairman of the Board and Chief Executive Officer since April 1994, and has devoted a significant amount of time as a Director since 1991. From 1984 to 1994, Mr. Carlino devoted a substantial portion of his business time to developing, building and operating residential and commercial real estate projects located primarily in Central Pennsylvania. 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 and monitoring its operations. From 1972 until 1976, Mr. Carlino served as President of Mountainview Thoroughbred Racing Association, a subsidiary of Penn National.

WILLIAM J. BORK. Mr. Bork was elected President and a Director in June 1995. From 1987 to June 1995 he was Vice President for Ladbroke Racing Corporation. Prior to working with Ladbroke, Mr. Bork served as Vice President of Operations of racetracks previously owned by Ogden Corporation including Fairmount Park in Collinsville, Illinois; Mountaineer Park in Chester, West Virginia; Wheeling Downs in Wheeling, West Virginia; and Suffolk Downs in Boston, Massachusetts.

KEVIN DESANCTIS. In February 2001, Mr. DeSanctis joined the company. He will assume the titles of President and Chief Operating Officer upon the receipt of necessary licensing and regulatory approval in applicable jurisdictions. Prior to joining us, Mr. DeSanctis served from 1995 to 2000 as Chief Operating Officer, North America for Sun International Hotels Limited where he was responsible for complete oversight of day-to-day operations of the company's gaming properties in North America and the Bahamas. Prior to joining Sun International, Mr. DeSanctis' experience included management and pre-opening responsibilities for gaming operations in Las Vegas, Atlantic City, New Orleans and Colorado.

ROBERT S. IPPOLITO. Mr. Ippolito, a certified public accountant, was elected Chief Financial Officer, Secretary and Treasurer of Penn National in April 1994. He was Corporate Controller and Secretary of Carlino Financial and certain of its affiliates between June 1987 and May 1994, and from 1979 to 1987 was engaged in public accounting.

JOSEPH A. LASHINGER, JR., ESQ. Mr. Lashinger was elected Vice President and General Counsel of Penn National in June 1997. Prior to joining us, Mr. Lashinger served as a consultant to us from 1996 to 1997. From 1978 to 1990, Mr. Lashinger was elected to seven consecutive terms in the Pennsylvania House of Representatives as representative from the 150th Legislative District in Montgomery County, Pennsylvania. From 1981 to 1992, Mr. Lashinger was a partner in the law firm of Fox, Differ, Callahan, Sheridan, O'Neil and Lashinger. Mr. Lashinger has also served as director of government affairs, development director and counsel to several major casino companies including Hollywood Casino Corporation and Bally Entertainment. In 1997, Mr. Lashinger voluntarily filed for personal bankruptcy due in part to his personal guaranty of the debts of a failed business in which he was a part owner.

ROBERT E. ABRAHAM. Mr. Abraham was elected Vice President and Corporate Controller in January 1997. From 1986 to 1997, Mr. Abraham was the controller of Mountainview Thoroughbred Racing Association and Pennsylvania National Turf Club.

GEORGE A. CONNOLLY. Mr. Connolly was elected Vice President, Human Resources in April, 1998. Prior to joining Penn National in 1998, Mr. Connolly held a number of positions in the Human Resources and Labor and Public Relations departments at Western Electric/AT&T in New York City, Kearny, New Jersey, Newark, New Jersey, Kansas City, Missouri, and Reading, Pennsylvania. Mr. Connolly spent 31 years at Western Electric/AT&T.

ITEM 11. EXECUTIVE COMPENSATION

The information called for in this item is hereby incorporated by reference to the 2001 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information called for in this item is hereby incorporated by reference to the 2001 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for in this item is hereby incorporated by reference to the 2001 Proxy Statement.

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

- (a) 1 and 2. FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES. The following is a list of the Consolidated Financial Statements of the Company and its subsidiaries and supplementary data filed as part of Item 8 hereof:

Report of Independent Certified Public Accountants
Consolidated Balance Sheets as of December 31, 1999 and 2000
Consolidated Statements of Income for the years ended
December 31, 1998,
1999 and 2000
Consolidated Statements of Shareholders' Equity for the
years ended December 31,
1998, 1999 and 2000
Consolidated Statements of Cash Flows for the years ended
December 31, 1998, 1999 and 2000

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. EXHIBITS, INCLUDING THOSE INCORPORATED BY REFERENCE. The exhibits to this Report are listed on the accompanying index to exhibits and are incorporated herein by reference or are filed as part of this annual report on Form 10-K.

(b) REPORTS ON FORM 8-K. The Company filed the following reports on Form 8-K during the fourth quarter 2000:

On October 20, 2000, the Company filed a Current Report on Form 8-K/A that included financial information pertaining to the purchase of substantially all of the assets of the Casino Magic Bay St. Louis Casino and Boomtown Biloxi Casino from Pinnacle Entertainment, Inc. (formerly Hollywood Park, Inc.) for \$195 million which was reported in the Current Form 8-K filed August 23, 2000.

EXHIBIT INDEX

EXHIBIT	DESCRIPTION OF EXHIBIT
2.1	Agreement and Plan of Reorganization dated April 11, 1994 among Penn National Gaming, Inc., Carlino Family Partnership, Carlino Financial Corporation and the shareholders and general partners of the entities now comprising Penn National Gaming, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
2.1.1	Amendment to Agreement and Plan of Reorganization dated April 26, 1994 among Penn National Gaming, Inc., Carlino Family Partnership, Carlino Financial Corporation and the shareholders and general partners of the entities now comprising Penn National Gaming, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
2.2	Agreement and Plan of Reorganization dated April 11, 1994 between Penn National Gaming, Inc. and Thomas J. Gorman. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
2.2.1	Amendment to Agreement and Plan of Reorganization dated April 26, 1994 between Penn National Gaming, Inc. and Thomas J. Gorman. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
2.3	Closing Agreement dated January 15, 1997 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Gaming Limited Liability Company. (Incorporated by reference to the Company's current report on Form 8-K, dated January 30, 1997.)
2.4	Amended and Restated Operating Agreement dated as of December 31, 1996 among Penn National Gaming of West Virginia, Inc., Bryant Development Company and PNGI Charles Town Gaming Limited Liability Company. (Incorporated by reference to the Company's current report on Form 8-K, dated January 30, 1997.)
2.5	Letter dated January 14, 1997 from Peter M. Carlino to James A. Reeder. (Incorporated by reference to the Company's current report on Form 8-K, dated January 30, 1997.)
2.6	First Amendment to Asset Purchase Agreement dated as of January 28, 1999 by and between among Greenwood New Jersey, Inc., International Thoroughbred Breeders, Inc., Garden State Race Track, Inc., Freehold Racing Association, Atlantic City Harness Inc., Circa 1850, Inc., and Penn National Gaming, Inc. (Incorporated by reference to the Company's current report on Form 8-K, dated February 12, 1999.)
2.7	Amended and Restated Option Agreement dated as of February 17, 1995 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Gaming Limited Liability Company. (Incorporated by reference to Exhibit 2.1 of the Company's current report on Form 8-K, dated January 30, 1997.)
2.8	Transfer, Assignment and Assumption Agreement and Bill of Sale dated January 15, 1997 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Limited Liability Company. (Incorporated by reference to Exhibit 2.2 of the Company's Form 10-Q, dated November 14, 1997.)
2.9	Second Amended and Restated Operating Agreement dated as of October 17, 1997, among Penn National Gaming of West Virginia, Inc., BDC Group and PNGI Charles Town Gaming Limited Liability Company. (Incorporated by reference to the Company's Form 10-Q, dated November 14, 1997.)

EXHIBIT

DESCRIPTION OF EXHIBIT

- 2.10 Purchase Agreement dated September 13, 1996 between Penn National Gaming, Inc. and the Estate of Joseph B. Banks for the purchase of Pocono Downs Race Track and two related OTW facilities. (Incorporated by reference to the Company's Form 10-Q, dated November 13, 1996.)
- 2.11 Asset Purchase Agreement dated as of December 9, 1999 between BSL, Inc. and Casino Magic Corp. (Incorporated by reference to the Company's current report on Form 8-K, dated August 8, 2000.)
- 2.12 First Amendment to Asset Purchase Agreement dated as of December 17, 1999 between BSL, Inc. and Casino Magic Corp. (Incorporated by reference to the Company's current report on Form 8-K, dated August 8, 2000.)
- 2.13 Second Amendment to Asset Purchase Agreement dated as of August 1, 2000 between BSL, Inc. and Casino Magic Corp. (Incorporated by reference to the Company's current report on Form 8-K, dated August 8, 2000.)
- 2.14 Asset Purchase Agreement dated as of December 9, 1999 between BTN, Inc. and Boomtown Inc. (Incorporated by reference to the Company's current report on Form 8-K, dated August 8, 2000.)
- 2.15 First Amendment to Asset Purchase Agreement dated as of December 17, 1999 between BTN, Inc. and Boomtown Inc. (Incorporated by reference to the Company's current report on Form 8-K, dated August 8, 2000.)
- 2.16 Second Amendment to Asset Purchase Agreement dated as of August 1, 2000 between BTN, Inc. and Boomtown Inc. (Incorporated by reference to the Company's current report on Form 8-K, dated August 8, 2000.)
- 2.17 Agreement and Plan of Merger among CRC Holdings, Inc., Penn National Gaming, Inc., Casino Holdings, Inc., Sherwood Weiser and Donald E. Lefton, dated as of July 31, 2000. (Incorporated by reference to the Company's current report on Form 8-K, dated July 31, 2000.)
- 2.18 Stock Purchase Agreement by and among Penn National Gaming, Inc., Dan S. Meadows, Thomas L. Meehan and Jerry L. Bayles, dated as of July 31, 2000. (Incorporated by reference to the Company's current report on Form 8-K, dated July 31, 2000.)
- 3.1 Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on April 12, 1994. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
- 3.2 By-laws of Penn National Gaming, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
- 4 Rights Agreement dated as of March 2, 1999, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to the Company's current report on Form 8-K, dated March 17, 1999.)
- 4.1 Indenture dated December 17, 1997 between Penn National Gaming, Inc. and State Street Bank and Trust Company. (Incorporated by reference to the Company's registration statement on Form S-4, File #333-45337, dated January 30, 1998.)
- 9.1 Form of Trust Agreement of Peter D. Carlino, Peter M. Carlino, Richard J. Carlino, David E. Carlino, Susan F. Harrington, Anne de Lourdes Irwin, Robert M. Carlino, Stephen P. Carlino and Rosina E. Carlino Gilbert. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

EXHIBIT

DESCRIPTION OF EXHIBIT

- 10.1# 1994 Stock Option Plan. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
- 10.2# Employment Agreement dated April 12, 1994 between Penn National Gaming, Inc. and Peter M. Carlino. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
- 10.4# Employment Agreement dated April 12, 1994 between the Registrant and Robert S. Ippolito. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
- 10.8 Consolidation of PRA Agreement dated May 18, 1992 and PRA Amendment dated February 9, 1993 among all members of the Pennsylvania Racing Association. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
- 10.11 Lease dated March 7, 1991 between Shelbourne Associated and PNRC Limited Partnership. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
- 10.13.1 Lease dated June 30, 1993 between John E. Kyner, Jr. and Sandra R. Kyner, and PNRC Chambersburg, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
- 10.38 Consulting Agreement dated August 29, 1994, between Penn National Gaming, Inc. and Peter D. Carlino. (Incorporated by reference to the Company's Form 10-K, dated March 23, 1995.)
- 10.39 Lease dated July 7, 1994, between North Mall Associates and Penn National Gaming, Inc. for the York OTW. (Incorporated by reference to the Company's Form 10-K, dated March 23, 1995.)
- 10.41.1 Lease dated March 31, 1995 between Wyomissing Professional Center III, LP and Penn National Gaming, Inc. for the Wyomissing Corporate Office. (Incorporated by reference to the Company's Form 10-K, dated March 20, 1996.)
- 10.42# Employment Agreement dated June 1, 1995 between Penn National Gaming, Inc. and William J. Bork. (Incorporated by reference to the Company's Form 10-K, dated March 20, 1996.)
- 10.43 Lease dated July 17, 1995 between E. Lampeter Associates and Pennsylvania National Turf Club, Inc. for the Lancaster OTW, as amended. (Incorporated by reference to the Company's Form 10-K, dated March 20, 1996.)
- 10.44# Agreement dated September 1, 1995 between Mountainview Thoroughbred racing Association and Pennsylvania National Turf Club, Inc. and Sports Arena Employees' Union Local 137 (non-primary location.) (Incorporated by reference to the Company's Form 10-K, dated March 20, 1996.)
- 10.45 Agreement dated December 27, 1995 between Pennsylvania National Turf Club, Inc. and Teleview Racing Patrols, Inc. (Incorporated by reference to the Company's Form 10-K, dated March 20, 1996.)
- 10.50 Formation Agreement dated February 26, 1996 between Penn National Gaming, Inc. and Bryant Development Company. (Incorporated by reference to the Company's Form 10-K, dated March 20, 1996.)

EXHIBIT

DESCRIPTION OF EXHIBIT

- 10.51 Assignment of Agreement of Sale dated March 6, 1996 between Penn National Gaming, Inc. and Montgomery Realty Growth Fund, Inc. (Incorporated by reference to the Company's Form 10-Q, dated May 14, 1996.)
- 10.56 Amended and Restated Option Agreement dated as of February 17, 1995 between the PNGI Charles Town Gaming Limited Liability Company (The Joint Venture) and Charles Town Racing Limited Partnership and Charles Town Races, Inc. (Incorporated by reference to the Company's Form 10-Q, dated November 13, 1996.)
- 10.58# Agreement dated March 19, 1997, between PNGI Charles Town Gaming Limited Liability Company and the Charles Town HBPA, Inc. (Incorporated by reference to the Company's Form 10-K, dated March 27, 1997.)
- 10.59# Agreement dated March 21, 1997, between PNGI Charles Town Gaming Limited Liability Company and The West Virginia Thoroughbred Breeders Association. (Incorporated by reference to the Company's Form 10-K, dated March 27, 1997.)
- 10.60# Agreement between PNGI Charles Town Gaming Limited Liability Company and The West Virginia Union of Mutuel Clerks, Local 533, Service Employees International Union, AFL-CIO. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1997.)
- 10.66*# Agreement dated January 1, 2001 by and between PNGI Charles Town Gaming Limited Liability Company, or its successors, and the West Virginia Union of Mutuel Clerks, Local 533, Service Employees International Union, AFL-CIO.
- 10.67# Agreement dated October 2, 1996 between Pennsylvania National Turf Club, Inc., Mountainview Racing Association and Sports Arena Employees' Union Local No. 137 (Primary Location.) (Incorporated by reference to the Company's Form 10-K, dated March 27, 1998.)
- 10.68 Lease dated July 1, 1997 between Laurel Mall Associated and the Downs Off-Track Wagering, Inc. (Incorporated by reference to the Company's Form 10-K, dated March 27, 1998.)
- 10.72 Totalisator Agreement dated November 19, 1997, between Penn National Gaming, Inc. and AutoTote Systems, Inc. (Incorporated by reference to the Company's Form 10-K, dated March 27, 1998.)
- 10.73 Amended and Restated Credit Facility dated as of December 17, 1997, among Penn National Gaming, Inc., certain lenders, Bankers Trust Company, as Agent, and CoreStates Bank, N.A., as Co-Agent. (Incorporated by reference to the Company's Form 10-K, dated March 27, 1998.)
- 10.76 First Amendment and Waiver dated May 15, 1998, among Penn National Gaming, Inc., CoreStates Bank, N.A. and Bankers Trust Company. (Incorporated by reference to the Company's Form 10-Q, dated March 31, 1998.)
- 10.77 Purchase Agreement dated July 7, 1998, between Ladbroke Racing Management-Pennsylvania and Mountainview Thoroughbred Racing Association. (Incorporated by reference to the Company's Form 10-Q, dated June 30, 1998.)
- 10.78 Lease Agreement between Penn National Gaming, Inc. and Eagle Valley Realty dated July 14, 1998. (Incorporated by reference to the Company's Form 10-Q, dated September 30, 1998.)

EXHIBIT

DESCRIPTION OF EXHIBIT

- 10.79 Joint Venture Agreement dated October 30, 1998 between Penn National Gaming, Inc. and Greenwood New Jersey, Inc. (Incorporated by reference to the Company's Form 10-Q, dated September 30, 1998.)
- 10.80 Amendment dated November 2, 1998 to Joint Venture Agreement between Penn National Gaming, Inc. and Greenwood New Jersey, Inc. (Incorporated by reference to the Company's Form 10-Q, dated September 30, 1998.)
- 10.81 First Amendment to Joint Venture Agreement dated as of January 28, 1999, by and between Greenwood New Jersey, Inc., and Penn National Gaming, Inc. (Incorporated by reference to the Company's current report on Form 8-K, dated February 12, 1999.)
- 10.82 First Amendment to Asset Purchase Agreement dated as of January 28, 1999 by and among Greenwood New Jersey, Inc., International Thoroughbred Breeders, Inc., Garden State Race Track, Inc., Freehold Racing Association, Atlantic City Harness Inc., Circa 1850, Inc., and Penn National Gaming, Inc. (Incorporated by reference to the Company's current report on Form 8-K, dated January 28, 1999.)
- 10.83 First Amendment to Joint Venture Agreement dated as of January 28, 1999, by and between Greenwood New Jersey, Inc. and Penn National Gaming, Inc. (Incorporated by reference to the Company's current report on Form 8-K, dated January 28, 1999.)
- 10.85 Assignment and Assumption of Lease Agreement dated December 31, 1998 between Mountainview Thoroughbred Racing Association and Ladbroke Racing Management-Pennsylvania. (Incorporated by reference to the Company's Form 10K, dated March 30, 1999.)
- 10.86 Subordination, Non-Disturbance and Attornment Agreement dated December 31, 1998 between Mountainview Thoroughbred Racing Association and CRIIMI MAE Services Limited Partnership. (Incorporated by reference to the Company's Form 10-K, dated March 30, 1999.)
- 10.87 Second Amended and Restated Credit Agreement dated as of January 28, 1999 between Penn National Gaming, Inc. and various banks, First Union National Bank, as Agent. (Incorporated by reference to the Company's Form 10-K, dated March 30, 1999.)
- 10.88 Live Racing Agreement dated March 23, 1999 between Pennsylvania National Turf Club, Inc. and Mountainview Thoroughbred Racing Association and Pennsylvania Horsemen's Benevolent and Protection Association, Inc. (Incorporated by reference to the Company's Form 10-K, dated March 30, 1999.)
- 10.89 Amendment to Employment Agreement dated June 1, 1999, between Penn National Gaming, Inc. and Peter M. Carlino. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.90# Amendment to Employment Agreement dated June 1, 1999, between Penn National Gaming, Inc. and Robert S. Ippolito. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.91 Second Amendment to Joint Venture Agreement dated as of July 29, 1999, between Penn National Gaming, Inc. and Greenwood Racing, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.92 Shareholder's Agreement dated July 29, 1999, between Penn National Holding Company and Greenwood Racing, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

EXHIBIT

DESCRIPTION OF EXHIBIT

- 10.93 Amended and Restated Limited Partnership Agreement dated July 29, 1999, between FR Park Racing, L.P., Pennwood Racing, Inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.94 Amended and Restated Limited Partnership Agreement dated July 29, 1999, between FR Park Services, L.P., Pennwood Racing, Inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.95 Amended and Restated Limited Partnership Agreement dated July 29, 1999, between GS Park Racing, L.P., Pennwood Racing, Inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.96 Amended and Restated Limited Partnership Agreement dated July 29, 1999, between GS Park Services, L.P., Pennwood Racing, inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.97 Amendment No. 1 to Second Amended and Restated Credit Agreement dated July 29, 1999, between Penn National Gaming, Inc. and First Union National Bank. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.98 Amendment No. 2 to Second Amended and Restated Credit Agreement dated July 29, 1999, Penn National Gaming, Inc. and First Union National Bank. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.99 Agreement dated July 9, 1999, between Penn National Gaming, Inc. and American Digital Communications, Inc. (Portions of this Exhibit have been omitted pursuant to a request for confidential treatment.) (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.01a Subordination and Intercreditor Agreement dated July 29, 1999, between Penn National Gaming, Inc., FR Park Racing, L.P., and Commerce Bank, N.A. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.02a Debt Service Maintenance Agreement dated July 29, 1999, between Penn National Gaming, Inc. and Commerce Bank, N.A. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.03a First Supplemental Indenture dated May 19, 1999, between Penn National Gaming, Inc. and State Street Bank and Trust Company, Trustee. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)
- 10.04a Asset Purchase Agreement between BSL, Inc. and Casino Magic Corp. dated December 9, 1999. (Filed as exhibit 99.2 to the Company's current report on Form 8-K, dated December 17, 1999.)
- 10.05a Guaranty of Penn National Gaming, Inc. to Casino Magic Corp. dated December 9, 1999. (Filed as exhibit 99.3 to the Company's current report on Form 8-K, dated December 17, 1999.)
- 10.06a Guaranty of Hollywood Park, Inc. to BSL, Inc. dated December 9, 1999. (Filed as exhibit 99.4 to the Company's current report on Form 8-K, dated December 17, 1999.)
- 10.07a First Amendment to Asset Purchase Agreement between BSL, Inc. and Casino Magic Corp. dated December 17, 1999. (Filed as exhibit 99.5 to the Company's current report on Form 8-K, dated December 17, 1999.)
- 10.08a Asset Purchase Agreement between BTN, Inc. and Boomtown, Inc. dated December 9, 1999. (Filed as

exhibit 99.6 to the Company's current report on Form 8-K,
dated December 17, 1999.)

EXHIBIT

DESCRIPTION OF EXHIBIT

- 10.09a Guaranty of Penn National Gaming, Inc. to Boomtown, Inc. dated December 9, 1999 (Filed as exhibit 99.7 to the Company's current report on Form 8-K, dated December 17, 1999.)
- 10.10a Guaranty of Hollywood Park, Inc. to BTN, Inc. dated December 9, 1999. (Filed as exhibit 99.8 to the Company's current report on Form 8-K, dated December 17, 1999.)
- 10.11a First Amendment to Asset Purchase Agreement between BTN, Inc. and Boomtown, Inc. dated December 17, 1999. (Filed as exhibit 99.9 to the Company's current report on Form 8-K, dated December 17, 1999.)
- 10.12a Senior secured multiple draw term loan dated December 13, 1999 between Penn National Gaming of West Virginia, Inc. and Bank of America. (Incorporated by reference to the Company's Form 10-K, dated March 20, 2000.)
- 10.13a Amendment No. 3 and Consent and Waiver under Second Amended and Restated Credit Agreement dated December 13, 1999 between Penn National Gaming, Inc. and First Union National Bank, as Agent. (Incorporated by reference to the Company's Form 10-K, dated March 20, 2000.)
- 10.14a Harness horsemen agreement dated December 17, 1999 between The Downs Racing, Inc. and the Pennsylvania Harness Horsemen. (Incorporated by reference to the Company's Form 10-K, dated March 20, 2000.)
- 10.15a Settlement agreement dated February 11, 2000 between Penn National Gaming, Inc. and Amtote International, Inc. (Incorporated by reference to the Company's Form 10-K, dated March 20, 2000.)
- 10.16a Thoroughbred horsemen letter dated February 24, 2000 between PNGI Charles Town Gaming, LLC and the Charles Town thoroughbred horsemen. (Incorporated by reference to the Company's Form 10-K, dated March 20, 2000.)
- 10.17a Agreement dated March 7, 2000 between Penn National Gaming, Inc. and Trackpower, Inc. and eBet Limited, Inc. (Incorporated by reference to the Company's Form 10-K, dated March 20, 2000.)
- 10.18a Purchase Agreement dated March 15, 2000, between PNGI Charles Town Gaming, LLC and BDC Group. (Incorporated by reference to the Company's Form 10-Q, dated May 12, 2000.)
- 10.19a Amendment No. 1 to Term Loan Agreement between the Company and Bank of America, dated March 28, 2000. (Incorporated by reference to the Company's Form 10-Q, dated May 12, 2000.)
- 10.20a Amendment No. 4 to Loan Agreement between the Company and First Union National Bank dated March 29, 2000. (Incorporated by reference to the Company's Form 10-Q, dated May 12, 2000.)
- 10.21a Credit Agreement among Penn National Gaming, Inc., as Borrower, the Several Lenders from time to time parties hereto, Lehman Brothers Inc., as Lead Arranger and Book-Running Manager, CIBC World Markets Corp., as Co-Lead Arranger and Co-Book Running Manager, Lehman Commercial Paper Inc., as Syndication Agent, Canadian Imperial Bank of Commerce, as Administrative Agent, and The CIT Group/Equipment Financing, Inc., First Union National Bank and Wells Fargo Bank, N.A., as Documentation Agents, dated as of August 8, 2000. (Incorporated by reference to the Company's Form 8-K, dated August 8, 2000)
- 21* Subsidiaries of the Registrant.
- 23.1* Consent of BDO Seidman, LLP.

EXHIBIT

DESCRIPTION OF EXHIBIT

24.1*

Power of attorney (included on the signature page to this Form 10-K report).

Compensation plans and arrangements for executives and others.

* Filed herewith.

+ Confidential treatment has been requested as to certain portions of this exhibit. The omitted portions have been separately filed with the Securities and Exchange Commission.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

By: /s/ PETER M. CARLINO

 Peter M. Carlino
 CHAIRMAN OF THE BOARD
 AND CHIEF EXECUTIVE OFFICER

Dated: March 23, 2001

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Each person whose signature appears below in so signing also makes, constitutes and appoints Robert S. Ippolito his true and lawful attorney-in-fact, in his name, place and stead to execute and cause to be filed with the Securities and Exchange Commission any or all amendments to this report.

SIGNATURE -----	TITLE -----	DATE -----
/s/ PETER M. CARLINO ----- Peter M. Carlino	Chief Executive Officer and Director (Principal Executive Officer)	March 23, 2001
/s/ WILLIAM J. BORK ----- William J. Bork	President, Chief Operating Officer and Director	March 23, 2001
/s/ ROBERT S. IPPOLITO ----- Robert S. Ippolito	Chief Financial Officer, Secretary and Treasurer (Principal Financial and Accounting Officer)	March 23, 2001
/s/ HAROLD CRAMER ----- Harold Cramer	Director	March 23, 2001
/s/ DAVID A. HANDLER ----- David A. Handler	Director	March 23, 2001
/s/ ROBERT P. LEVY ----- Robert P. Levy	Director	March 23, 2001
/s/ JOHN M. JACQUEMIN ----- John M. Jacquemin	Director	March 23, 2001

[LOGO]

COLLECTIVE BARGAINING AGREEMENT

BETWEEN

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

AND

WEST VIRGINIA UNION OF MUTUEL CLERKS, LOCAL 553
SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO

JANUARY 1, 2001 - DECEMBER 31, 2004

* Certain portions of this exhibit have been omitted based upon a request for confidential treatment that has been filed with the Commission. The omitted portions have been filed separately with the Commission.

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AGREEMENT

THIS AGREEMENT made and entered into this 1st day of January, 2001, by and between PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY, or its successors (hereinafter referred to as "EMPLOYER") and the WEST VIRGINIA UNION OF MUTUEL CLERKS, LOCAL 553, SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO, or its successor (hereinafter referred to as "UNION").

PREAMBLE

The general purpose of this Agreement is to set forth terms and conditions of employment, and to promote orderly and peaceful labor relations for the mutual interests of Employer, the Employees and Union.

The parties recognize that the success of Employer and the job security of the Employees depend on Employer's success in offering and marketing quality thoroughbred and simulcast racing programs.

To these ends, Employer and Union encourage to the fullest degree friendly and cooperative relations between their respective representatives at all levels and among all Employee's, whether or not covered by this Agreement.

ARTICLE 1 - RECOGNITION

1.1 The Employer hereby recognizes the Union as the exclusive bargaining representative with respect to wages, hours and other conditions of employment for all Employees of the Employer who are employed at the PNGI Charles Town Gaming Limited Liability Company, in the Pari-Mutuel Department, Admissions Department, and Jockey-Valets, excluding the Mutuel Manager, Assistant Mutuel Manager, Office Manager, Head Cashier, Assistant Head Cashier, Porter, Auditor, Data Processing Employees and all Supervisory and Security Personnel. At all times mentioned herein, "Employee" shall mean only those Employees who are members in

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good standing of the Union and there shall be no distinction between "live racing" mutuel employees and simulcast mutuel employees. This Agreement shall apply to existing job classifications set forth in Schedule A hereof and, in addition to the exclusions set forth above, shall not apply to new job classifications established by the Employer, except as specifically herein provided.

ARTICLE 2 - TERM OF AGREEMENT

2.1 This Agreement shall be effective as of the 1st day of January, 2001, and shall continue in force and effect until midnight, December 31, 2004; and from year to year thereafter, unless either party, at least sixty (60) days prior to said termination date, or prior to sixty (60) days before the end of any subsequent term, gives written notice to the other to terminate this Agreement. In the event that such notice is given, negotiations shall be opened not less than sixty (60) days prior to the expiration date of this Agreement, or any subsequent anniversary date.

ARTICLE 3 - WAGES AND OTHER RATES

3.1 Effective January 1, 2001, all Employees covered by this Agreement shall receive a [*] across-the-board wage increase. Effective January 1, 2002, all Employees covered by this Agreement shall receive a [*] across-the-board wage increase. Effective January 1, 2003 all employees covered by this Agreement shall receive a [*] across-the-board wage increase. Effective January 1, 2004, all Employees covered by this Agreement shall receive a [*] across-the-board wage increase.

3.2 WAGES. The wages of pay for each classification effective during the term of this Agreement shall be as set forth on Schedule A attached hereto.

3.3 The rates of pay set forth in Schedule A shall be paid for each race day which consists of five hours worked. Pay will be in fifteen (15) minute increments after five (5) hours.

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3.4 Unless notified by the Employer at least one hour prior to the scheduled reporting time that there is no available work, the Employee who reports for work shall receive [*]

3.5 Records showing overtime distribution shall be maintained by the Employer, to the extent that payroll processes will permit, who will make available to the Local Union, upon request, records of overtime assignment of Employees, within a twenty-four (24) hour period of such request.

3.6 All Jockey-Valets shall receive for each racing day consisting of at least eight (8) races but not more than ten (10) races, his/her normal daily rate. For all races in excess of ten (10), each valet shall receive pay equal to [*]his/her regular pay. Said pay shall be calculated by dividing the base pay by ten (10) and multiplying the product of that calculation by [*] for each race after ten (10).

3.7 All Mutuel Clerks covered by this Agreement shall receive [*] per day extra pay for work performed on the day of the West Virginia Breeders Classic race, the National Breeders Cup day and Triple Crown series, each of which consists of a five (5) hour shift.

3.8 For a racing program which runs in excess of six (6) hours, an Employee shall receive pay at [*] of the normal rate for all hours worked in excess of six (6) hours, said pay for work over six (6) hours to be calculated in fifteen (15) minute increments.

3.9 SELF-SERVICE MACHINES - The parties agree that the Employer can use self-service machines until the machines exceed thirty percent (30%) of the total handle for every day during the meets. In this event the Employer agrees to assign more employees to teller terminals so as to keep the use of self-service machines at thirty percent (30%) or less. The Employer shall have

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the sole right to determine the number of additional employees needed to comply with this provision.

ARTICLES 4 - NEW JOBS

4.1 The Employer shall have the right to create any new Union job classification in any department covered by this Agreement which it deems appropriate and establish the rate of pay to be given such new classification, provided, however, that the Employer, prior to the effective date of such new job classification, shall meet with the Union to discuss such new job classification and the proposed rate of pay. If there is no agreement on the rate of pay for such new job classification within sixty (60) calendar days of such first meeting, such dispute shall, at the option of either party, be submitted to arbitration pursuant to the provisions of ARTICLE 9 - GRIEVANCE PROCEDURE.

4.2 The Employer shall have the right to start operating under such new job classifications and continue to operate the same at the rates established by the Employer until agreement with the Union can be reached, or until the decision of the arbitrator is received. If the Employer is ordered to pay a higher rate by an arbitrator, or by agreement between the parties, all such increases shall be made retroactive to the first day of hire of all Employees in such new job classifications.

4.3 All new jobs created by the Employer under this Article 4 shall be posted and filled by bidding as is provided for the filing of permanent job vacancies in ARTICLE 6 - SENIORITY.

4.4 In the event that any additional new or alternative forms of gambling are conducted by or at PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY, limited to off-track wagering and telephone account wagering, all jobs created as a result of this new gambling will be Union jobs and assigned by the provisions of ARTICLE 6 - SENIORITY.

ARTICLE 5 - UNION SECURITY

* Certain portions of this exhibit have been omitted based upon a request for confidential treatment that has been filed with the Commission. The omitted portions have been filed separately with the Commission.

5.1 All new employees (employees hired on or after January 1, 2001) included in the bargaining unit covered by this Agreement shall be considered probationary employees until they have worked forty-five (45) programs at the PNGI Charles Town Gaming Limited Liability Company. During an employee's probationary period of employment, the Employer may terminate such probationary employee at the Employer's sole discretion and such termination shall not fall within the Grievance Procedure as provided by Article 9.

Any employee who is a member of the Union on the effective date of this Agreement shall be required, as a condition of employment, to remain a member of the Union. Any other employee shall be required, as a condition of employment, to become and remain a member of the Union upon the completion of twenty (20) days or more of work, regardless of the number of years it takes to accumulate such twenty (20) days. No full-time employee who is employed on a regular basis shall be required to join the Union until he/she has worked twenty (20) days.

5.2 The Employer may hire new Employees from any source, however, it agrees that it will not discriminate against Union members, if they are qualified. Management's decision on qualifications and whether such applicant is satisfactory, shall be binding on all parties.

5.3 The Union agrees that all Employees included in the bargaining unit covered by this Agreement shall be admitted to membership in the Union upon application and tender of regular dues and initiation fees which uniformly apply to all members of the Union at such time.

5.4 The Employer agrees to deduct Union dues and initiation fees from the wages of Employees who authorize such deductions in writing pursuant to a procedure and on a form mutually acceptable to the Employer and the Union. In the event any Employee shall become delinquent in the payment of dues, regular initiation fees and assessments and fines which universally apply to all members of the Union, and the Union shall give written notice of such delinquency to the Employer; then and in that event, the Employer shall discharge such Employee, if the Employee has not paid such delinquency within five (5) days from the receipt of such written notice to the Employer.

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5.5 The Union will defend, indemnify and save harmless the Employer herein against all claims, demands, liabilities and disputes that may arise out of or by reason of any action taken or not taken by the Employer at the request of the Union, for the purpose of complying with any of the provisions of this section. The Employer will defend, indemnify and save harmless the Union and each of its members against any and all claims, demands, liabilities and disputes that may arise out of or by reason of any action taken or not taken by the Union or any of its members at the request of the Employer, for the purpose of complying with any provision of this Contract.

5.6 The President, Business Agent or other authorized representatives of the Union, not to exceed three (3) in number, shall have access to the Employer's plant during the race meetings, for the purpose of adjusting grievances, investigating working conditions and carrying into effect the provisions of this Agreement, but such access shall be set at such times and places and in such manner which will not interfere with the regular duties of the Employees or other operations of Employer's business.

5.7 The Employer shall provide office space at the track for the Union for the purpose of conducting Union business; provided, however, that such office space so provided shall not be open, for any purpose, during the normal working hours, unless such use is specifically approved by the Employer.

ARTICLE 6 - SENIORITY

6.1 The Employer believes in and will continue to practice the principles of seniority. Except as hereinafter provided, in all cases of promotions, filling of permanent or temporary vacancies, permanent or temporary transfers, and increase or decrease of work force, the Employer will take into consideration an Employee's seniority, ability and physical fitness to perform the work. In determining an Employee's ability and physical fitness to perform the normal requirements of

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the new job, consideration will be given to job experience, related job experience, education and/or ability. However, it is recognized that in making promotions to jobs higher up in a line of progressions requiring supervisory qualifications, leadership must also be considered a factor of ability. When all the factors that constitute ability and physical fitness are relatively equal, then seniority shall prevail.

The following job classification shall be filled in the discretion of the Employer on the basis of seniority as primary determinative factor and ability and physical fitness as a secondary determinative factor: extra duty jobs, i.e., replacements for money room division heads, information windows, dedicated or special windows, money room counters and terminal supervisors.

6.2 Subject to the provisions of this Article, seniority, as of the effective date of this Agreement, shall be based on the length of continuing employment at the track from the date of hire (track seniority), which seniority shall be used in establishing seniority in each of the following departments of the Employer:

- (A) Pari-Mutuel Department
- (B) Admissions Department
- (C) Jockey-Valets Department

6.3 There shall be the following two seniority lists which shall be maintained by the Employer:

- (A) Full time Employees including full time extra Employees
- (B) Part time Employees

Full time Employees are those Employees who hold specific job positions and work regularly from Monday through Sunday; however, Sunday work is optional for all Employees who worked for Shenandoah Downs or Charles Town Races, Inc. prior to January 1, 1979 and who since said date have continuously worked for Charles Town Races, Inc. and PNGI Charles Town Gaming Limited Liability Company through the date of this contract, and failure of any such Employee to work on Sunday shall not adversely affect his/her seniority or his/her status as

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a full time Employee. Full time extra Employees are those full time Employees who fill in for full time Employees on any day between Monday and Thursday and who may fill in for absent full time Employees on Fridays, Saturdays, Sundays and holidays, if such vacancies are not filled by part time Employees on these days. Part time Employees are those Employees who work Friday, Saturdays, Sundays and holidays. Said lists when prepared, shall include, by date of hire, all Employees of the track who were employed by either Shenandoah Downs or Charles Town Races, Inc. The Employer shall maintain the two (2) seniority lists set forth above and shall update each list at the beginning of each racing year (season). Prior to the first race day of each year, each Employee who is entitled to make such a selection shall designate in writing whether such Employee will be a full time Employee, a full time extra Employee or a part time Employee and such Employees shall continue in such designated category and in the position held by them at the beginning of such race year unless his/her category and position is otherwise changed as provided in this Agreement. All selections become final after 30 days from the date selection card was signed.

6.4(A) In order to maintain status as a full time Employee, each such Employee must work seventy percent (70%) of the live racing programs at the PNGI Charles Town Gaming Limited Liability Company, and may not miss or be absent more than five (5) Saturdays or five (5) Sundays during any one calendar year; provided, however, that any Employee who has maintained continuous employment at the PNGI Charles Town Gaming Limited Liability Company, or its predecessor, Charles Town Races, Inc., since January 1, 1979, shall not be penalized hereunder if such Employee misses five (5) or more Sundays, except for those Employees that commit to work on Sundays and so indicate on their selection cards. If a full time Employee is designated as a full time extra, such person must report to the track each race day at the specified reporting time at least seventy percent (70%) of the live racing program in order to maintain status as a full time extra Employee. Death in the family, documented accidental injury or illness to Union employees or an immediate family member will not count toward Saturday and Sunday absences.

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6.4(B) In order to maintain status as a part time Employee, each such Employee must report for work each Friday, Saturday, Sunday and holiday program, or each Saturday, Sunday and holiday program (as specified by the Employee on their availability card) at the PNGI Charles Town Gaming Limited Liability Company. Any part time Employee who fails to work each such specified day and such absence is not excused by the Employer, shall not earn or accrue seniority for the year in which such absences occur. If any Employee, whether regular or part time, reports to work, and has not been notified not to report for work, such Employee shall be considered, for the purpose of seniority, to have worked that day. Full time employees and part time Employees shall receive premium pay (time and one-half) for all hours worked on Sundays, Memorial Day, July 4, Labor Day and Christmas Eve. To be eligible for premium pay on Sundays, Memorial Day, July 4, Labor Day and Christmas Eve, an employee must work his/her regular scheduled working day before the Sunday, Memorial Day, July 4, Labor Day and Christmas Eve and his/her regular scheduled working day after if it is the day after Sunday, Memorial Day, July 4, Labor Day and Christmas Eve. Excused absences will count, for purposes of this paragraph, as if that day was a work day. The Employer shall not unreasonably refuse to grant an excused absence.

6.5 An Employee shall lose all his accrued seniority in the event such Employee:

(A) Voluntarily quits or is discharged for cause.

(B) Fails, after a lay-off or the commencement of any racing meet, to report for work for two (2) consecutive racing days after being notified to do so, unless such Employee notifies the Employer, in advance of such reporting date, that such Employee intends to be absent and presents an acceptable reason for such absence.

(C) Is absent from work for any reason whatsoever for three (3) working days without the approval of the Employer.

(D) An Employee shall earn no seniority in any year in which he fails to work seventy percent (70%) of the racing programs, as provided, in Paragraph 6.4(A) of this Article.

This requirement is based on racing programs being conducted on Sundays, holidays and one weekday each week during daytime hours and all other days during night-time hours. If

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racing programs are conducted on more than one weekday (except holidays) in any week during daytime hours, then the 70% rule shall not apply to any such weekday daytime programs in excess of one in any one week.

6.6 PERMANENT VACANCIES - Notwithstanding any provision contained in this Agreement to the contrary, in the event a vacancy occurs in a regular permanent job, the Employer in its sole discretion shall determine if such a vacancy shall be filled. In filling such vacancy, the Employer shall comply with the provisions of Subsection 6.1 of this Article and shall select the eligible and qualified Employee from within the department where the new job or permanent vacancy occurs on the basis of track seniority. If such position or vacancy is not filled from within the department in which it occurred, it may be filled by an eligible and qualified Employee from other departments on the basis of track seniority. The senior eligible Employee bidding on such job, if qualified, shall be given a trial period on such new job of one (1) to five (5) days as management sees fit. In the event management does not deem such Employee properly qualified to perform such job, then after a trial period ranging in management's discretion from one (1) to five (5) days, management shall have the sole discretion to return such Employee back to his former job, in which event, the next senior qualified eligible Employee who shall bid for such job shall be given a like trial. When an Employee is transferred to another job, classification or department as a result of job bidding, such transfer shall be permanent. The Employer shall have the right to remove an Employee from any Department because of lack of work, but must honor reverse seniority when doing so. Such Employees so removed may bid for another job for which such Employee is eligible and qualified at the track on the basis of track seniority.

6.7 TEMPORARY TRANSFERS - The filling of all temporary vacancies shall be in accordance with the seniority provisions of this contract, if such temporary vacancy does not continue for more than fifteen (15) working days. If such continues for more than fifteen (15) working days, Employees shall bid on that job on a temporary basis in the same manner set forth in the Subsection 6.6 of this Article VI for bidding on permanent vacancies. Upon the return of the absent Employee, the Employee who bid on that temporary vacancy shall return to his or her

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former position and the returning Employees shall fill his or her regular position. An Employee who is transferred from his or her regular job to fill a temporary vacancy not lasting more than fifteen (15) days, shall be paid his or her regular rate, unless the job to which he or she is transferred pays a higher rate, in which case the higher rate shall be paid. Any full time extra Employee who fills a temporary vacancy shall be paid the rate for such vacant position. If an Employee bids on a temporary vacancy after the said fifteen (15) day period, such Employee shall be paid the rate for such vacancy while he or she is temporarily filling that position. Upon that Employee's return to his or her regular job, he or she shall be paid the regular rate for his or her regular job.

6.8 LAY-OFF - It is agreed that while the determination whether or not there should be lay-offs is the sole prerogative of the Employer, should a reduction in force be necessary, lay-offs will take place in the reverse order by track seniority applied within the department affected. In the event that rehiring takes place, the Employees shall be recalled to work in accordance to their track seniority within the department affected.

ARTICLE 7 - LEAVE OF ABSENCE

7.1 An Employee shall not be granted a leave of absence without prior consent of the Employer, which consent shall not be arbitrarily withheld. Such leave of absence granted the Employee shall not cause him to lose any prior seniority rights. Leaves of absences will be approved by a Committee consisting of the Mutuel Manager, a Management designee selected by the Mutuel Manager, two (2) members selected by the Union and the General Manager who will vote only in the event of ties.

7.2 The Employer shall notify the Union of all requests for leaves of absence and shall give the Union a reasonable opportunity to make any comments in regard to such request as it desires prior to the effective date of such leave. However, the Employer's decision on such request shall be final.

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7.3 Notwithstanding any provision to the contrary in this Article 7, no leave of absence shall be granted to any Employee for the purpose of accepting full time employment elsewhere.

7.4 An Employee's seniority status and date shall not be affected by absence from work on account of:

(A) Illness under approved sick leave.

(B) Injury covered by State Workers' Compensation Law.

(C) Time spent on approved leave of absence for service in the Armed Forces of the United States, provided the Employee returns to Employer's service following release from military service within two (2) months of first becoming eligible for release from military service.

(D) Service as a regularly impaneled member of a State or Federal Jury.

(E) Layoff, provided he is reemployed by Employer within a period of one month after being recalled following such layoff.

(F) A regularly approved leave for reasons other than sickness, occupational injury, jury duty or military service, provided such personal leave of absence does not exceed one month in length.

(G) A regularly approved leave for full time employment as an officer or agent of Union, provided such leave does not exceed one month in length.

Employees granted leave of absence for any of the foregoing reasons will not accrue further seniority during the term of the leave of absence. In the event of a dispute, the decision of the Leave of Absence Committee will be final.

ARTICLE 8 - DISCHARGE

8.1 No employee shall be discharged or displaced except for just cause.

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8.2 Within two (2) working days or seventy-two (72) hours, whichever is shorter of any discharge, the Employer shall notify, in writing, the Union and the Employee affected as to the reason for such discharge. In the event the Union disputes such discharge, the matter shall be submitted to arbitration in accordance with Article 9 herein. The arbitrator shall have the authority to make the final determination of such dispute and in the event he finds such discharge to have been improper, he may order reinstatement or such other remedies as he deems appropriate, including awarding back pay and benefits. The Employer agrees that it will cooperate with the Union to expedite the submission of any disputed discharges to an arbitrator and, if the arbitrator agrees, upon the Union's request, to accept an oral ruling from the arbitrator at the conclusion of the hearing.

8.3 It is agreed that discharge for dishonesty, pilferage, bellringing or discharge of an Employee for leaving his or her post or work place and engaging in physical and/or oral confrontation with any member of the public, including friends, spouses, relatives or another Employee of the Employer shall not be subject to the grievance procedure provided herein.

Employees discharged or disciplined for use of alcohol or drugs or being under the influence of alcohol or drugs while on duty or for dishonesty, pilferage or bellringing, shall be entitled to arbitrate only the question of their guilt or innocence. If found guilty, the arbitrator must confirm the remedy imposed by the Employer.

8.4 It is agreed that any Employee who shall be denied bonding coverage by the Employer's bonding company or whose bond shall be revoked for any reason, shall be dismissed. Such discharge shall not be subject to the grievance procedure and shall be final. If, subsequent to such refusal to bond or revocation of bond, the bonding company shall agree to bond such Employee or to cancel such revocation and reinstate said bond, such Employee shall be entitled to be reemployed in accordance with his or her seniority as of his or her termination date, but without back pay or benefits and such person shall lose his or her seniority for such period when the bond was denied or revoked.

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8.5 The Employer recognizes the principles of progressive discipline. The employer agrees to delete written reprimand letters from an employee's file one year after the date of the reprimand letter.

ARTICLE 9 - GRIEVANCE PROCEDURE

9.1 In the event that any dispute or controversy shall arise during the life of this Agreement as to the interpretation or application of this Agreement or any part thereof, it shall be handled in the following manner:

STEP 1. The aggrieved Employee or any authorized representative of the Union shall first discuss the grievance with the company supervisor or representative.

STEP 2. In the event the grievance is not resolved at that level, then a representative of the Union shall meet with an officer or duly designated representative of the Employer within seven (7) calendar days of such first meeting.

STEP 3. If no satisfactory settlement is reached within seven (7) calendar days of the meeting in Step 2, then either party may submit the grievance to arbitration. Any dispute arising under this Agreement may be submitted to arbitration, provided, however, that the arbitrator shall have no authority to alter the terms of this Agreement. In the event a grievance is submitted to arbitration, the arbitrator will be selected from a list supplied from the Federal Mediation and Conciliation Service and the arbitration shall be conducted under the rules and regulations of the Federal Mediation and Conciliation Service then in effect. The costs of any such arbitration shall be borne equally between the Union and the Employer.

9.2 No complaint or grievance involving the suspension or discharge of any Employee, may be made, entertained or be the subject of arbitration, unless made within ten (10) calendar days after the date of such suspension or discharge.

9.3 All grievances other than those relating to the suspension or discharge of an Employee must be filed within thirty (30) calendar days following the date of the occurrence which gave rise to the grievance, otherwise, the right to file a grievance shall be waived.

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ARTICLE 10 - MILITARY SERVICE

With respect to the reemployment of Employees who have been or shall be inducted into the Armed Forces of the United States, the Employer shall comply with its obligation as provided in the Selective Training and Service Act of 1940 as amended.

ARTICLE 11 - SHORTAGES AND OVERAGES

11.1 Each Employee shall be financially responsible for his or her shortages and the liability therefor shall be determined by the Employer. All shortages shall be paid at reporting time the following day, unless otherwise provided by the Employer. Failure to pay such shortages shall result in the suspension of the Employee.

11.2 The Employer shall maintain an accounting of all overages and shortages for each Employee affected and such accounting shall be made available for inspection by each Employee affected at all reasonable times. Employees shall be credited with the total amount of overage in their respective accounts on the last day of each meet up to the total amount of shortages which they may incur on that day.

11.3 If it appears to the Employer's satisfaction that a tote machine malfunction caused an Employee shortage, the Employee shall not be responsible for the shortage.

ARTICLE 12 - EXCLUSIONS

12.1 The Employer and the Union agree that Employees not covered by this Agreement can continue to perform the normal work that they performed heretofore, some of which may be work which is also performed by members of this unit, provided, however, that the Employer

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shall not use excluded Employees to do regular journeyman work so as to replace or displace the regular Employees within the bargaining unit.

12.2 The Employer agrees that if a regular job is open and available at the beginning of the program prior to the first race and Management wishes that job to be performed during that program, then an additional Employee shall be assigned. If a job should become open after the first race begins and no Union Employee is available, or in the event of an emergency, then excluded Employees, including supervisors, may perform that work.

ARTICLE 13 - NO STRIKE OR LOCKOUT

13.1 During the term of this Agreement, the Union agrees on behalf of itself and each of its members that there shall be no authorized strike of any kind and there shall be no boycott, picketing, work stoppage, slowdown or any other type of organized interference, coercive or otherwise with the Employer's business or with third parties having business with the Employer.

13.2 In the event any violation of the previous paragraph occurs which is unauthorized by the Union, the Employer agrees that there shall be no liability on the part of the International or Local Union or any of their officers or agents, provided that in the event of such unauthorized action the Union first meets the following conditions:

(a) The Union shall declare publicly that such action is unauthorized by the Union, if requested to do so by the Employer.

(b) The Union shall promptly order its members to return to work, notwithstanding the existence of a picket line, if requested to do so by the Employer.

(c) The Union shall not question the unqualified right of the Employer to discipline or discharge Employees engaging in, participating in, or encouraging such action, unless the action by the Employer is unlawful or discriminatory. It is understood that such action on the part of the Employer shall be final and binding upon the Union and its members, and shall in no case be construed as a violation by the Employer of any provision of this Agreement,

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unless the action by the Employer is discriminatory. However, an issue of fact as to whether or not any particular Employee has engaged in, participated in, or encouraged any such violation may be subject to arbitration.

13.3 There shall be no lockout by the Employer.

13.4 It shall be a violation of this Agreement and grounds for discharge or discipline, for any Employee, or for the Employees collectively, to refuse to go through a picket line of another union established at the premises of the Employer whose Employees are on strike.

13.5 In the event that a strike or lockout in violation of the foregoing provisions of this section shall occur, the nonbreaching party shall have the option of rescinding this Agreement after such breach has continued for more than fifteen (15) days, unless the dispute is settled and the strike or lockout ends before such option is exercised. Written notice of intent to exercise such option shall be given at least five (5) days before it is exercised.

Exercise of the option to rescind this Agreement shall not affect the right of the rescinding party to bring an action for damages for the breach committed by the other, and shall not affect Employer's right to discipline, as provided herein, any Employee taking part in a prohibited strike.

The failure of Employer or Union to exercise the privilege hereinabove granted to rescind this Agreement in event of a breach thereof by the other party, shall not constitute a waiver on its part of its right to exercise such option should a subsequent strike or stoppage of production or lockout occur.

ARTICLE 14 - NOTICE

Whenever notice is required to be given hereunder, it shall be given to the parties hereto at their respective address by registered or certified mail, and in the event that notice is required

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to be given to any Employee, it shall be given by registered or certified mail, addressed to such Employee at his or her last known address appearing on the payroll records of Employer.

ARTICLE 15 - MANAGEMENT'S PREROGATIVES

A. Except to the extent abridged by a provision of this Agreement, the Employer reserves and retains, solely and exclusively in its own uncontrolled discretion, all of its regular and customary functions and its inherent right to manage the business, which includes, but is not limited to, the right to establish or continue policies, practices or procedures for the conduct of its business and from time to time as it sees fit, to change, alter or abolish such policies, practices or procedures; to assign Employees; to determine and from time to time redetermine the number, location and types of its operations and the methods, processes or materials to be employed; to discontinue processes or operations or to discontinue performances by Employees the Employer may deem advisable, to determine the number of hours per day or per week, the number of days per week and the number of weeks per year its operation shall be carried on; to select and determine the number and type of Employees required; to assign work to such Employees in accordance with the requirements as determined by management; to establish and change work schedules and assignments; to transfer or promote Employees, to demote, discipline or terminate Employees for just cause; or to lay-off or otherwise relieve Employees from duty for lack of work or any other legitimate reason by seniority. These rights shall not be used for the purpose of discrimination against any member of the Union and shall not be exercised in violation of the terms of this Agreement.

The Employer will make every good faith effort to employ full time rather than part time Employees where feasible and shall not hire part time Employees for the sole purpose of not providing benefits which would be available to full time Employees.

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B. The Employer shall have the right, from time to time, to make such reasonable rules and regulations for the conduct of its business not inconsistent with the provisions hereof as it may deem to comply with such rules and regulations to be enforced by management.

ARTICLE 16 - FUNERAL LEAVE

Employees with regular assignments employed on a regular full-time basis who have at least one (1) year regular full-time service with the Company will be granted three (3) days off without loss of pay in the event of a death in the family, which for the purpose of this Agreement shall mean mother, father, sister, brother, spouse, child, significant other, mother-in-law, father-in-law, grandparents, grandchild and step-children. This may be taken at the most convenient time related to the death for the employee, who shall be paid at the straight time rate of pay earned as if the Employee would have worked these three days.

ARTICLE 17 - TECHNOLOGICAL DISPLACEMENTS

Should a technological displacement occur by reason of a new machine or mechanical improvement or process in the operation of a department, the Company will attempt to place any displaced Employee in a classification for which he is qualified by track seniority close to his former rate of pay. The Company agrees that it will meet with the Union to discuss the problems which may arise as a result of technological displacements; however, such Employee may exercise track seniority to bid into another classification or department for which he is qualified.

ARTICLE 18 - UNIFORMS

18.1 Any Employee who is required by the Employer to wear a special uniform, shall have the same furnished and maintained by the Employer. The Employer shall have the right to prescribe reasonable rules and regulations of appropriate dress.

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18.2 Prior to any Employee being required to wear any uniform, the Employer will define such uniforms and any permissible substitutions thereto.

18.3 Mutuel Clerks may be required to wear white dress shirts or white blouses to work. In such event, the Employer agrees to pay to each affected Employee One Hundred Dollars (\$100.00) during each year of this contract for the purpose of said Employee purchasing white dress shorts or white blouses acceptable to management. The type and style of uniforms will be discussed by the Employer with a Committee from the Union not to exceed five (5) members, with the understanding that the final decision will be made by the Employer.

ARTICLE 19 - SEVERABILITY

If any section or part thereof of this Agreement should be held invalid by operation of law or by any body, commission or tribunal of competent jurisdiction, or if compliance with or enforcement of any section or part thereof should be restrained by such body, commission or tribunal pending a final determination as to its validity, the remainder of this Agreement or the application of such section or part thereof to persons or circumstances other than those as to which it has been restrained, as set forth above, shall not be affected thereby. In the event that any section or part thereof of this Agreement is held invalid or unenforceable or the compliance with which has been restrained, as above set forth, the parties shall enter into immediate collective bargaining negotiations upon the request of the Union for the purpose of arriving at a mutually satisfactory replacement for such section or part thereof during the period of invalidity or restraint. If the parties do not agree on a mutually satisfactory replacement provision, either party may submit the question to arbitration in accordance with Article IX and the arbitrator shall have the authority to determine the substance of such substitute provision.

ARTICLE 20 - PENSION PLAN

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The parties and their predecessors hereto have, prior to the execution of this Agreement, executed documents necessary to implement Charles Town Races Future Service Retirement Plan, including the Trust Agreement establishing the fund of said Plan. The Employer has, in turn, agreed to be bound by said Plan and the provisions thereof. If Employer's obligation to make contributions to the said fund shall cease or terminate, or be reduced to a level which affects the actuarial solvency of said fund, both pursuant to the provisions of said Trust Agreement, then, upon request therefor by the Union, Employer shall, within thirty (30) days of said request, discuss with the Union any proposal of the Union regarding Employer's continuing or increasing contribution to said Fund.

ARTICLE 21 - VACATIONS

Each Union Employee with five (5) or more years service, who is classified as a regular, full-time Employee, shall receive one-half (1/2) day's paid vacation for each forty (40) full days worked in each calendar year based on live racing days. Each Union Employee with ten (10) or more years service, who is classified as a regular, full-time Employee, shall receive one (1) day's paid vacation for each forty (40) full days worked in each calendar year based on live racing days. Each Union Employee with twenty (20) or more years service, who is classified as a regular, full-time Employee, shall receive one and one-quarter (1 1/4) day's paid vacation for each forty (40) full days worked in each calendar year based on live racing days.

Earned vacation pay will be paid one (1) week following the last racing date in the year.

ARTICLE 22 - SUNDAY RACING

Notwithstanding anything contained hereinabove to the contrary, the Employer agrees that Sunday racing will be limited to a five hour period between the hours of 1:00 P.M. and 11:00 P.M., with the Employer to have the sole discretion as to which five hours will be selected for Sunday racing.

ARTICLE 23 - VIDEO LOTTERY AGREEMENT

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The Union agrees that upon the effective date of this Agreement, it will have its staff representative and Local President sign a written, notarized agreement, with a term to run concurrent with this Agreement, to be presented by the Employer to the West Virginia Lottery Commission, evidencing the Union's agreement regarding the allocation of the proceeds from the video lottery terminals/slot machines as required by West Virginia Code #29-22A-7, and that agreement will remain in full force and effect and irrevocable by the Union and the Employer during the term of this collective bargaining agreement and any extensions or modifications thereof.

ARTICLE 24 - EMPLOYEE BENEFITS

Effective January 1, 2001, (assuming ratification of this agreement by the Union on or before that date) Employer will, for the life of the Agreement, offer to the membership of the Union the same PNGI Benefit Plan that is offered during the term of this Agreement to the non-represented employees at Charles Town Races, including and limited to health, dental and vision insurance, and the Group Life Insurance Program (GLIP). Eligibility requirements and cost sharing will be identical to the terms offered to the non-represented employees during the term of this Agreement.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the day and year first above written.

PNGI CHARLES TOWN GAMING
LIMITED LIABILITY COMPANY

By: /s/ WILLIAM J BORK

Its: PRESIDENT

ATTEST: GEORGE A. CONNOLLY

WEST VIRGINIA UNION OF MUTUEL
CLERKS, LOCAL 533, SERVICE
EMPLOYEES INTERNATIONAL
UNION, AFL-CIO

By: /s/ RICHARD B. NOLAN

Its: PRESIDENT

ATTEST: _____

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SCHEDULE A

EFFECTIVE JANUARY 1, 2001

2 YEARS OR LESS

JOB CLASSIFICATION	20 YRS	10-19 YRS	2-9 YRS	UNION	PROBATION
Terminal Operator	[*]	[*]	[*]	[*]	[*]
Information Clerk	[*]	[*]	[*]		
Money Room Division Head	[*]	[*]			
Messengers	[*]	[*]	[*]	[*]	[*]
Seller, Gateman, Usher	[*]	[*]	[*]	[*]	[*]
Jockey Valet	[*]	[*]	[*]	[*]	[*]

EFFECTIVE JANUARY 1, 2002

2 YEARS OR LESS

JOB CLASSIFICATION	20 YRS	10-19 YRS	2-9 YRS	UNION	PROBATION
Terminal Operator	[*]	[*]	[*]	[*]	[*]
Information Clerk	[*]	[*]	[*]		
Money Room Division Head	[*]	[*]			
Messengers	[*]	[*]	[*]	[*]	[*]
Seller, Gateman, Usher	[*]	[*]	[*]	[*]	[*]
Jockey Valet	[*]	[*]	[*]	[*]	[*]

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EFFECTIVE JANUARY 1, 2003

2 YEARS OR LESS

JOB CLASSIFICATION	20 YRS	10-19 YRS	2-9 YRS	UNION	PROBATION
Terminal Operator	[*]	[*]	[*]	[*]	[*]
Information Clerk Money Room Division Head	[*]	[*]	[*]		
Messengers	[*]	[*]	[*]	[*]	[*]
Seller, Gateman, Usher	[*]	[*]	[*]	[*]	[*]
Jockey Valet	[*]	[*]	[*]	[*]	[*]

EFFECTIVE JANUARY 1, 2004

2 YEARS OR LESS

JOB CLASSIFICATION	20 YRS	10-19 YRS	2-9 YRS	UNION	PROBATION
Terminal Operator	[*]	[*]	[*]	[*]	[*]
Information Clerk Money Room Division Head	[*]	[*]	[*]		
Messengers	[*]	[*]	[*]	[*]	[*]
Seller, Gateman, Usher	[*]	[*]	[*]	[*]	[*]
Jockey Valet	[*]	[*]	[*]	[*]	[*]

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Mountainview Thoroughbred Racing Association
Pennsylvania National Turf Club, Inc.
Penn National Holding Company
Penn National Gaming of West Virginia, Inc.
PNGI Charles Town Gaming Limited Liability Company.
PNGI Charles Town Food & Beverage, LLC.
Tennessee Downs, Inc.
Penn National GSFR, Inc.
PNGI Pocono, Inc.
The Downs Racing, Inc.
Northeast Concessions, Inc.
Mill Creek Land, Inc.
Backside, Inc.
Wilkes Barre Downs, Inc.
Casino Holding, Inc.
BSL, Inc.
BTN, Inc.
eBetUSA.com, Inc.
Penn National Speedway, Inc.
Sterling Aviation, Inc.

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Penn National Gaming, Inc.
Wyomissing, Pennsylvania

We hereby consent to the incorporation by reference in the Prospectus constituting a part of the Registration Statements on Forms S-3 and S-8, respectively, (SEC File No. 33-98642 and 33-98640) of our report dated March 12, 2001, relating to the consolidated financial statements of Penn National Gaming, Inc. and subsidiaries for the year ended December 31, 2000 appearing in the Company's Annual Report on Form 10-K.

BDO SEIDMAN, LLP

Philadelphia, Pennsylvania
March 27, 2001