

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 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.)

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

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

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

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

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

Title	Outstanding as of November 10, 2000
Common stock par value .01 per share	15,029,475

THIS REPORT INCLUDES "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF SECTION 27A OF THE SECURITIES ACT OF 1933 AND SECTION 21E OF THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED. ALL STATEMENTS OTHER THAN STATEMENTS OF HISTORICAL FACTS INCLUDED IN THIS REPORT LOCATED ELSEWHERE HEREIN REGARDING THE COMPANY'S OPERATIONS, FINANCIAL POSITION AND BUSINESS STRATEGY, MAY CONSTITUTE FORWARD-LOOKING TERMINOLOGY SUCH AS "MAY", "WILL", "EXPECT", "INTEND", "ESTIMATE", "ANTICIPATE", "BELIEVE" OR "CONTINUE" OR THE NEGATIVE THEREOF OR VARIATIONS THEREON OR SIMILAR TERMINOLOGY. ALTHOUGH THE COMPANY BELIEVES THAT THE EXPECTATIONS REFLECTED IN SUCH FORWARD-LOOKING STATEMENTS ARE REASONABLE AT THIS TIME, IT CAN GIVE NO ASSURANCE THAT SUCH EXPECTATIONS WILL PROVE TO HAVE BEEN CORRECT. IMPORTANT FACTORS THAT COULD CAUSE ACTUAL RESULTS TO DIFFER MATERIALLY FROM THE COMPANY'S EXPECTATIONS ("CAUTIONARY STATEMENTS") ARE DISCLOSED IN THIS REPORT AND IN OTHER MATERIALS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE COMPANY OR PERSONS ACTING ON ITS BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS.

Penn National Gaming, Inc. and Subsidiaries

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Part I. Financial Information  
Item 1. Financial Statements

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

	September 30, 2000 (Unaudited)	December 31, 1999
<hr/>		
Assets		
Current assets		
Cash and cash equivalents	\$ 20,402	\$ 9,434
Accounts receivable	8,494	4,779
Prepaid expenses and other current assets	6,144	1,793
Deferred income taxes	538	888
Prepaid income tax	245	1,088
	<hr/>	
Total current assets	35,823	17,982
	<hr/>	
Property, plant and equipment, at cost		
Land and improvements	78,168	27,988
Building and improvements	139,298	70,870
Furniture, fixtures and equipment	69,932	36,195
Transportation equipment	913	860
Leasehold improvements	11,631	9,802
Construction in progress	9,998	1,980
	<hr/>	
	309,940	147,695
Less accumulated depreciation and amortization	27,371	20,824
	<hr/>	
Net property, plant and equipment	282,569	126,871
	<hr/>	
Other assets		
Investment in and advances to unconsolidated affiliate	14,507	12,862
Cash in escrow	5,008	5,000
Excess of cost over fair market value of net assets acquired (net of accumulated amortization of \$3,359 and \$2,611 respectively)	79,660	21,582
Deferred financing costs	9,860	5,014
Miscellaneous	3,307	1,289
	<hr/>	
Total other assets	112,342	45,747
	<hr/>	
	\$430,734	\$190,600
	<hr/> <hr/>	

See accompanying notes to consolidated financial statements.

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

	September 30, 2000 (Unaudited)	December 31, 1999
<b>Liabilities and Shareholders' Equity</b>		
<b>Current liabilities</b>		
Current maturities of long-term debt and capital lease obligations	\$ 10,563	\$ 5,160
Accounts payable	13,578	10,210
Purses due horsemen	1,009	2,114
Uncashed pari-mutuel tickets	1,150	1,351
Accrued expenses	7,555	2,694
Accrued interest	1,372	433
Accrued salaries and wages	4,943	1,098
Customer deposits	1,006	800
Taxes, other than income taxes	2,014	1,491
	-----	-----
<b>Total current liabilities</b>	<b>43,190</b>	<b>25,351</b>
	-----	-----
<b>Long-term Liabilities</b>		
Long-term debt and capital lease obligations, net of current maturities	298,236	86,053
Deferred income taxes	13,145	12,924
	-----	-----
<b>Total long-term liabilities</b>	<b>311,381</b>	<b>98,977</b>
	-----	-----
<b>Commitments and contingencies</b>		
<b>Shareholders' equity</b>		
Preferred stock, \$.01 par value, authorized 1,000,000 shares; issued none	--	--
Common stock, \$.01 par value, authorized 20,000,000 shares; issued 15,432,675 and 15,314,175, respectively	154	153
Treasury stock, 424,700 shares at cost	(2,379)	(2,379)
Additional paid-in capital	39,152	38,527
Retained earnings	39,236	29,971
	-----	-----
<b>Total shareholders' equity</b>	<b>76,163</b>	<b>66,272</b>
	-----	-----
	<b>\$ 430,734</b>	<b>\$ 190,600</b>
	=====	=====

See accompanying notes to consolidated financial statements.

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

	Nine Months Ended September 30,	
	2000	1999
Revenues		
Gaming	\$ 99,895	\$ 40,069
Racing	87,960	76,062
Other revenue	18,903	9,608
Total revenues	206,758	125,739
Operating expenses		
Gaming	69,510	25,777
Racing	63,821	61,587
Other operating expenses	14,600	8,082
General and administrative	15,977	9,614
Depreciation and amortization	8,457	6,469
Total operating expenses	172,365	111,529
Income from operations	34,393	14,210
Other income (expenses)		
Interest (expense)	(11,004)	(6,508)
Interest income	1,334	976
Other	1	(7)
Total other (expenses)	(9,669)	(5,539)
Income before taxes and extraordinary income	24,724	8,671
Taxes on income	8,876	3,271
Income before extraordinary item	15,848	5,400
Extraordinary item, loss on early extinguishment of debt, net of income taxes of \$4,615	(6,583)	--
Net income	\$ 9,265	\$ 5,400
Per share data		
Basic		
Income before extraordinary item	\$ 1.06	\$ .36
Extraordinary item	(.44)	--
Net Income	\$ .62	\$ .36
Diluted		
Income before extraordinary item	\$ 1.03	\$ .36
Extraordinary items	(.43)	--
Net Income	\$ .60	\$ .36
Weighted shares outstanding		
Basic	14,948	14,812
Diluted	15,407	15,179

See accompanying notes to consolidated financial statements.

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

	Three Months Ended September 30,	
	2000	1999
Revenues		
Gaming	\$ 50,215	\$ 15,030
Racing	30,933	28,514
Other revenue	9,934	4,023
Total revenues	91,082	47,567
Operating expenses		
Gaming	34,902	9,521
Racing	21,776	23,081
Other operating expenses	8,040	3,115
General and administrative	7,407	3,180
Depreciation and amortization	4,089	2,324
Total operating expenses	76,214	41,221
Income from operations	14,868	6,346
Other income (expenses)		
Interest (expense)	(6,188)	(2,175)
Interest income	607	370
Other	1	-
Total other (expenses)	(5,580)	(1,805)
Income before taxes and extraordinary item	9,288	4,541
Taxes on income	3,286	1,703
Income before extraordinary item	6,002	2,838
Extraordinary item, loss on early extinguishment of debt, net of income taxes of \$4,615	(6,583)	-
Net income (loss)	\$ (581)	\$ 2,838
Per share data		
Basic		
Income before extraordinary item	\$ .40	\$ .19
Extraordinary item	(.44)	-
Net income (loss)	\$ (.04)	\$ .19
Diluted		
Income before extraordinary item	\$ .39	\$ .19
Extraordinary item	(.43)	-
Net income (loss)	\$ (.04)	\$ .19
Weighted shares outstanding		
Basic	15,007	14,868
Diluted	15,504	15,242

See accompanying notes to consolidated financial statements.

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

	Common Stock Shares -----	Amounts -----	Treasury Stock -----	Additional Paid-In Capital -----	Retained Earnings -----	Total -----
Balance, at January 1, 2000	15,314,175	\$ 153	\$ (2,379)	\$ 38,527	\$ 29,971	\$ 66,272
Issuance of common stock	118,500	1	-	625	-	626
Net income for the nine months ended September 30, 2000	-	-	-	-	9,265	9,265
-----						
Balance, at September 30, 2000	15,432,675	\$ 154	\$ (2,379)	\$ 39,152	\$ 39,236	\$ 76,163
=====						

See accompanying notes to consolidated financial statements.



PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2000	1999
Cash flows from operating activities		
Net income	\$ 9,265	\$ 5,399
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	8,457	6,469
Income from unconsolidated affiliates	(1,645)	--
Extraordinary loss relating to early extinguishment of debt	11,198	
Deferred income tax	571	861
Decrease (increase) in		
Accounts receivable	(3,715)	(740)
Prepaid expenses and other current assets	(4,584)	(584)
Prepaid income taxes	843	859
Miscellaneous other assets	(2,013)	(42)
Increase (decrease) in		
Accounts payable	3,368	657
Purses due horsemen	(1,105)	1,720
Uncashed pari-mutuel tickets	(201)	(590)
Accrued expenses	4,859	88
Accrued interest	939	1,788
Accrued salaries and wages	3,845	217
Customers deposits	206	280
Taxes other than income taxes	523	783
Income taxes payable	--	74
Net cash provided by operating activities	30,811	17,239
Cash flows from investing activities		
Expenditures for property, plant and equipment	(17,348)	(5,002)
Proceeds from sale of property and equipment	151	--
Investment in and advances to unconsolidated affiliate	--	(12,269)
Acquisition of business, net of cash acquired	(203,906)	251
	(8)	--
Cash in escrow		
Net cash (used) in investing activities	(221,111)	(17,020)

See accompanying notes to consolidated financial statements.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOW  
(In thousands)  
(Unaudited)

	Nine Months Ended September 30,	
	2000	1999
Cash flows from financing activities		
Proceeds from sale of common stock	626	503
Proceeds from long term debt	319,895	11,500
Principal payments on long-term debt and capital lease obligations	(102,310)	(6,034)
(Increase) in unamortized financing cost	( 10,258)	(3,237)
Payment of Senior Notes tender fees	( 6,685)	-
	201,268	2,732
Net cash provided by financing activities		
	10,968	2,951
Net increase in cash and cash equivalents		
Cash and cash equivalents, at beginning of period	9,434	6,826
	\$ 20,402	\$ 9,777
Cash and cash equivalents, at end of period	\$ 20,402	\$ 9,777

See accompanying notes to consolidated financial statements

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

1. Basis of Financial Statement Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Penn National Gaming, Inc., (Penn) and its wholly owned subsidiaries, (collectively, the "Company"). All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation.

In the opinion of management, all adjustments (consisting of normal recurring accruals) which have been made are necessary to present fairly the financial position of the Company as of September 30, 2000 and the results of its operations for the three and nine month periods ended September 30, 2000 and 1999. The results of operations for the nine month period ending September 30, 2000 are not necessarily indicative of the results to be experienced for the fiscal year ended December 31, 2000.

The statements and related notes herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The accompanying notes should therefore be read in conjunction with the Company's December 31, 1999 annual financial statements.

2. Commitments

At September 30, 2000, the Company was contingently obligated under letters of credit with face amounts aggregating \$2,031,000. These amounts consisted of \$1,727,000 relating to horsemen's account balances, \$104,000 for Pennsylvania pari-mutuel taxes and \$200,000 for purses.

3. Mississippi Acquisitions

On December 10, 1999, the Company entered into two definitive agreements to purchase substantially all of the assets of the Casino Magic Bay St. Louis hotel, casino, golf resort, recreational vehicle (RV) park and marina in Bay St. Louis, Mississippi and the Boomtown Biloxi casino in Biloxi, Mississippi, from Pinnacle Entertainment, Inc. (formerly Hollywood Park, Inc.) (NYSE:PNK) for an aggregate of \$195 million (the "Mississippi Acquisitions"). In addition, the Company has entered into licensing agreements to use the Boomtown and Casino Magic Bay St. Louis names and marks for specified periods. On August 8, 2000 the Company entered into a new \$350 million senior secured credit facility with Lehman Brothers and CIBC World Markets, Corp. A portion of the proceeds of the new credit facility were used to finance the Mississippi Acquisitions which was consummated on August 8, 2000.

Unaudited pro forma financial information for the nine months ended September 30, 2000 and the nine months ended September 30, 1999, as though the Mississippi Acquisitions had occurred on January 1, 1999, is as follows:

	For the nine months ended September 30, (Unaudited)	
	1999	2000
Revenues	\$245,633	\$303,960
Net Income Before Extraordinary Item	5,484	15,816
Extraordinary Item, Net of Income Tax Benefit	--	(6,583)
Net Income	5,484	9,233
Net Income Per Common Share		
Basic	\$ 0.37	\$ 0.62
Diluted	0.36	0.60
Weighted Shares Outstanding		
Basic	14,812	14,948
Diluted	15,179	15,407

#### 4. New Jersey Joint Venture

The Company's investment in the Joint Venture is accounted for under the equity method, original investments are recorded at cost and adjusted by the Company's share of income or losses of the Joint Venture. The income for the three and nine months ended September 30, 2000 and 1999 of the Joint Venture is included in other revenue in the accompanying Consolidated Statements of Income for the three and nine months ended September 30, 2000 and 1999.

Summarized balance sheet information for the Joint Venture as of September 30, 2000 is as follows (in thousands):

Current assets	\$ 14,101
Property, plant and equipment, net	30,035
Other	17,632
	-----
Total assets	\$ 61,768
	-----
Current liabilities	\$ 10,328
	-----
Long-term liabilities	45,381
Members' equity	6,059
	-----
Total liabilities and members' equity	\$ 61,768
	-----

Summarized results of operations of the unconsolidated Joint Venture (commencing July 30, 1999) for the three and nine month periods ended September 30, 2000 are as follows (in thousands):

	Three Months Ended September 30,	
	2000	1999
	-----	-----
Revenues	\$ 14,266	\$ 10,471
Operating expenses	10,834	8,325
	-----	-----
EBITDA*	3,432	2,146
	-----	-----
Net Income	\$ 1,628	\$ 1,032
	-----	-----

	Nine Months Ended September 30,	
	2000	1999
	-----	-----
Revenues	\$ 45,094	\$ 10,471
Operating expenses	35,348	8,325
	-----	-----
EBITDA*	9,746	2,146
	-----	-----
Net Income	\$ 4,488	\$ 1,032
	-----	-----

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

5. Supplemental Disclosures of Cash Flow Information

Cash paid during the nine months ended September 30, 2000 and 1999 for interest was \$10,025,000 and \$4,715,000, respectively.

Cash paid during the nine months ended September 30, 2000 and 1999 for income taxes was \$2,984,000 and \$1,463,000, respectively.

6. Long-Term Debt and Capital Lease Obligations

Long-term debt and capital lease obligations are as follows:

	September 30, 2000 (unaudited)	December 31, 1999
----- (In thousands)		
Long-term debt		
\$350 million senior secured credit facility with banks and institutional lenders including a \$75 million revolving facility, 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. This credit facility is secured by substantially all of the assets of the Company (see additional information below under Credit Facility).	\$ 308,625	\$ --
\$80 million Senior Notes, due December 15, 2004 with interest at 10.625% per annum payable semi-annually. The Senior Notes were unsecured and were unconditionally guaranteed by certain subsidiaries of the Company. The Senior Notes were repaid on August 8, 2000.	--	69,000
Revolving credit facility payable to a bank group. This credit facility was repaid on August 8, 2000.	--	12,900
Term loan payable to a bank group due on December 31, 2002 with interest at various rates. This note was secured by certain assets of the Company. This note was repaid on August 8, 2000.	--	9,100
Other notes payable	174	213
	----- 308,799	----- 91,213
Less Current maturities	10,563	5,160
	----- \$ 298,236	----- \$ 86,053
	-----	-----

## 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 debts with First Union National Bank and Bank of America, to tender for the outstanding 10 5/8% Senior Notes 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.

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 outstanding amounts under the credit facility as of September 30, 2000 is as follows (in thousands):

Revolving credit facility	\$36.0
Tranche A	73.1
Tranche B	199.5
	-----
Total	\$308.6
	-----

On June 29, 2000 the Company commenced a cash tender offer for all of its outstanding \$69 million 10 5/8% Senior Notes due 2004 (the "Notes") and a related consent solicitation to eliminate certain restrictive covenants and related provisions in the indenture pursuant to which the Notes were issued. All of the holders of the Notes accepted the Company's tender offer, consented to the proposed indenture amendments and delivered all of the outstanding Notes to the trustee. The tender offer was completed on August 8, 2000.

As a result of the tender offer, the Company paid a tender premium of \$6,685 million. In addition, the Company charged to operations deferred financing costs, amounting to \$4,513 million as a result of the refinancing discussed above. The total, \$11,198 million has been reflected as an extraordinary item, net of an income tax benefit of \$4,165 million in the consolidated statements of income for the three and nine months ended September 30, 2000.

7. Trackpower, Inc. and eBet Limited

In July 1999, the Company entered into an agreement with Trackpower, Inc. (OTC BB: TPWR) ("Trackpower") to serve as the exclusive pari-mutuel wagering hub operator for Trackpower. Trackpower, up until August 1, 2000, provided direct-to-home digital satellite transmissions of horse racing to its subscriber base. The initial term of the contract is for five years with an additional five-year option available. The Company pays Trackpower a commission on all new revenues earned from their subscriber base. As an additional incentive to enter into the contract, the Company received warrants to purchase 5,000,000 shares of common stock of Trackpower at prices ranging from \$1.58 per share to \$2.58 per share. The warrants vest at 20% per year and expire on April 30, 2004. The fair market value of the warrants issued will be amortized over the vesting period of one year from the anniversary date of the agreement. As a result of the transition of operations in 1999, the amount to be amortized as a reduction of commissions earned in 2000 by Trackpower was not material.

In March 2000, the Company entered into a letter of intent with Trackpower and eBet Limited ("eBet") which, if a definitive agreement was executed, would have replaced and restated the above described agreement between the Company and Trackpower. On June 27, 2000, the March 2000 letter of intent was terminated. The Company will continue to work under existing license agreements and contracts entered into with Trackpower prior to March 2000.

8. Minority Interest Purchase

On March 15, 2000, the Company purchased from the BDC Group ("BDC"), its joint venture partner in West Virginia, BDC's 11% interest in PNGI Charles Town Gaming Limited Liability Company, which owns and operates Charles Town Races, for \$6.0 million in cash. The investment is recorded net of the minority interest tax liability of \$155,000 or \$5.845 million. As a result of the purchase, PNGI Charles Town Gaming Limited Liability Company is now a 100% owned subsidiary of the Company.

9. Pending Acquisition

On July 31, 2000, the Company entered into a definitive agreement to acquire by merger the gaming assets of CRC Holdings, Inc. ("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 Louisiana Casino Cruises, Inc. ("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 for the Casino Rama casino which terminates in 2011. Casino Rama is located approximately 80 miles north of Toronto, Canada, in Orillia, Canada on land owned by the Chippewas of Mnjikaning First Nation. Under the terms of the agreement, CRC will divest all of its non-gaming related assets prior to closing. The transaction, expected to close in the first half of 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.



Item 2. Management's Discussion and Analysis of Financial Conditions and Results of Operations

Results of Operations

Three Months Ended September 30, 2000 Compared To Three Months Ended September 30, 1999

Revenues for the quarter rose 91.5% to \$91.1 million compared to \$47.6 million in the third quarter of 1999. The Company's Charles Town operations achieved a 77.3% gain in third quarter revenues resulting from significant increases in slot revenues related to a greater percentage of coin-out slot machines which are generating higher levels of play. Third quarter revenue comparisons also reflect the Company's first recognition of revenues from the recently acquired Mississippi casinos and a 7.9% revenue gain from Penn National Race Course and Pocono Downs and their eleven off-track wagering (OTW) sites. EBITDA (earnings before interest, taxes, depreciation and amortization) rose 118.7% to \$19.0 million, from \$8.7 million in the third quarter of 1999. The third quarter 2000 EBITDA growth includes a partial quarter EBITDA contribution of \$3.8 million from the Mississippi casinos and reflects a 119.0% rise in operating income at Charles Town related to higher slot wagering and positive operating income from on-track operations, a 57.8% EBITDA gain from the Company's Pennwood Racing New Jersey joint venture, and a 20.9% EBITDA increase from the Company's Pennsylvania racetracks and OTW operations.

Net income in the third quarter of 2000 was \$6.0 million, or \$0.39 per diluted share, a gain of 111.9% (before an extraordinary charge for the early extinguishment of debt) compared to net income of \$2.8 million, or \$0.19 per diluted share, in the third quarter of 1999. Reflecting an extraordinary charge net of taxes of \$6.6 million, or \$0.43 per diluted share, for the early extinguishment of debt, the Company recorded a net loss of \$581,000, or a \$0.04 per diluted share loss, in the third quarter of 2000. Per share results are based on a weighted average number of diluted shares outstanding of 15,504,000 and 15,242,000 for the third quarters of 2000 and 1999, respectively.

Business Segment Information

Three Months Ended September 30,  
(In thousands)  
(unaudited)

	REVENUES		EBITDA	
	2000	1999	2000	1999
Penn National Race Course and its OTWs	\$16,933	\$16,132	\$ 3,010	\$2,409
Pocono Downs and its OTWs	10,972	9,731	2,567	2,205
Charles Town	38,460	21,695	10,364	4,732
Mississippi casinos				
Casino Magic - Bay St. Louis	13,794	-	2,417	-
Boomtown Biloxi - Biloxi	10,615	-	1,419	-
Earnings from Pennwood Racing, Inc. (New Jersey)	815	516	815	516
Corporate eliminations*	(507)	(508)	-	-
Corporate overhead	-	-	(1,635)	(1,192)
Total	\$91,082	\$47,566	\$18,957	\$8,670

\* For intracompany transactions related to import/export simulcasting.

## Charles Town Entertainment Complex

Revenues increased at Charles Town by approximately \$16.7 million, or 77.2%, to \$38.5 million in 2000 from \$21.7 million in 1999. Gaming revenue increased by \$15.6 million, or 102.5%, to \$30.6 million in 2000 from \$15.0 million in 1999 due to the addition of 136 new video lottery machines and 565 new reel spinning, coin-out slot machines since January of last year. The average number of machines in play increased to 1,439 in 2000 from 921 in 1999 and the average win per machine increased to \$228 in 2000 from \$177 in 1999. Racing revenue increased by \$.3 million or 7.1% to \$5.5 million in 2000 from \$5.2 million in 1999. The live meet consisted of 55 race days in 2000 and compared to 61 race days in 1999 and 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 \$590,000 for 2000 compared to \$360,000 in 1999. Concession revenues increased by approximately \$.8 million or 56.7% to \$2.3 million in 2000 from \$1.5 million in 1999 due to increased attendance for gaming and racing and the expansion of the concession areas, dining room and buffet area. Operating expenses increased by \$10.0 million or 55.4 % to \$28.1 million in 2000 from \$18.1 million in 1999. The increase was due to an increase in direct costs associated with additional wagering on horse racing and gaming machine play, the addition of gaming machines and floor space (new temporary facility for gaming machines), export simulcast expenses and expanded concession and dining capability and capacity. EBITDA increased by \$5.7 million or 121.2% to \$10.4 million in 2000 from \$4.7 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 September 30, 2000, the casinos had revenues of \$24.2 million, operating expenses of \$20.6 million and EBITDA of \$3.8 million.

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

Penn National Race Course had an increase in revenue of approximately \$.8 million, or 5.0%, to \$16.9 million in 2000 from \$16.1 million in 1999. Pari-mutuel wagering for the period was \$96.1 million in 2000 compared to \$100.0 million in 1999. The increase in revenues was primarily due to a refund from the Commonwealth of Pennsylvania for pari-mutuel taxes paid in 1999 in the amount of \$1.0 million. Operating expenses increased by approximately \$.2 million or, 1.4%, to \$13.9 million in 2000 from \$13.7 million in 1999.

## Pocono Downs and OTW Facilities (Pocono Downs)

Revenues at Pocono Downs increased by \$1.3 million or 12.7% to \$11.0 million in 2000 from \$9.7 million in 1999. Pari-mutuel wagering increased to \$47.5 million in 2000 compared to \$46.3 million in 1999. Revenues increased due to the opening of the East Stroudsburg OTW on July 29, 2000, a live racing schedule change that added Monday racing and dropped Friday racing, and a refund from the Commonwealth of Pennsylvania for pari-mutuel taxes paid in 1999 in the amount of \$.6 million. Expenses increased by approximately \$.9 million or 11.6% to \$8.4 million in 2000 from \$7.5 million in 1999. EBITDA increased \$.4 million or 16.7% to \$2.6 million in 2000 from \$2.2 million in 1999.

## New Jersey Joint Venture

The Company completed its investment in the Joint Venture on July 29, 1999. The Joint Venture operates Freehold Raceway and Garden State Race Track. Revenues of the Joint Venture increased to \$14.3 million in 2000 compared to \$10.5 million in 1999 as a result of the recognition of operating results for a full three-month period in 2000. Net income was \$1.6 million in 2000 compared to \$1.0 million in 1999. The Company's 50% share of net income was \$815,000 in 2000 compared to \$516,000 in 1999 and was recorded as other income on the income statement.

## Capital Expenditures

Capital expenditures were \$10.1 million in 2000 compared to \$2.4 million in 1999. Capital expenditures at Charles Town were approximately \$3.6 million for the indoor paddock project that will be the new gaming floor space for 500 machines (\$3.2 million) and equipment replacement and upgrades (\$1.9 million). Capital expenditures at Penn National Race Course and its OTW facilities (\$.2 million), Pocono Downs and its OTW facilities (\$.7 million), and the Mississippi properties (\$.5 million) were for normal equipment replacement and leasehold improvements. The Company also spent \$198.1 million to purchase the Mississippi properties of which \$58.8 million was recorded as goodwill. As a result of goodwill amortization, depreciation and amortization increased \$1.8 million or 75.9% to \$4.1 million in 2000 from \$2.3 million in 1999.

## Nine Months Ended September 30, 2000 Compared To Nine Months Ended September 30, 1999

Revenues for the nine month period ended September 30, 2000 increased 64.4% to \$206.8 million from \$125.7 million during the first nine months of 1999. EBITDA rose 107.2% to \$42.9 million from \$20.7 million in the first nine months of 1999. Net income in the first nine months of 2000 was \$15.8 million or \$1.06 per diluted share, (before the extraordinary charge for the early extinguishment of debt) compared to net income of \$5.4 million or \$0.36 per diluted share, in the first nine months of 1999. Reflecting the third quarter 2000 extraordinary charge net of taxes of \$6.6 million or \$0.43 per diluted share, for the early extinguishment of debt, the Company recorded net income of \$9.3 million or \$0.60 per diluted share, in the first nine months of 2000. Per share results are based on a weighted average number of diluted shares outstanding of 15,407,000 and 15,179,000 for the 2000 and 1999 periods, respectively.

### Nine Months Business Segment (In thousands) (unaudited)

	REVENUES		EBITDA	
	2000	1999	2000	1999
Penn National Race Course and its OTWs	\$49,939	\$39,471	\$8,537	\$4,960
Pocono Downs and its OTWs	29,317	28,398	6,541	7,094
Charles Town	102,121	58,267	26,470	11,986
Mississippi casinos				
Casino Magic - Bay St. Louis	13,794	-	2,417	-
Boomtown Biloxi - Biloxi	10,615	-	1,419	-
Earnings from Pennwood Racing, Inc. (New Jersey)	2,244	516	2,240	514
Corporate eliminations*	(1,272)	(913)	-	-
Corporate overhead	-	-	(4,774)	(3,875)
<b>Total</b>	<b>\$206,758</b>	<b>\$125,739</b>	<b>\$42,850</b>	<b>\$20,679</b>

\* For intracompany transactions related to import/export simulcasting.

## Charles Town Entertainment Complex

Revenues increased at Charles Town by approximately \$43.8 million, or 75.2%, to \$102.1 million in 2000 from \$58.3 million in 1999. Gaming revenue increased by \$40.2 million, or 103.0%, to \$80.3 million in 2000 from \$40.1 million in 1999 due to the addition of 136 new video lottery machines and 565 new reel spinning, coin-out slot machines since January of last year. The average number of machines in play increased to 1,432 in 2000 from 893 in 1999 and the average win per machine increased to \$202 in 2000 from \$164 in 1999. Racing revenue increased by \$1.4 million or 9.8% to \$15.7 million in 2000 from \$14.3 million in 1999. The live meet consisted of 160 race days in 2000 and compared to 160 race days in 1999 and 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 \$1.6 million in 2000 compared to \$.4 million in 1999. Concession revenues increased by approximately \$2.3 million, or 57.4%, to \$6.2 million in 2000 from \$3.9 million in 1999 due to increased attendance for gaming and racing and the expansion of the concession areas, dining room and buffet area. Operating expenses increased by \$26.3 million, or 53.4%, to \$75.6 million in 2000 from \$49.3 million in 1999. The increase was due to an increase in direct costs associated with additional wagering on horse racing and gaming machine play, the addition of gaming machines and floor space (new temporary facility for gaming machines), export simulcast expenses and expanded concession and dining capability and capacity. EBITDA increased by \$14.5 million, or 120.8%, to \$26.5 million in 2000 from \$12.0 million in 1999.

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

Penn National Race Course had an increase in revenue of approximately \$10.4 million, or 26.5%, to \$49.9 million in 2000 from \$39.5 million in 1999. Pari-mutuel wagering for the nine month period was \$297.2 million in 2000 compared to \$229.0 million in 1999. The increase in wagering and revenues is attributed to Penn National Race Course running 153 live race days in 2000 compared to 101 live race days in 1999. Penn National only ran 101 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 \$6.9 million, or 20.0%, to \$41.4 million in 2000 from \$34.5 million in 1999. EBITDA increased by \$3.6 million, or 72.1%, to \$8.5 million in 2000 from \$4.9 million in 1999.

## Pocono Downs and OTW Facilities (Pocono Downs)

Revenues at Pocono Downs increased by \$.9 million, or 3.2%, to \$29.3 million in 2000 from \$28.4 million in 1999. Pari-mutuel wagering was 126.8 million in 2000 and a refund from the Commonwealth of Pennsylvania for pari-mutuel taxes paid in 1999 in the amount of \$.6 million. Expenses increased by approximately \$1.5 million, or 7.1%, to \$22.8 million in 2000 from \$21.3 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 of January 2000 accounted for most of the increase in expenses. EBITDA decreased \$.6 million, or 7.9%, to \$6.5 million in 2000 from \$7.1 million in 1999.

## New Jersey Joint Venture

The Company completed its investment in the Joint Venture on July 29, 1999. The Joint Venture operates Freehold Raceway and Garden State Race Track. Revenues of the Joint Venture increased to \$45.1 million in 2000 compared to \$10.5 million in 1999 as a result of the recognition operating results for a full nine-month period in 2000. Net income was \$4.5 million in 2000 compared to \$1.0 million in 1999. The Company's 50% share of net income was \$2.2 million in 2000 compared to \$.5 million in 1999 and was recorded as other income on the income statement.

## Capital Expenditures

Capital expenditures were \$17.3 million in 2000 compared to \$5.0 million in 1999. Capital expenditures at Charles Town were approximately \$13.8 million and includes the indoor paddock project (\$4.7 million) that will be the new gaming floor space for 500 machines (\$5.0 million) and equipment replacement and upgrades (\$4.1 million).

Capital expenditures at Penn National Race Course and its OTW facilities (\$.5 million), Pocono Downs and its OTW facilities (\$.2 million), and the Mississippi properties (\$.5 million) were for normal equipment replacement and leasehold improvements. Pocono Downs also spent \$2.1 million on its new OTW facility in East Stroudsburg, Pennsylvania, which opened July 29, 2000. The Company also spent \$198.1 million to purchase the Mississippi properties of which \$58.8 million was recorded as goodwill. As a result of goodwill amortization, depreciation and amortization increased \$2.0 million or 30.7% to \$8.5 million in 2000 from \$6.5 million in 1999.

#### Liquidity and Capital Resources

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

Net cash provided from operating activities was \$30.8 million for the period ended September 30, 2000. This consisted of net income and non-cash expenses (\$16.6 million), an extraordinary loss relating to the early extinguishment of debt (\$11.2 million), an increase in accounts receivable (\$3.7 million) due to the addition of the Mississippi properties and the amount due from the Commonwealth of Pennsylvania, an increase in prepaid expenses (\$4.6 million) and miscellaneous other assets (\$2.0 million) primarily from the Mississippi properties, and increase in accounts payable (\$3.4 million), accrued expenses (4.9 million) and accrued salaries and wages (\$3.8 million) primarily from the Mississippi properties and other changes in certain assets and liabilities (\$1.2 million).

Cash flows used in investing activities for the period ended September 30, 2000 (\$221.1 million) consisted of the Company's buyout of the 11% interest in Charles Town that was owned by other investors, (\$5.9 million), the purchase of the Mississippi properties (\$198.0 million), and expenditures for property and equipment as described above (\$17.2 million), net of dispositions.

Cash flows provided by financing activities consisted of borrowings under the new financing agreement (\$312 million) for the purchase of the Mississippi properties and other borrowings (\$7.9 million), proceeds from the sale of common stock (\$.6 million), principal payments on long-term debt (\$102.3 million) primarily due to the payment of and refinancing of all debt, an increase in deferred financing cost due to the new financing credit facility and the payment of tender fees (\$6.7 million) for redeeming the 10 5/8% Senior Notes on August 8, 2000.

The Company is subject to possible liabilities arising from the environmental condition at the Landfill adjacent to Pocono Downs. Specifically, the Company may incur expenses in municipalities, which are parties to the Settlement Agreement. The Company is unable to estimate the amount, if any, that it may be required to expend.

In fiscal year 2000, the Company anticipates spending approximately \$21.5 million on capital expenditures at its racetracks and OTW facilities. The Company anticipates expending approximately \$18.2 million at the Charles Town Entertainment Complex for player tracking (\$.7 million), new slot machines and conversion kits (\$2.1 million), paddock casino and interior renovations (\$7.4 million), machinery and equipment (\$2.0 million) and other projects including construction of a structured parking facility, design and planning for a new hotel (\$6.0 million). The Company also plans to spend approximately \$261,000 at Pocono Downs, \$550,000 at Penn National Race Course, \$400,000 at the OTW facilities for building improvements and equipment and \$2.0 million on building improvements and equipment for its new OTW facility in East Stroudsburg, Pennsylvania. The Company spent approximately \$17.3 million on these projects through September 30, 2000.

The Company entered into a credit facility with Bankers Trust Company, as agent in 1996. This credit facility was amended and restated on January 29, 1999 with First Union National Bank replacing Bankers Trust Company, as Agent. The credit facility, as amended, provided for a \$20 million revolving credit facility, including a \$3 million sub-limit for standby letters of credit and a \$5 million term loan. Under the terms of the credit facility, as amended, the Company borrowed an additional \$11.5 million which was used to finance its share of the New Jersey Joint Venture (see Note 4). The outstanding amount under this credit facility as of June 30, 2000 was \$12.9 million at an interest rate of 9.16%. The credit facility was repaid on August 8, 2000.

On December 13, 1999, the Company entered into a \$20.0 million Senior Secured Multiple Draw Term Loan with Bank of America, as an Agent for a bank group. The term loan was payable in quarterly installments of \$1.3

million principle plus interest. The loan was secured by gaming equipment and improvements at the Charles Town Entertainment Complex. Part of the term loan was used to repay the \$5.0 million First Union term loan and the balance was used to finance gaming equipment and improvements at the Charles Town Entertainment Complex. The outstanding amount under this credit facility as of June 30, 2000 was \$ 13.9 million at an interest rate of 9.15%. This credit facility was repaid on August 8, 2000.

On June 14, 2000, the Company entered into a financing commitment letter with Lehman Brothers, Inc. and CIBC World Markets, Corp. for a \$350 million senior secured credit facility with bank and institutional lenders. On August 8, 2000, the Company completed the credit agreement 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 \$195 million Mississippi Acquisitions, to refinance the Company's existing debts with First Union National Bank and Bank of America, to purchase the outstanding 10 5/8% Senior Notes 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.

At the Company's option, the revolving credit facility and the Tranche A term loan may bear the 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 the 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 outstanding amount under this credit facility as of September 30, 2000 was \$308.6 million.

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

### Item 3. Quantitative and Qualitative Disclosures Market Risk

All of the Company's debt obligations at September 30, 2000 are variable rate obligations. With the slowing of the economy, the Federal Reserve Board is not expected to raise interest rates in the near future. Management, therefore, does not believe that the Company has any material market risk from its debt obligations during the last quarter of 2000.

Part II. Other Information

Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits

None

(B) Reports on Form 8-K

The Company filed the following Current Reports on Form 8-K during the third quarter of 2000:

On August 8, 2000 the Company filed a Current Report on Form 8-K which reflected that the Company entered into a definitive agreement to acquire by merger the gaming assets of CRC Holdings, Inc. (CRC) and the Company also entered into a definitive agreement to acquire the approximately 41% of Louisiana Casino Cruises, Inc. not owned by CRC.

On August 23, 2000 the Company filed a Current Report on Form 8-K that reflected the completion on August 8, 2000, of its 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.

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.

SIGNATURES

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

Penn National Gaming, Inc.

Date: November 14, 2000

By: /s/ Robert S. Ippolito

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Robert S. Ippolito,  
Chief Financial Officer/  
Treasurer/Secretary



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