

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended March 31, 1999

OR

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

For the transition period from _____ to _____

Commission file number: 0-24206

Penn National Gaming, Inc.
(Exact name of Registrant as specified in its charter)

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

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

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

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

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

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

Title	Outstanding as of May 13, 1999
Common Stock Par value \$.01 per share	14,843,059

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 TERMINOLGY. 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)

	March 31, 1999 (Unaudited)	December 31, 1998

Assets		
Current assets		
Cash and cash equivalents	\$ 10,178	\$ 6,826
Accounts receivable	3,307	3,840
Prepaid expenses and other current assets	2,280	2,131
Deferred income taxes	443	458
Prepaid income taxes	1,341	859

Total current assets	17,549	14,114

Property, plant and equipment, at cost		
Land and improvements	26,987	26,969
Building and improvements	67,539	66,918
Furniture, fixtures and equipment	29,954	29,772
Transportation equipment	598	527
Leasehold improvements	9,585	9,579
Leased equipment under capitalized lease	824	824
Construction in progress	2,407	1,847

	137,894	136,436
Less accumulated depreciation and amortization	17,406	15,684

Net property, plant and equipment	120,488	120,752

Other assets		
Note receivable	11,250	--
Excess of cost over fair market value of net assets acquired (net of accumulated amortization of \$2,155 and \$2,002, respectively)	22,289	22,442
Deferred financing costs	2,844	2,403
Miscellaneous	1,096	1,087

Total other assets	37,479	25,932

	\$ 175,516	\$ 160,798
	=====	

See accompanying notes to consolidated financial statements.

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

	March 31, 1999 (Unaudited)	December 31, 1998
<hr style="border-top: 1px dashed black;"/>		
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	\$ 5,159	\$ 168
Accounts payable	5,657	6,217
Purses due horsemen	1,758	887
Uncashed pari-mutuel tickets	1,749	1,597
Accrued expenses	1,702	1,063
Accrued interest	2,443	468
Accrued salaries & wages	792	752
Customer deposits	550	548
Taxes, other than income taxes	351	503
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Total current liabilities	20,161	12,203
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Long-term liabilities		
Long-term debt and capital lease obligations, net of current maturities	84,580	78,088
Deferred income taxes	11,688	11,471
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Total long-term liabilities	96,268	89,559
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Commitments and contingencies		
Shareholders' equity		
Preferred stock, \$.01 par value, authorized 1,000,000 shares; issued none	-	-
Common stock, \$.01 par value, authorized 20,000,000 shares; issued 15,187,009 and 15,164,080, respectively	152	152
Treasury stock, 424,700 shares at cost	(2,379)	(2,379)
Additional paid in capital	38,054	38,025
Retained earnings	23,260	23,238
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Total shareholders' equity	59,087	59,036
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	\$ 175,516	\$ 160,798
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See accompanying note to consolidated financial statements.

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

	Three Months Ending March 31,	
	1999	1998
Revenue		
Pari-mutuel revenues		
Live races	\$ 2,414	\$ 5,305
Import simulcasting	15,301	16,351
Export simulcasting	511	1,326
Gaming revenue	11,297	7,156
Admissions, programs and other racing revenue	1,120	1,260
Concessions revenues	2,146	1,955
Total revenues	32,789	33,353
Operating expenses		
Purses, stakes, and trophies	5,711	6,307
Direct salaries, payroll taxes and employee benefits	3,715	4,365
Simulcast expenses	2,387	3,101
Pari-mutuel taxes	1,669	2,697
Lottery taxes and administration	4,489	2,347
Other direct meeting expenses	4,592	5,442
Concessions expenses	2,022	1,505
Other operating expenses	3,074	2,396
Depreciation and amortization	2,015	1,419
Horsemen's action expenses	1,250	--
Total operating expenses	29,579	30,924
Income from operations	1,865	3,774
Other income (expense)		
Interest (expense)	(2,125)	(2,110)
Interest income	209	201
Total other (expense)	(1,916)	(1,909)
Income (loss) before income taxes	(51)	1,865
Taxes (benefit) on income	(73)	663
Net income	\$ 22	\$ 1,202
Per share data		
Basic	.00	.08
Diluted	.00	.08
Weighted average shares outstanding		
Basic	14,762	15,153
Diluted	15,079	15,586

See accompanying notes to consolidated financial statements.

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

	Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance, January 1, 1999	15,164,080	\$ 152	\$ (2,379)	\$ 38,025	\$ 23,238	\$ 59,036
Issuance of common stock	23,025	-	-	29	-	29
Net income for the three months ended March 31, 1999	-	-	-	-	22	22
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Balance, March 31, 1999	15,187,105	\$ 152	\$ (2,379)	\$ 38,054	\$ 23,260	\$ 59,087
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See accompanying notes to consolidated financial statements.

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

	Three Months Ended March 31,	
	1999	1998
Cash flows from operating activities		
Net income	\$ 22	\$ 1,202
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	2,015	1,417
Deferred income taxes	232	20
Decrease (increase) in		
Accounts receivable	533	(1,161)
Prepaid expenses and other current assets	(149)	(338)
Prepaid income taxes	(482)	865
Miscellaneous other assets	(9)	(181)
Increase (decrease) in		
Accounts payable	(562)	515
Purses due horsemen	871	1,281
Uncashed pari-mutuel tickets	152	220
Accrued expenses	639	(476)
Accrued interest	1,975	2,096
Accrued salaries & wages	40	(121)
Customer deposit	2	55
Taxes, other than income payable	(152)	235
Net cash provided by operating activities	5,127	5,629
Cash flows from investing activities		
Expenditures for property, plant and equipment	(1,458)	(3,766)
Note receivable	(11,250)	--
Net cash (used) in investing activities	(12,708)	(3,766)
Cash flows from financing activities		
Proceeds from sale of common stock	29	18
Proceeds from long-term debt	11,500	--
Principal payments on long-term debt and capital lease obligations	(17)	(16)
Increase in unamortized deferred financing costs	(579)	(164)
Net cash provided by (used) in financing activities	10,933	(162)
Net increase in cash and cash equivalents	3,352	1,701
Cash and cash equivalents, at beginning of period	6,826	21,854
Cash and cash equivalents, at end of period	\$ 10,178	\$ 23,555

See accompanying notes to consolidated financial statements

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

1. Basis of Financial Statement Presentation

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

In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made which are necessary to present fairly the financial position of the Company as of March 31, 1999 and the results of its operations for the three month periods ended March 31, 1999 and 1998. The results of operations experienced for the three month period ended March 31, 1999 are not necessarily indicative of the results to be experienced for the fiscal year ended December 31, 1999.

The statements and related notes have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The accompanying notes should therefore be read in conjunction with the Company's December 31, 1998 annual financial statements.

2. Wagering Information (in thousands)

	Three months ended March 31, 1999			
	Penn National	Pocono Downs	Charles Town	Total
Pari-mutuel wagering in-state on company live races	\$ 6,679	\$ -	\$ 5,043	\$ 11,722
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Pari-mutuel wagering on simulcasting:				
Import simulcasting from other racetracks	27,605	35,164	12,599	75,368
Export simulcasting to out of Pennsylvania wagering facilities	17,154	-	-	17,154
	<hr style="border-top: 1px dashed black;"/> 44,759	<hr style="border-top: 1px dashed black;"/> 35,164	<hr style="border-top: 1px dashed black;"/> 12,599	<hr style="border-top: 1px dashed black;"/> 92,522
Total pari-mutuel wagering	<hr style="border-top: 1px dashed black;"/> \$ 51,438	<hr style="border-top: 1px dashed black;"/> \$ 35,164	<hr style="border-top: 1px dashed black;"/> \$ 17,642	<hr style="border-top: 1px dashed black;"/> \$ 104,244
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Three months ended March 31, 1998

	Penn National	Pocono Downs	Charles Town	Total
Pari-mutuel wagering in-state on company live races	\$ 19,610	\$ 915	\$ 4,118	\$ 24,643
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Pari-mutuel wagering on simulcasting:				
Import simulcasting from other racetracks	42,845	31,065	10,153	84,063
Export simulcasting to out of Pennsylvania wagering facilities	43,620	574	-	44,194
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	86,465	31,639	10,153	128,257
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Total pari-mutuel wagering	\$ 106,075	\$ 32,554	\$ 14,271	\$ 152,900
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3. Commitments

At March 31, 1999, the Company was contingently obligated under letters of credit with face amounts aggregating \$1,876,000. These amounts consisted of \$1,776,000 relating to horsemen's account balances and \$100,000 for Pennsylvania pari-mutuel taxes.

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 ends the strike by the horsemen which began on February 16, and caused the Company to close Penn National Race Course and its six affiliated off-track wagering facilities (OTWs). Purse payments are calculated as a percent of net commissions, as defined in the agreement. 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 a term.

4. Supplemental Disclosures of Cash Flow Information

Cash paid during the three months ended March 31, 1999 and 1998 for interest was \$67,000 and \$14,000, respectively.

Cash paid during the three months ended March 31, 1999 and 1998 for income taxes was \$199,000 and \$218,000, respectively.

5. Note Receivable

On January 28, 1999, the Company loaned \$11,250,000 to FR Park Racing, L.P., a New Jersey partnership, in accordance with the terms of the Joint Venture Agreement dated October 30, 1998, as amended. The loan is a Registered Subordinated Secured Promissory Note that is secured by a Mortgage

and Security Agreement dated January 28, 1999 between the Company and FR Park Racing, L.P. on the property of Freehold Raceway. This Note shall bear interest, compounded quarterly, at a rate equal to the lesser of prime rate plus two percent or the LIBOR rate plus three percent. Interest shall be due and payable quarterly in arrears commencing on April 30, 1999 and continuing on the last day of each succeeding quarter until the earlier of April 30, 2000 (the Maturity Date), the Extended Maturity Date (as defined), the Put Maturity Date (as defined), or the Demand Date (as defined). In the event that the Company participates in the subsequent closing as contemplated by the Joint Venture Agreement, the Maturity Date of this note shall be adjusted to reflect the conversion of the note to a Demand Note (as defined), and, at such point, all outstanding principal, together with interest thereon, shall be due and payable on demand by the Company.

6. Subsidiary Guarantors

Summarized financial information as of March 31, 1999 and 1998 for the three months ended March 31, 1999 and 1998 for Penn National Gaming, Inc. ("Parent"), the Subsidiary Guarantors and Subsidiary Nonguarantors is as follows:

	Parent Company	Subsidiary Guarantors	Subsidiary Non- Guarantors	Elimin- ations	Consoli- dated
As of March 31, 1999 Consolidated Balance Sheet (In Thousands)					
Current assets	\$ 6,667	\$ 6,613	\$ 4,687	\$ (418)	\$ 17,549
Net property, plant and equipment	13,200	62,510	44,778	--	120,488
Other assets	114,009	154,037	1,804	(232,371)	37,479
Total	\$ 133,876	\$ 223,160	\$ 51,269	\$ (232,789)	\$ 175,516
Current liabilities	\$ 8,532	\$ 14,165	\$ 7,886	\$ (10,410)	\$ 20,161
Long-term liabilities	87,736	78,313	47,559	(117,339)	96,268
Shareholders' equity (deficiency)	37,608	130,682	(4,176)	(105,040)	59,087
Total	\$ 133,876	\$ 223,160	\$ 51,269	\$ (232,789)	\$ 175,516

Three months ended March 31, 1999
Consolidated Statement of Income (In Thousands)

Total revenues	\$ 3,696	\$ 13,852	\$ 16,365	\$ (1,124)	\$ 32,789
Total operating expenses	2,019	15,179	14,850	(1,124)	30,924
Income from operations	1,677	(1,327)	1,515	--	1,865
Other income(expenses)	(1,506)	755	(1,165)	--	(1,916)
Income (loss) before income taxes	171	(572)	350	--	(51)
Taxes (benefit) on income	89	(324)	162	--	(73)
Net income (loss)	\$ 82	\$ (248)	\$ 188	\$ --	\$ 22

Three months ended March 31, 1999
Consolidated Statement of Cash Flow (In Thousands)

Net cash provided by used in) operating activities	\$ 2,506	\$ 1,763	\$ 858	\$ --	\$ 5,127
Net cash provided by (used in) investing activities	(11,379)	(716)	(613)	--	(12,708)
Net cash provided by (used in) financing activities	11,529	(596)	--	--	10,933
Net increase (decrease) in cash and cash equivalents	2,656	451	245	--	3,352
Cash and cash equivalents at January 1, 1999	2,001	1,705	3,120	--	6,826
Cash and cash equivalents at March 31, 1999	\$ 4,657	\$ 2,156	\$ 3,365	\$ --	\$ 10,178

	Parent Company	Subsidiary Guarantors	Subsidiary Non- Guarantors	Elimin- ations	Consoli- dated
As of March 31, 1998 Consolidated Balance Sheet (In Thousands)					
Current assets	\$ 16,667	\$ 9,936	\$ 3,162	\$ 1,638	\$ 31,403
Net property, plant and equipment	439	61,714	43,622	--	105,775
Other assets	103,284	146,333	1,370	(224,213)	26,774
Total	\$ 120,390	\$ 217,983	\$ 48,154	\$ (222,575)	\$ 163,952
Current liabilities	\$ 912	\$ 11,188	\$ 3,857	\$ 1,639	\$ 17,596
Long-term liabilities	80,023	81,116	50,081	(119,941)	91,279
Shareholders' equity (deficiency)	39,455	125,679	(5,784)	(104,273)	55,077
Total	\$ 120,390	\$ 217,983	\$ 48,154	\$ (222,575)	\$ 163,952

Three months ended March 31, 1998
Consolidated Statement of Income (In Thousands)

Total revenues	\$ 2,313	\$ 20,521	\$ 10,969	\$ (450)	\$ 33,353
Total operating expenses	834	18,477	10,718	(450)	29,579
Income from operations	1,479	2,044	251	--	3,774
Other income(expenses)	(1,387)	644	(1,166)	--	(1,909)
Income (loss) before income taxes	92	2,688	(915)	--	1,865
Taxes (benefit) on income	(67)	730	--	--	663
Extraordinary item	--	--	--	--	--
Net income (loss)	\$ 159	\$ 1,958	\$ (915)	\$ --	\$ 1,202

Three months ended March 31, 1998
Consolidated Statement of Cash Flow (In Thousands)

Net cash provided by used in) operating activities	\$ 3,070	\$ (15,459)	\$ (609)	\$ 18,627	\$ 5,629
Net cash provided by (used in) investing activities	(5,994)	12,970	2,005	(12,747)	(3,766)
Net cash provided by (used in) financing activities	(34)	5,752	--	(5,880)	(162)
Net increase (decrease) in cash and cash equivalents	(2,958)	3,263	1,396	--	1,701
Cash and cash equivalents at January 1, 1998	3,015	17,895	944	--	21,854
Cash and cash equivalents at March 31, 1998	\$ 57	\$ 21,158	\$ 2,340	\$ --	\$ 23,555

7. Year 2000 Compliance

The "Year 2000 issue" is typically the result of software and hardware being written using two digits rather than four to define the applicable year. If the Company's software and hardware with date-sensitive functions are not Year 2000 compliant, these systems may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, interruptions in pari-mutuel wagering or the inability to operate the Company's video lottery machines.

The Company, has been and is currently conducting a review of all systems and contacting all software suppliers to determine major areas of exposure to Year 2000 issues. The Company believes that, with minor modifications and testing of its systems, the Year 2000 issue will not pose a significant operations problem. The Company is using its internal resources to reprogram or replace and test its software for Year 2000 modifications. If the Company is unable to make the required modifications to existing software or convert to new software in a timely manner, the Year 2000 issue could have a material adverse impact on the Company's operations.

The Company has initiated formal communication with significant suppliers and third party vendors to determine the extent to which the Company's operations are vulnerable to those third parties failure to remediate their own Year 2000 hardware and software issues. Most of these parties state that they intend to be Year 2000 compliant by 2000. In the event that any of the Company's significant suppliers are unable to become Year 2000 compliant, the Company's business or operations could be adversely affected. There can be no assurance that the systems of other companies on which the Company relies will be compliant by the year 2000 and would not have an adverse effect on operations.

The Company does not expect the total cost associated with required modifications to become Year 2000 compliant to be material to its financial position.

The Company has not yet fully developed a comprehensive contingency plan addressing situations that may result if the Company is unable to achieve Year 2000 readiness of its critical operations. Contingency plan development is in process and the Company expects to finalize its plan during the remainder of 1999. There can be no assurance that the Company will be able to develop a contingency plan that will adequately address issues that may arise in the year 2000.

8. Subsequent Events

On April 9, 1999, the State of West Virginia passed legislation approving the use of coin-out and reel spinning slot machines at the four race tracks in West Virginia. The Company plans to convert certain machines at Charles Town to coin-out as well as replace a number of lesser-performing machines with reel spinning models. On April 27, 1999, the Company placed an additional thirty-six (36) machines in operation for a total machine base of 935. During the remainder of 1999, the Company plans to add, subject to regulatory approval, 565 more machines to bring the total machine base to 1,500.

On April 29, 1999, the Company signed a binding Letter of Intent with American Digital Communications, Inc. ("TrackPower") to serve as the exclusive pari-mutuel wagering hub operator for TrackPower. TrackPower provides direct-to-home digital satellite transmissions of horse racing to its subscriber base. The initial term of the contract is for five years with an additional five year option available. The agreement is subject to approval by the Pennsylvania Horse Racing Commission.

On May 10, 1999, the Company commenced a consent solicitation from the holders of its 10.625% Senior Notes due 2004, Series B (the Notes) to amend the indenture pursuant to which the Notes were issued to permit the Company to make certain investments in a joint venture with Greenwood New Jersey, Inc. that will operate Freehold Raceway in Freehold, New Jersey and Garden State Track in Cherry Hill, New Jersey. The total consent fee payable pursuant to the consent solicitation to holders who deliver consents (and do not validly revoke such consents prior to 5:00pm, New York City time, on May 19, 1999) is \$32.50 per \$1,000 principal amount of Notes as to which a consent is given.

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

Results of Operations

Three months ended March 31, 1999 compared to three months ended March 31, 1998

Total revenue decreased by approximately \$564,000 or 1.7% from \$33.4 million for the three months ended March 31, 1998 to \$32.8 million for the three months ended March 31, 1999. Revenues decreased by \$7.2 million or 46.0% at Penn National Race Course and its OTW facilities due to expiration of the Horsemen's Agreement that resulted in the closure of the facilities from February 16 to March 24, 1999. Charles Town Races had increased revenues of \$5.4 million or 49.2% for the period. Video lottery machine revenue increased by \$4.2 million due to an increase in the average number of machines in play of 564 in 1998 compared to 837 in 1999 and an increase in the average win per machine of \$141 in 1998 compared to \$150 in 1999. Racing revenue at the Charles Town Facility increased by \$.8 million due to the improved quality of the live race card and a stronger full-card simulcast program now available to the race fan. Concessions revenues increased by \$.4 million due to the increased attendance at the Charles Town facility. At Pocono Downs and its OTW facilities revenues increased by \$1.0 million or 13.7%. The increase resulted from a full period of operations for Carbondale (\$.9 million) and Hazleton (\$.7 million) that offset the decrease in revenues at the Pocono Downs racetrack (\$.6 million) due to the close proximity of these three facilities.

Total operating expenses increased by approximately \$1.3 million or 4.6% from \$29.6 million for the three months ended March 31, 1998 to \$30.9 million for the three months ended March 31, 1999. Expenses decreased by \$3.9 million or 32.8% at Penn National Race Course and its OTW facilities due to the closing of the facilities from February 16 to March 24, 1999. Included in the operating expenses are \$1.3 million in horsemen action expenses such as fixed operating expenses of the closed facilities, salaries and benefits, contract negotiation expenses, horsemen purses expenses and other related expenses. Charles Town Races had increased expenses of \$4.2 million or 40.9% due to an increase in direct costs associated with additional wagering on horse racing and video lottery machine play. Pocono Downs and its OTW facilities had a \$.6 million net increase in expenses due to a full period of operations at the Carbondale and Hazleton OTW facilities that was offset by a decrease in expenses at the Pocono Downs racetrack. Corporate expenses increased by approximately \$.7 million due to the consolidation of the marketing and information technology departments at the corporate level and the development of an OTW facility management department. Depreciation and amortization expense increased by \$.6 million due to the purchase of the video lottery machines from GTECH in November 1998.

Income from operations decreased by approximately \$1.9 million or 50.6% from \$3.8 million for the three months ended March 31, 1998 to \$1.9 million for the three months ended March 31, 1999 due to the factors described above. Other expenses for the three months ended March 31, 1998 and 1999 consisted of approximately \$1.9 million in net interest primarily due to 10.625 % Senior Notes and the Revolving Credit Facility.

Net income decreased by approximately \$1.2 million or 98.2% from \$1.2 million for the three months ended March 31, 1998 to approximately \$22,000 for the three months ended March 31, 1999 due to the factors described above. Income tax expense decreased by approximately \$736,000 or 111.0% from \$663,000 for the three months ended March 31, 1998 to a credit of \$73,000 for the three months ended March 31, 1999 due to the decrease in income for the period.

Liquidity and Capital Resources

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

Net cash provided by operating activities for the three months ended March 31, 1999 (\$5.1 million) consisted of net income and non-cash expenses (\$2.3 million), a decrease in accounts receivable (\$.5 million), an increase in purses due horsemen (\$.9 million), an increase in accrued interest (\$2.0 million) and a decrease in other working capital (\$.6 million).

Cash flows used in investing activities (\$12.7 million) consisted of a note receivable (\$11.2 million) from FR Park Racing, LP, a New Jersey limited partnership and a part of the New Jersey Joint Venture Agreement and \$1.5 million in capital expenditures.

Cash flows provided by financing activities (\$10.9 million) consisted of borrowings under the Credit Facility (\$11.5 million) for the New Jersey Joint Venture and debt repayment and an increase in financing costs (\$.6 million) for amending the Credit Facility.

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

In the first quarter of 1999, the Company incurred approximately \$1.3 million in expenses associated with the actions by the Pennsylvania Thoroughbred Horsemen on February 16, 1999 that resulted in the closing of Penn National Race Course and its six OTW facilities at Reading, Chambersburg, York, Lancaster, Williamsport and Johnstown, from February 16, 1999 through March 24, 1999.

During the last nine months of 1999 the Company anticipates spending approximately \$7.5 million on capital expenditures at its racetrack and OTW facilities. The Company anticipates expending approximately \$4.5 million at the Charles Town Entertainment Complex for player tracking (\$1.3 million), new video slot machines (\$.8 million), interior renovations (\$.3 million), machinery and equipment (\$.5 million) and other projects including design and planning for a new motel (\$1.6 million). The Company also anticipates approval for and increasing the number of slot machines at the Charles Town Entertainment Complex to 1,500 by December 31, 1999. At this time the Company is unable to estimate the amount required to purchase and install the additional machines. The Company also plans to spend approximately \$390,000 at Pocono Downs, \$445,000 at Penn National, \$200,000 at the OTW facilities for building improvements and equipment and \$2.0 million on building improvements and equipment for the new OTW facility in Stroudsburg, Pennsylvania. If the State of Tennessee reinstates the Tennessee Commission and the Company's racing license or if the racing industry is regulated under another government agency, the Company anticipates expending an additional \$9.0 million to complete the first phase of its Tennessee development project.

The Company entered into its Credit Facility with Bankers Trust Company, as Agent in 1996. This Credit Facility was amended and restated on January 28, 1999 with First Union National Bank replacing Bankers Trust Company, as Agent. The amended Credit Facility provides for, subject to certain terms and conditions, a \$20.0 million revolving credit facility, a \$5.0 million term loan due in one year, a \$3.0 million sublimit for standby letters of credit and has a four-year

term from its closing. The Credit Facility, under certain circumstances, requires the Company to make mandatory prepayments and commitment reductions and to comply with certain covenants, including financial ratios and maintenance tests. In addition, the

Company may make optional prepayments and commitment reductions pursuant to the terms of the Credit Facility. Borrowings under the Credit Facility will accrue interest, at the option of the Company, at either a base rate plus an applicable margin of up to 2.0% or a eurodollar rate plus an applicable margin of up to 3.0%. The Credit Facility is secured by the assets of the Company and contains certain financial ratios and maintenance tests. On March 31, 1999, the Company was in compliance with all applicable ratios.

The Company currently estimates that the cash generated from operations and available borrowings under the Credit Facility will be sufficient to finance its current operations, planned capital expenditure requirements, and the costs associated with first phase of the Tennessee development project. The Company intends to fund its portion of the Joint Venture with Greenwood New Jersey, Inc. (up to \$28.75 million) from cash on hand, available credit lines and other financing. There can be no assurance, however, that the Company will not be required to seek additional capital, in addition to that available from the foregoing sources. The Company may, from time to time, seek additional funding through public or private financing, including equity financing. There can be no assurance that adequate funding will be available as needed or, if available, on terms acceptable to the Company.

Item 3. Changes in Information About Market Risk

All of the Company's debt obligations at March 31, 1999 were fixed rate obligations, and management, therefore, does not believe that the Company has any material risk from its debt obligations.

Part II. Other Information

Item 1. Legal Proceedings

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 (i) states 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 (the "Third Party Wagering Services Contract"), and not with Amtote, effective January 1, 1998, (ii) sought preliminary and injunctive relief through a temporary restraining order seeking to prevent Charles Town Joint Venture from (a) entering into a wagering services contract with a party other than Amtote and (b) having a third party provide such wagering services, (iii) seeks declaratory relief that certain contracts allegedly bind the Charles Town Joint Venture to retain Amtote for wagering services through September 2004 and (iv) seeks unspecified compensatory damages, legal fees and costs associated with the action and other legal and equitable relief as the Court deems just and appropriate. On December 24, 1997, a temporary restraining order was issued, which prescribes performance under the Third Party Wagering Contract. On January 14, 1998, a hearing was held to rule on whether a preliminary injunction should be issued or whether the temporary restraining order should be lifted. On February 20, 1998, the temporary restraining order was lifted by the court. The Company is pursuing legal remedies in order to terminate Amtote and proceed under the Third Party Wagering Services Contract. The Company believes that this action, and any resolution thereof, will not have any material adverse impact upon its financial condition, results, or the operations of either the Charles Town Joint Venture or the Company.

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 first quarter of 1999:

On February 12, 1999, the Company filed a Current Report on Form 8-K which reflected the purchase of certain assets of Garden State Race Track and Freehold Raceway, both located in New Jersey, by the Company and its Joint Venture partner, Greenwood New Jersey, Inc.

On March 2, 1999, the Company filed a Current Report on Form 8-K which reflected the Rights Agreement dated March 2, 1999 between the Company and Continental Stock Transfer and Trust Company as Rights Agent.

SIGNATURES

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

Penn National Gaming, Inc.

May 13, 1999
Date

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

3-Mos
Dec-31-1999
Jan-1-1999
Mar-31-1999

	10,178
	0
3,307	0
	0
17,549	137,894
17,406	
175,516	
20,161	69
0	0
	152
175,516	58,935
	32,789
32,789	27,850
	27,850
3,074	0
2,125	0
(51)	(73)
22	0
	0
	0
	22
	0
	0