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PENN NATIONAL GAMING INC  
Form 8-K/A  
June 08, 2001

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K/A

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): APRIL 27, 2001  
-----

PENN NATIONAL GAMING, INC.  
-----

(Exact Name of Registrant Specified in Charter)

PENNSYLVANIA  
-----

(State or Other  
Jurisdiction of  
Incorporation)

0-24206  
-----

(Commission File  
Number)

23-2234473  
-----

(I.R.S. Employer  
Identification No.)

825 Berkshire Boulevard  
Wyomissing, PA  
-----

(Address of Principal Executive Offices)

19610  
-----

(Zip Code)

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

NOT APPLICABLE  
-----

(Former Name or Former Address, if Changed Since Last Report)

ITEM 2. ACQUISITION OF ASSETS

(a) On April 27, 2001 (the "Closing Date"), the Registrant completed its previously announced acquisitions of (i) CRC Holdings, Inc. ("CRC") from the shareholders of CRC and (ii) the minority interest in Louisiana Casino Cruises, Inc. not owned by CRC from Dan S. Meadows, Thomas L. Meehan and Jerry L. Bayles (together, the "Acquisition"). The Acquisition was

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accomplished pursuant to the terms of Agreement and Plan of Merger among CRC Holdings, Inc., Penn National Gaming, Inc., Casino Holdings, Inc. and certain shareholders of CRC Holdings, Inc., dated as of July 31, 2000 (the "Merger Agreement"), and a 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 (the "Stock Purchase Agreement"). Under the Merger Agreement, CRC merged with Casino Holdings, Inc., a wholly-owned subsidiary of the Registrant (the "Merger"). The terms of each of the agreements were the result of arm's length negotiations among the parties. The aggregate consideration paid by the Registrant for the Acquisition was approximately \$181.3 million, including the repayment of existing debt at CRC or its subsidiaries. The purchase price of the Acquisition was funded by the proceeds of the Registrant's offering of senior subordinated notes, which was completed in March 2001.

(b) The assets acquired pursuant to the Merger and Acquisition consist primarily of the Casino Rouge riverboat gaming facility in Baton Rouge, Louisiana, and a management contract for Casino Rama, a gaming facility located in Orillia, Canada. The Registrant intends to continue the use of such assets in the casino business.

The Registrant issued a press release announcing the completion of the Acquisition, which release is filed herewith as Exhibit 99.1 and is incorporated herein by reference.

### ITEM 7. FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

(a) FINANCIAL STATEMENTS OF BUSINESS ACQUIRED. The following financial statements are filed as part of this Current Report on Form 8-K:

(i) CRC Holdings, Inc. - Gaming Division Financial Statements - November 30, 2000

- o Report of Independent Certified Public Accountants
- o Balance Sheets - November 30, 1999 and 2000
- o Statements of Operations - Years ended November 30, 1998, 1999 and 2000
- o Statements of Changes in Stockholders' Equity - Years ended November 30, 1998, 1999 and 2000
- o Statements of Cash Flows - Years ended November 30, 1998, 1999 and 2000
- o Notes to Financial Statements

(ii) CRC Holdings, Inc. - Gaming Division Financial Statements - February 28, 2001

- o Balance Sheets - November 30, 2000 and February 28, 2001 (unaudited)
- o Statements of Operations - Three Month Periods Ended February 29, 2000 (unaudited) and February 28, 2001 (unaudited)
- o Statement of Changes in Stockholders' Equity - Three Month Period Ended February 28, 2001 (unaudited)
- o Statements of Cash Flows - Three Month Periods Ended February 28, 2000 (unaudited) and February 28, 2001 (unaudited)
- o Notes to Financial Statements

(b) PRO FORMA FINANCIAL INFORMATION. The following unaudited pro forma consolidated financial information is filed as part of this Current Report on Form 8-K:

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-- Unaudited Pro Forma Consolidated Statement of Operations for the year ended December 31, 2000;

-- Unaudited Pro Forma Consolidated Statement of Operations for the three months ended March

31, 2001;

Operations;

-- Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2001; and

-- Notes to Unaudited Pro Forma Consolidated Balance Sheet.

(c) EXHIBITS.

EXHIBIT NO. DESCRIPTION OF DOCUMENT

2.1 + Agreement and Plan of Merger among CRC Holdings, Inc., Penn National Gaming, Inc., Casino Holdings, Inc. and certain shareholders of CRC Holdings, Inc. dated as of July 31, 2000.

2.2 + Stock Purchase Agreement by and among Penn National Gaming, Inc., Dan S. Meadows, Thomas L. Meehan and Jerry S. Bayles, dated as of July 31, 2000.

99.1 ++ Press Release dated April 30, 2000.

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+ Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed August 8, 2000 and incorporated herein by reference.

++ Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed May 7, 2001 and incorporated herein by reference.

### CRC HOLDINGS, INC. - GAMING DIVISION FINANCIAL STATEMENTS NOVEMBER 30, 2000

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Report of Independent Certified Public Accountants

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Statements of Cash Flows -  
Years ended November 30, 1998, 1999 and 2000

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Notes to Financial Statements

## Report of Independent Certified Public Accountants

To the Board of Directors and  
Stockholders of CRC Holdings, Inc.

In our opinion, the accompanying balance sheets and the related statements of operations, of changes in stockholders' equity and of cash flows present fairly, in all material respects, the financial position of CRC Holdings, Inc. - Gaming Division (the "Company") at November 30, 1999 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended November 30, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP  
Miami, Florida  
February 2, 2001

CRC HOLDINGS, INC. - GAMING DIVISION  
BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	November 30,	
	1999	2000
	----	----
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 22,395	\$ 27,395
Trade accounts receivable, net of allowance for doubtful accounts of \$274 and \$357 at 1999 and 2000, respectively	9,552	9,100
Receivables	7,754	5,937
Deferred income tax	1,595	976
Other current assets	2,471	1,278
	-----	-----
Total current assets	43,767	44,686
Property and equipment, net	42,742	43,049

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Receivables, net	5,938	--
Goodwill, net	3,367	3,366
Other assets	4,286	2,946
	-----	-----
Total Assets	\$ 100,100	\$ 94,047
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable	\$ 2,137	\$ 2,314
Due to affiliates and officers	164	163
Accrued expenses	16,922	17,054
Deferred compensation plan liability	--	1,123
Current portion of long-term debt	6,333	5,949
	-----	-----
Total current liabilities	25,556	26,603
Deferred compensation plan liability	1,826	--
Long-term debt	58,958	53,000
Deferred income tax	4,044	4,974
Other liabilities	87	157
	-----	-----
Total liabilities	90,471	84,734
	-----	-----
Commitments and contingencies (Note 10)		
Minority interest	51	1,690
Stockholders' Equity		
Common stock \$.005 par value; 20,000 shares authorized; 10,742 shares issued and outstanding	54	54
Additional paid-in capital	10,335	1,434
(Accumulated deficit) retained earnings	(804)	6,186
Cumulative translation adjustment	(7)	(51)
	-----	-----
Total stockholders' equity	9,578	7,623
	-----	-----
Total liabilities and stockholders' equity	\$ 100,100	\$ 94,047
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
STATEMENTS OF OPERATIONS  
(IN THOUSANDS)

	Year Ended November 30,		
	-----	-----	-----
	1998	1999	2000
	----	----	----
Revenues			

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Casino	\$ 68,845	\$ 82,250	\$ 89,564
Food and beverage	6,174	7,465	7,736
Management service fees	14,800	15,790	13,218
Less: promotional allowances	(4,174)	(5,057)	(5,746)
	-----	-----	-----
Net revenues	85,645	100,448	104,772
	-----	-----	-----
Operating Expenses			
Casino	33,302	38,439	41,991
Food and beverage	1,539	1,659	1,150
Management service and operating costs	28,850	30,323	33,298
Depreciation and amortization	5,004	5,628	5,000
	-----	-----	-----
Total operating expenses	68,695	76,049	81,439
	-----	-----	-----
Income from operations before equity in net losses of affiliates	16,950	24,399	23,333
Equity in net losses of affiliates	(174)	--	--
	-----	-----	-----
Income from operations	16,776	24,399	23,333
	-----	-----	-----
Other Income (Expense)			
Interest income	2,249	2,200	1,695
Interest expense	(8,896)	(8,478)	(7,213)
Foreign currency gains (losses)	1,418	157	(111)
Common and redeemable preferred stock dividends of subsidiary	(1,094)	(1,253)	--
Other income (expense)	254	(505)	(525)
	-----	-----	-----
Total other income (expense)	(6,069)	(7,879)	(6,154)
	-----	-----	-----
Income before provision for income taxes, minority interest and extraordinary loss	10,707	16,520	17,179
Provision for income taxes	719	7,191	7,105
	-----	-----	-----
Income before minority interest and extraordinary loss	9,988	9,329	10,074
Minority interest	(108)	221	3,084
	-----	-----	-----
Income before extraordinary loss	10,096	9,108	6,990
Extraordinary loss from early extinguishment of debt, net of income tax benefit of \$1,106 in 1999	--	(1,731)	--
	-----	-----	-----
Net income	\$ 10,096	\$ 7,377	\$ 6,990
	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

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YEARS ENDED NOVEMBER 30, 1998, 1999 AND 2000  
(IN THOUSANDS)

	Common Stock		Additional	Retained	Cumul
	SHARES	AMOUNT	Paid-In	Earnings	Trans
	-----	-----	CAPITAL	(Accumulated	ADJUS
			-----	DEFICIT)	-----
Balance, November 30, 1997	10,621	\$ 53	\$ 18,498	\$ (18,277)	\$
Additional common shares issued	121	1	(1)	--	
Net change in hospitality division intercompany account	--	--	(362)	--	
Net income	--	--	--	10,096	
Other comprehensive income: Foreign currency translation adjustment	--	--	--	--	(
Comprehensive income	--	--	--	--	
Balance, November 30, 1998	10,742	54	18,135	(8,181)	(
Net change in hospitality division intercompany account	--	--	(7,800)	--	
Net income	--	--	--	7,377	
Other comprehensive income: Foreign currency translation adjustment	--	--	--	--	
Comprehensive income	--	--	--	--	
Balance, November 30, 1999	10,742	54	10,335	(804)	
Net change in hospitality division intercompany account	--	--	(8,901)	--	
Net income	--	--	--	6,990	
Other comprehensive income: Foreign currency translation adjustment	--	--	--	--	(
Comprehensive income	--	--	--	--	
Balance, November 30, 2000	10,742	\$ 54	\$ 1,434	\$ 6,186	\$ (

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)

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	1998	1997
	-----	-----
Cash flows from operating activities:		
Net income	\$ 10,096	\$ 7,711
Adjustments to reconcile net income to net cash provided by operating activities:		
Extraordinary loss on early extinguishment of debt, net	--	1,111
Provision (recovery) for losses on receivables and equity investments, net	745	5,004
Depreciation and amortization	5,004	1,560
Amortization of deferred charges	1,560	174
Undistributed equity in net losses of affiliates	174	(1,418)
Foreign currency (gains) losses	(1,418)	(975)
Deferred income taxes	(975)	(108)
Minority interest	(108)	(3)
Other	(3)	
Change in assets and liabilities:		
(Increase) decrease in:		
Trade accounts receivable	(146)	(1,111)
Other assets	205	
Increase (decrease) in:		
Accounts payable	400	
Accrued expenses	(4,705)	6,000
Deferred compensation plan liability	321	
Other liabilities	1,367	
	-----	-----
Net cash provided by operating activities	12,517	21,111
	-----	-----
Cash flows from investing activities:		
Receipts from project loans and advances	3,438	6,000
Purchases of property and equipment	(5,373)	(5,000)
Decrease in restricted cash	4,824	
Investments in and advances to affiliates	(578)	
Sale of property and equipment	42	
Project loans and advances	(760)	
	-----	-----
Net cash flows provided (used) by investing activities	1,593	(1,000)
	-----	-----
Cash flows from financing activities:		
(Increase) decrease in due from affiliates	(834)	
Borrowings	50,000	55,000
Payments of debt and other deferred charges	(55,175)	(56,000)
Payments of redeemable preferred and accrued dividends of subsidiary	(1,760)	
Purchase of common stock and common stock warrants of subsidiary	--	(4,000)
Payments of common stock dividends of subsidiary	--	
Net change in hospitality division intercompany account	(362)	(7,000)
	-----	-----
Net cash flows used by financing activities	(8,131)	(13,000)
	-----	-----
Net increase in cash and cash equivalents	5,979	6,111
Cash and cash equivalents at beginning of year	9,596	15,000
	-----	-----
Cash and cash equivalents at end of year	\$ 15,575	\$ 21,111
	=====	=====
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	\$ 9,700	\$ 4,000
Cash paid during the year for income taxes	\$ 415	\$ 1,000



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Cash received during the year for income taxes

\$ 36

\$

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CRC HOLDINGS, INC. - GAMING DIVISION  
NOTES TO FINANCIAL STATEMENTS  
(dollars in thousands, except per share data)

### NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### BASIS OF PRESENTATION

CRC Holdings, Inc. ("CRC"), d/b/a Carnival Resorts & Casinos, owns, operates and develops casino properties (for purposes hereof, the "CRC Gaming Division" or the "Company") and develops and manages hotel and resort properties. The CRC Gaming Division consists principally of an approximate 60% interest in Louisiana Casino Cruises, Inc. ("LCCI"), which owns the Casino Rouge, a riverboat casino based in Baton Rouge, Louisiana, and through a wholly-owned subsidiary, CHC Casinos Canada Limited ("CHC Canada"), the operations of Casino Rama located north of Toronto, Canada, on behalf of the Chippewas of Rama First Nation and the Ontario Lottery and Gaming Corporation. These financial statements depict the financial condition and results of operations of the CRC Gaming Division as of and for the periods presented.

Pursuant to the Agreement and Plan of Merger among CRC, Penn National Gaming, Inc. ("Penn"), Casino Holdings, Inc. ("Casino Holdings"), a wholly-owned subsidiary of Penn, and certain stockholders of CRC, dated July 31, 2000 (the "Merger Agreement"), subject to appropriate approvals and certain conditions including financing, CRC has agreed to (i) distribute its hospitality division and certain other assets and liabilities to the stockholders of CRC, (ii) distribute its net after-tax income, as defined, less certain adjustments for the period from the date of the Merger Agreement through the closing date of the Merger Agreement to the stockholders of CRC, and (iii) immediately subsequent to the distributions, merge the CRC Gaming Division with and into Casino Holdings. In addition, pursuant to a Stock Purchase Agreement among certain minority stockholders of a 40% interest in LCCI (the "LCCI Minority Stockholders") and Penn dated July 31, 2000 (the "Stock Purchase Agreement"), the LCCI Minority Stockholders, subject to closing of the Merger Agreement, appropriate approvals and certain conditions, have agreed to sell their 40% interest in LCCI to Penn. The Merger Agreement and Stock Purchase Agreement provide the foregoing transactions shall be consummated on or before October 31, 2001 although there can be no assurance to that effect.

Pursuant to an Agreement and Plan of Merger with CHC International, Inc. ("CHC"), Wyndham International, Inc. ("Wyndham"), and Patriot American Hospitality, Inc., on June 30, 1998, CHC (i) contributed its gaming and hospitality development business to CRC, (ii) distributed all of the common stock of CRC to the stockholders of CHC pro rata based on their ownership in CHC, and (iii) merged with and into Wyndham subsequent to the pro rata distribution (collectively the "Patriot Merger").

The financial statements have been prepared as if the Company has operated as an independent, stand alone entity for all periods presented. Such financial statements have been prepared using the historical basis of accounting and include all of the assets, liabilities, revenues and expenses previously included in CRC's and CHC's consolidated financial statements prior to the

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transactions contemplated by the Merger Agreement, the Stock Purchase Agreement and the Patriot Merger, except for all the assets, liabilities (including contingent liabilities), revenues and expenses of the

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### CRC HOLDINGS, INC. - GAMING DIVISION NOTES TO FINANCIAL STATEMENTS (dollars in thousands, except per share data)

hospitality division of CRC and CHC and their respective subsidiaries. Consequently, these financial statements include certain balances and allocations for assets and liabilities and corresponding income and expense items related to the Company that were previously included in CRC's and CHC's consolidated financial statements. In accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 55, these financial statements exclude certain corporate expenses incurred by CRC and CHC on the hospitality division's behalf. All significant intercompany balances and transactions within the CRC Gaming Division have been eliminated. Investments in less than majority-owned gaming businesses, in which a significant equity ownership interest is held, are accounted for on the equity method.

#### SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States. Significant accounting policies are summarized below.

#### ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States 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 during the reporting period. Actual results could differ from those estimates.

#### REVENUE RECOGNITION

Casino Revenue represents the net win from gaming activities which is the difference between gaming wins and losses. Casino revenues are net of accruals for anticipated pay-outs of progressive jackpots. The estimated direct costs of providing promotional allowances for food and beverage and other items have been classified as casino operating expenses and totaled \$2,793, \$3,104 and \$3,250 for the years ended November 30, 1998, 1999 and 2000, respectively. Revenues from food and beverage sales are recognized at the time the related service is performed. Revenues from management service fees for management of casinos are based upon contracted terms and are recognized when the services are performed, and include management service fees from affiliates of \$144, for the year ended November 30, 1998.

#### REIMBURSED OPERATING EXPENSES

The Company is fully reimbursed by Casino Rama for salaries and related costs for casino personnel employed by the Company in accordance with management contract terms and the administration of services consisting primarily of sales, marketing and reservations. These costs amounted to \$66,399, \$67,921 and \$72,388 for the years ended November 30, 1998, 1999 and 2000, respectively. All such

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costs and related reimbursements have been netted in the statements of

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### CRC HOLDINGS, INC. - GAMING DIVISION NOTES TO FINANCIAL STATEMENTS (dollars in thousands, except per share data)

operations, with reimbursable amounts and accrued salaries and related costs reflected as trade accounts receivable and accrued expenses, respectively, in the balance sheets.

#### FOREIGN CURRENCY TRANSLATION

The assets and liabilities of the Company's foreign operations are generally translated into United States dollars at year-end exchange rates, and revenues and expenses are generally translated at average exchange rates for the year. Comprehensive income resulting from translation adjustments are reflected within stockholders' equity. Transaction gains and losses that arise from exchange rate fluctuations on transactions denominated in a currency other than the functional currency are included in the results of operations, as incurred.

#### STOCK BASED COMPENSATION

The Company has adopted Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock Based Compensation" which establishes a fair value based method of accounting for stock based compensation plans, the effect of which can either be disclosed or recorded. The Company has chosen to retain its intrinsic value method of accounting for stock based compensation.

#### CASH AND CASH EQUIVALENTS

Cash and cash equivalents include short-term investments with original purchase maturities of 90 days or less.

#### TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are from properties under management and casino customers. The Company provides an allowance for doubtful accounts based on a periodic review of outstanding receivables and an evaluation of aggregate collectibility.

#### PROPERTY AND EQUIPMENT

Property and equipment are stated at cost. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives of the assets or the expected term of the land lease (including renewals), whichever is shorter:

Vessel	18 years
Building	30 years
Furniture, fixtures and other equipment	4 - 10 years
Gaming equipment	5 - 15 years

Expenditures for repairs and maintenance are charged to expense as incurred. Expenditures for major renewals and betterments, which significantly extend the useful lives of existing equipment, are capitalized and depreciated.

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CRC HOLDINGS, INC. - GAMING DIVISION  
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(dollars in thousands, except per share data)

Leasehold improvements and equipment held under capital leases are amortized over the lesser of useful life or lease term.

### IMPAIRMENT OF LONG-LIVED ASSETS

When events or circumstances indicate that the carrying amount of long-lived assets to be held and used might not be recoverable, the expected future undiscounted cash flows from the assets is estimated and compared with the carrying amount of the assets. If the sum of the estimated undiscounted cash flows is less than the carrying amount of the assets, an impairment loss is recorded. The impairment loss is measured by comparing the fair value of the assets with their carrying amount. Long-lived assets that are held for disposal are reported at the lower of the assets' carrying amount or fair value less costs related to the assets' disposition.

### OTHER ASSETS

Costs incurred in connection with the Company's financing arrangements are recorded as deferred charges and are amortized over the terms of the debt issuances. All costs incurred which relate to obtaining regulatory approval of the Baton Rouge riverboat facility are recorded as deferred charges and are amortized over the license period. Deferred licensing charges and debt issuance costs are included in other current assets and other assets.

### GOODWILL

Goodwill is associated with the acquisition of LCCI and is amortized on a straight-line basis over 30 years, with accumulated amortization of \$594 and \$693 as of November 30, 1999 and 2000, respectively, and amortization expense of \$99 in each of the three years ended November 30, 2000.

### INCOME TAXES

Income taxes are provided based on the liability method of accounting pursuant to SFAS No. 109, "Accounting for Income Taxes." Deferred income taxes are recorded to reflect tax consequences on future years' differences between tax bases of assets and liabilities and their financial reporting amounts at each year-end, reflecting the combination of LCCI and CHC Canada as separate tax filers and as if the Company and its other subsidiaries were a stand alone taxpayer.

### CONCENTRATION OF CREDIT RISK

The Company has a receivable from Casino Rama, Inc. pursuant to an agreement to develop and operate Casino Rama. To monitor the credit risk with respect to the receivable from Casino Rama, Inc., the Company periodically reviews the financial condition of Casino Rama, Inc. through its management of Casino Rama. Management currently believes the credit risk related to this receivable is minimal.

### FINANCIAL INSTRUMENTS

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The estimated fair value of financial instruments has been determined by the Company using

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CRC HOLDINGS, INC. - GAMING DIVISION  
NOTES TO FINANCIAL STATEMENTS  
(dollars in thousands, except per share data)

available market and effective interest rate information for such instruments. The carrying amounts of such financial instruments approximate their fair value except for LCCI's 11% senior secured notes which fair value approximated \$56,585 at November 30, 2000.

### COMMON SHARE DATA

On June 30, 1998, CRC's common stock was adjusted pursuant to a 10,621-for-1 stock split where each share of CRC's common stock, \$.01 par value per share was converted into 10,621 shares of CRC's common stock, \$.005 par value per share.

### NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments and is, as amended, effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company has evaluated the impact of SFAS No. 133 and believes it has no effect on its financial statements.

The Company is reviewing SEC Staff Accounting Bulletin ("SAB") No. 101, "Revenue Recognition in Financial Statements". This Company is required to adopt SAB No. 101 for the year ending November 30, 2001 and does not expect the effect of the pronouncement on its financial condition and results of operations to be material.

### RECLASSIFICATIONS

Certain amounts in the financial statements have been reclassified to conform to the current period presentation.

### NOTE 2 - RECEIVABLES

Receivables consist of the following at November 30,:

	1999	2000
	----	----
Receivable from Casino Rama, Inc. - Canadian prime plus 1% (effective rate of interest of 7.74% and 8.43% as of November 30, 1999 and 2000, respectively), principal of \$625 payable quarterly, plus interest for as long as there are amounts outstanding under the Casino Rama, Inc. credit agreements and principal of \$1,563 payable quarterly, plus interest once there are no longer any amounts outstanding under the Casino Rama, Inc. credit		

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agreements	\$12,188	\$ 5,937
Receivable from the Kalispel Tribe - prime plus 2% (effective interest rate of 9.38% as of November 30, 1999).	1,504	--
Other receivables	139	139
Allowance for doubtful receivables	(139)	(139)
	-----	-----
Current portion	13,692 (7,754)	5,937 (5,937)
	-----	-----
Noncurrent portion	\$ 5,938	\$ --
	=====	=====

NOTE 3 - PROPERTY AND EQUIPMENT

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
NOTES TO FINANCIAL STATEMENTS  
(dollars in thousands, except per share data)

Property and equipment consist of the following at November 30,:

	1999	2000
	----	----
Land	\$ 1,385	\$ 1,403
	-----	-----
Vessel	17,138	17,463
Building	19,840	20,588
Furniture, fixtures and other equipment	13,988	15,168
Gaming equipment	11,282	12,345
Leasehold improvements	204	126
Equipment under capital leases	262	251
	-----	-----
	64,099	67,344
Accumulated depreciation and amortization	(21,629)	(25,024)
Construction in progress	272	729
	-----	-----
Property and equipment, net	\$ 42,742	\$ 43,049
	=====	=====

Capitalized interest included in property and equipment is \$1,628 as of November 30, 1999 and 2000. Unamortized capitalized interest is \$1,099 and \$1,025 as of November 30, 1999 and 2000, respectively. Depreciation expense is \$4,789, \$5,434 and \$4,828 for the years ended November 30, 1998, 1999 and 2000, respectively, including net losses on disposals of fixed assets of \$125, \$69 and \$314 for the

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years ended November 30, 1998, 1999 and 2000, respectively.

### NOTE 4 - LEASES

LCCI has an operating lease agreement for property on which LCCI constructed the riverboat facility and parking facility. The initial lease term is 10 years beginning January 1994. The terms of the lease include payment of minimum monthly rent equal to the greater of \$33 or 1.25% of LCCI's gross cash revenue. In addition, LCCI prepaid rent of approximately \$1,756 in connection with the lessor's acquisition of an additional parcel of land. The prepaid rent is being amortized over the initial lease term and the remaining unamortized portion was \$717 and \$541 as of November 30, 1999 and 2000, respectively. LCCI has the option to purchase the entire site on or after 15 years for the then appraised value of the original parcel, excluding improvements. LCCI also leases a total of approximately 45,700 square feet for general warehouse, office and employee parking. The term of the lease is one year beginning September 2000 for \$8 per month. The lease grants LCCI a right of first refusal to purchase the property. The Company also leases office and warehouse space under operating lease agreements.

The following is a schedule of future minimum lease payments, for all operating leases with non-cancellable terms in excess of one year at November 30, 2000:

Year ending November 30, 2001	\$ 697
Year ending November 30, 2002	697
Year ending November 30, 2003	697
Year ending November 30, 2004	157
Thereafter	--
	-----
Total minimum lease payments	\$2,248
	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
NOTES TO FINANCIAL STATEMENTS  
(dollars in thousands, except per share data)

Rental expense amounted to \$1,636, \$1,899 and \$1,764 for the years ended November 30, 1998, 1999 and 2000, respectively. Rental expense for the years ended November 30, 1998, 1999 and 2000 includes \$509, \$698 and \$769, respectively, of contingent rental payments in excess of the monthly minimum rent with respect to LCCI's land lease for riverboat and parking facilities.

### NOTE 5 - EMPLOYEE BENEFITS PLANS

CRC maintains non-qualified defined contribution deferred compensation plans (the "Deferred Compensation Plan") which cover most management employees. Benefits accumulate by participants based on a percentage of their annual compensation and generally vest 20% per year. The Deferred Compensation Plan's costs, net of forfeitures, included in the statements of operations for the years ended November 30, 1998, 1999 and 2000 were approximately \$576, \$631 and \$809, respectively. The earnings rate for the Deferred Compensation Plan

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unfunded benefit liability is 7% for the years ended November 30, 1998, 1999 and 2000.

Deferred Compensation Plan benefits funded by the Company are taxable to the participants and the Company advances the participants amounts equal to the income and payroll taxes on the funded benefits. Interest accrues at 6% per annum on these advances. The amounts of such advances were \$251 and \$574 as of November 30, 1999 and 2000, respectively, and will be repaid from pledged death benefit proceeds of participants' life insurance policies.

CRC also maintains defined contribution plans under Section 401(k) of the Internal Revenue Code for all qualified employees (the "401(k) Plans"). Contributions to the 401(k) Plans by the Company are based on the participants' contributions. For the years ended November 30 1998, 1999 and 2000, the Company contributed \$147, \$207, and \$185 respectively. The Company paid certain expenses associated with administration of the 401(k) Plans.

### NOTE 6 - INCOME TAXES

The Company's provision for income taxes attributable to continuing operations is comprised of the following for the years ended November 30,:

	1998 ----	1999 ----	2000 ----
CURRENT			
Federal	\$ 271	\$4,703	\$4,017
State	4	459	904
Foreign	108	78	70
	-----	-----	-----
Total current tax expense	383	5,240	4,991
DEFERRED			
Deferred tax expense	336	1,951	2,114
	-----	-----	-----
Total provision for income taxes	\$ 719	\$7,191	\$7,105
	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
NOTES TO FINANCIAL STATEMENTS  
(dollars in thousands, except per share data)

The difference between the taxes provided for continuing operations at the U.S. federal statutory rate and the Company's actual tax provision is reconciled below for the years ended November 30,:

	1998 ----	1999 ----	2000 ----
--	--------------	--------------	--------------



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Taxes provided at statutory rate	\$ 3,677	\$ 5,542	\$ 5,841
Release of valuation allowance	(4,243)	--	--
State tax expense, net of federal tax benefit	393	592	624
Foreign tax expense	158	26	11
Dividends of subsidiary	372	426	--
Other	362	605	629
	-----	-----	-----
Total provision for income taxes	\$ 719	\$ 7,191	\$ 7,105
	=====	=====	=====

The approximate effect of the Company's temporary differences and carryforwards that give rise to deferred tax balances at November 30, were as follows:

	1999	2000
	----	----
Deferred compensation plan liability	\$ --	\$ 394
Allowance for doubtful accounts receivable - other	--	98
Alternative minimum tax credit carryforward	851	--
Other, net	744	484
	-----	-----
Current deferred tax asset	\$ 1,595	\$ 976
	=====	=====
Foreign currency gain	\$ (686)	\$ (320)
Other, net	255	294
	-----	-----
Current deferred tax liability	\$ (431)	\$ (26)
	=====	=====

	1999	2000
	----	----
Deferred compensation plan liability	\$ 686	\$ --
Deferred prepayment penalty	206	--
Other, net	98	20
	-----	-----
Noncurrent deferred tax asset	\$ 990	\$ 20
	=====	=====
Depreciation	\$ (4,359)	\$ (4,611)
Alternative minimum tax credit carryforward	295	--
Other, net	20	(363)
	-----	-----
Noncurrent deferred tax liability	\$ (4,044)	\$ (4,974)
	=====	=====

NOTE 7 - LONG-TERM DEBT

Long-term debt is comprised of the following as of November 30, :

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CRC HOLDINGS, INC. - GAMING DIVISION  
 NOTES TO FINANCIAL STATEMENTS  
 (dollars in thousands, except per share data)

	2000 ----	1999 ----
11% senior secured notes - interest payable semi-annually June 1, and December 1, with balance due December 1, 2005	\$ 53,000	\$53,000
Variable-rate term loan - (effective interest rate of 9.59% and 11.05% at November 30, 1999 and 2000, respectively) - interest payable at the option of CHC Canada, in one, two, three or six month installments and principal payable in a quarterly installment of \$241 on April 30, 1999, quarterly installments of \$1,563 commencing July 31, 1999 through July 31, 2001, with balance due October 31, 2001	12,187	5,937
Capital lease obligations	104 -----	12 -----
Total debt	65,291	58,949
Current portion	(6,333) -----	(5,949) -----
Total long-term debt	\$ 58,958 =====	\$ 53,000 =====

Aggregate principal payments for the long-term debt, including capital lease obligations, are as follows at November 30, 2000:

Year ending November 30, 2001	\$ 5,949
Year ending November 30, 2002	--
Year ending November 30, 2003	--
Year ending November 30, 2004	--
Year ending November 30, 2005	--
Thereafter	53,000 -----
Total	\$ 58,949 =====

Variable-rate senior secured increasing rate notes - on November 25, 1998, LCCI issued \$50,000 of variable rate senior secured increasing rate notes due December 1, 2001 ("the 1998 Notes") in a private placement offering to refinance

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the \$51,000, 11 1/2% first mortgage notes issued in December 1993 in connection with the development of the Casino Rouge.

11% senior secured notes - on January 27, 1999, LCCI issued \$55,000 of 11% senior secured notes due December 1, 2005, (the "1999 Notes") in a private placement offering with interest due semi-annually beginning June 1, 1999. The proceeds were used to defease and redeem the 1998 Notes. After December 1, 2002, LCCI may, at its option, redeem all or some of the 1999 Notes at a premium that will decrease over time from 105.5% in 2002 to 100% in 2004 of their face amount, plus interest. The redemption of the 1998 Notes resulted in LCCI incurring a net extraordinary loss of \$1,731 during the year ended November 30, 1999 and the nine months ended August 31, 1999. The 1999 Notes were exchanged in May 1999 for Notes registered under the Securities Act of 1933. The registered 1999 Notes are freely transferable by holders thereof and are substantially identical in all material respects to the privately placed 1999 Notes for which they were exchanged. The registered 1999 Notes are collateralized by substantially all of LCCI's assets.

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CRC HOLDINGS, INC. - GAMING DIVISION  
NOTES TO FINANCIAL STATEMENTS  
(dollars in thousands, except per share data)

Variable-rate secured term loan - in December 1998, CHC Canada amended the variable-rate secured loan denominating the outstanding balance in U.S. dollars and amending the repayment schedule. The amended loan bears interest at varying rates approximating LIBOR plus 4% per annum. The loan is collateralized by substantially all of CHC Canada's assets.

CRC has a variable rate line of credit with a commercial bank collateralized by assets of certain shareholders of CRC. As of November 30, 2000, no amount was available under the variable rate line of credit.

The 1999 Notes are collateralized by substantially all of LCCI's assets, other than certain identified excluded assets. The indenture to the 1999 Notes includes certain covenants which limit the ability of LCCI and its restricted subsidiaries, (as defined) subject to certain exceptions, to: (i) incur additional indebtedness; (ii) pay dividends or other distributions, repurchase capital stock or other equity interest or subordinated indebtedness; (iii) enter into certain transactions with affiliates; (iv) create certain liens or sell certain assets; and (v) enter into certain mergers and consolidations. The Company's other financing agreements also contain certain financial covenants.

### NOTE 8 - REDEEMABLE PREFERRED STOCK AND COMMON STOCK WARRANTS OF SUBSIDIARY

LCCI has authorized 50,000 shares of preferred stock, of which 11,000 shares of 12% cumulative redeemable preferred stock was issued and outstanding at November 30, 1997, at a carrying value of \$1,628 including accrued non-cash dividends. The preferred stock and accrued dividends were redeemed by LCCI on November 30, 1998 for \$1,760.

LCCI's debt offering in December 1993 included 153,000 detachable warrants with put rights whereby LCCI had an obligation to purchase the 153,000 warrants, at the value of LCCI's common stock as of December 1, 1998, as determined by two independent investment banking firms. At November 30, 1998, the warrants were classified as redeemable equity due to the put right feature and accreted to the amount at which LCCI expected to repurchase these warrants. Holders of 14,100

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warrants elected to convert to an equivalent number of LCCI common shares, while holders of 138,900 warrants elected to have LCCI purchase the warrants. On March 1, 1999, LCCI received valuations from two investment banking firms. Based on the average of the values determined by the investment banking firms, LCCI paid on March 8, 1999, \$3,749 to holders of 138,900 warrants who exercised their put rights. On September 21, 1999, at a previous warrant holder's request, LCCI purchased 12,000 LCCI common shares for \$324, the price originally offered for the warrants.

### NOTE 9 - MINORITY INTEREST

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
NOTES TO FINANCIAL STATEMENTS  
(dollars in thousands, except per share data)

The Company owns an approximate 60% interest in LCCI. The Company's financial statements include 100% of the assets, liabilities and operations of LCCI. The effects of the minority interest have been reflected in the accompanying balance sheets and statements of operations. During the years ended November 30, 1998, 1999 and 2000, LCCI paid cash dividends to holders of its common stock and common stock warrants totaling \$1,996, \$3,498 and \$3,398 respectively. As LCCI's accumulated losses and dividends had previously eliminated the minority interest, \$962 and \$1,253 of LCCI common stock dividends paid to minority common stockholders and to the common stock warrant holders were charged to operations during the years ended November 30, 1998 and 1999, respectively. During the year ended November 30, 2000, LCCI paid cash dividends to the minority holders of its common stock of \$1,369. On December 6, 2000, LCCI paid a cash dividend to the minority holders of its common stock of \$355.

### NOTE 10 - COMMITMENTS AND CONTINGENCIES

In the ordinary course of its business, the Company is involved in legal proceedings resulting from incidents taking place at casinos it manages, or in which it has an ownership interest. The Company maintains comprehensive liability insurance and also requires casino owners to maintain adequate insurance coverage. In the opinion of management, the ultimate outcome of all such matters should not have a material adverse effect on the financial position of the Company, but, if decided adversely to the Company, could have a material adverse effect upon the Company's operating results during the period in which the litigation is resolved.

LCCI's original five-year gaming license was up for renewal in July 1999. On June 15, 1999, LCCI received a conditional license approval from the Louisiana Gaming Control Board (the "Louisiana Board") until completion of their investigation. On or about July 25, 2000, the Division of the Louisiana Attorney General's Office (the "Division") submitted a Report on Conditional License Renewal of LCCI, in which the Division and the Louisiana State Police outlined three conditions on the license renewal of LCCI. The first condition involved LCCI minority shareholder Jerry Bayles. The Division recommended that in order to renew the license of LCCI, that Mr. Bayles have no more direct day to day involvement in the management or operations of Casino Rouge than he currently maintained. The second condition related to CRC officer Robert Sturges. The

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division suggested in the report that LCCI's license also be conditioned upon the status quo relating to Mr. Sturges' day to day management and operation of Casino Rouge. Finally, the report addressed, among other things, Capital Lake Properties, Inc. ("CLP"), the landlord of the leased property where Casino Rouge is located, which currently receives rent based upon 1.25% of gross cash revenue, as defined. The Division's report contained a proposed condition on the license renewal of LCCI, that CLP submit itself to a suitability investigation. The report has not been formally acted upon by the Louisiana Board. Attorneys for the Louisiana Board have indicated that the Louisiana Board will decide the issue of renewal of LCCI's license, and any potential conditions, along with the decision to allow the transfer of LCCI's common stock to Penn. On or about November 29, 2000, LCCI filed suit against CLP for declaratory judgement in the 19th Judicial District Court of Louisiana seeking a determination whether CLP, as a matter of law, must submit to a suitability investigation and what, if any obligations CLP has under the lease agreement, to submit to suitability. It is expected that the litigation will, when complete, decide whether the Louisiana Board

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
NOTES TO FINANCIAL STATEMENTS  
(dollars in thousands, except per share data)

will condition LCCI's license on the suitability of CLP. It is not expected that the conditions relating to the day to day involvement of Mr. Bayles or Mr. Sturges will be challenged by LCCI.

In connection with LCCI's renewal application, each of LCCI's officers, directors, managers, principal shareholders, including the Company and its officers and directors and key gaming employees, will be subject to strict scrutiny and full suitability investigations and approval by the Louisiana Board. The factors the Louisiana Board has stated it will consider, among others, in order to renew LCCI's license, include LCCI's compliance with all the requirements of the Louisiana Riverboat Economic Development and Gaming Control Act, the approval of various systems and procedures, the demonstration of good character (including an examination of criminal and civil records) and methods of business practice. It is not possible to predict when the Louisiana Board will complete its investigation, and no time line frame such completion has been given.

Gaming licenses in Ontario are issued for four-year terms. CHC Canada's original gaming license is up for renewal in July 2000. CHC Canada has filed its renewal application and paid its annual renewal fee and its license is deemed to continue to July 2001 pending completion of the relicensing investigation. CHC Canada and its officers, directors, managers, principal shareholders, including the Company and its officers and directors and key gaming employees, will be subject to strict scrutiny and full suitability investigations and approval by the Ontario Alcohol and Gaming Commission in connection with CHC Canada's renewal application.

LCCI and CHC Canada believe they will be successful in receiving renewals of the licenses, but no assurance can be given as to whether or when the licenses will be renewed, or extent of any restrictions that may be imposed as conditions thereof. The loss, suspension or failure to obtain renewals of the licenses subject to burdensome conditions, would have a material adverse effect on the Company.

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Pursuant to the agreement to manage the Casino Rama complex, dated March 18, 1996, as amended (the "Agreement"), CHC Canada will receive during the first three years from the opening date, July 31, 1996, a management fee, subject to certain limitations, of 2.75% of gross revenues plus 5.0% of net operating margin (as such terms are defined in the Agreement) and, subsequent to year three, an operator's fee of 2.0% of gross revenues plus 5.0% of net operating margin. The term of the Agreement, which is 15 years from the opening date, consisting of an original 10 year term and a five year renewal, requires CHC Canada to loan Casino Rama, Inc. \$25,000 (see Note 2) and, under certain circumstances additional amounts to fund Casino Rama operating deficits, if any. The performance and obligations of CHC Canada under the Agreement are guaranteed by CRC.

In November 1993, LCCI was involved in a dispute regarding consulting services. Although a formal demand had not been made to LCCI, management believed the dispute could lead to litigation and accrued \$1,700 for the estimated cost of resolution. LCCI settled litigation related to this dispute in May 1998. Pursuant to the settlement, each party entered into mutual general releases and neither party admitted any liability in connection with the settlement. As a result of the settlement, LCCI has recognized a net reduction of \$400 in management services and operating costs for the year ended November 30, 1998.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
NOTES TO FINANCIAL STATEMENTS  
(dollars in thousands, except per share data)

NOTE 11 - STOCKHOLDERS' EQUITY

CRC has an Employee Stock Option Plan (the "Plan") which provides for the grant to employees of both incentive stock options (within the meaning of Section 422 of the Internal Revenue Code) and nonstatutory stock options to eligible employees (including officers and directors) and non-employee directors. A total of 1,700,000 shares of common stock have been reserved for issuance under the Plan. In conjunction with the Patriot Merger, CHC's options were cancelled and CRC granted new options which retained the term and vesting attributes of the CHC options.

The table below summarizes the status of the CRC's Plan as of November 30, 1998, 1999 and 2000 and changes for the years then ended as follows:

OPTIONS	1998		1999	
	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE	SHARES	WEIGHTED-AVERAGE EXERCISE PRICE
Outstanding at beginning of year	--	\$ --	1,387,071	\$ 2.36
Granted	1,387,071	2.36	--	--
Exercised	--		(14,150)	3.43
Forfeited	--		(500)	3.43
Outstanding at end of year	1,387,071	2.36	1,372,421	2.35
	=====		=====	

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Options exercisable at year-end	933,315	2.16	1,203,439	2.20
Weighted-average fair value of options granted during the year	\$ 2.08		\$ --	

The following table summarizes information about options outstanding at November 30, 2000:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED-AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED-AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED-AVERAGE EXERCISE PRICE
\$1.93	988,052	4.0 years	\$1.93	988,052	\$1.93
\$3.43	373,753	5.7	3.43	267,159	3.43
	-----			-----	
	1,361,805	4.5	2.34	1,255,211	2.25
	=====			=====	

All options issued were granted at fair market value on the original date of grant, generally have a term of 10 years, and generally become exercisable with respect to 20% of the covered shares commencing one year after grant, and are generally exercisable with respect to an additional 20% of the covered shares after each additional year until fully exercisable.

The fair value of each option grant was estimated on the date of the grant using the minimum value method with the following assumptions: risk-free interest rate of 7.5%, no dividend yield, expected lives of 10 years and no volatility.

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
 NOTES TO FINANCIAL STATEMENTS  
 (dollars in thousands, except per share data)

The Company applies Accounting Principles Board No. 25 and related interpretations in accounting for the Plan. Accordingly, no compensation cost has been recognized. Had compensation cost for the Company's Plan been determined based on the fair value at the grant dates for awards under the Plan consistent with the method of SFAS No. 123, the Company's pro forma net income would have been \$9,519, \$6,805 and \$6,869 for the years ended November 30, 1998, 1999 and 2000, respectively.

On June 30, 1998, CRC settled a liability assumed as part of the Patriot Merger by issuing to an executive officer 121,289 shares of CRC common stock. The stock grant vested immediately.

NOTE 12 - RELATED PARTY TRANSACTIONS

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CRC and Carnival Corporation entered into a trademark license agreement providing for the Company's use of the "Carnival" trademark so that the Company may conduct business as "Carnival Resorts and Casinos." Fees due under the agreement are the greater of \$100 or 1% of the Company's revenues, as defined. The trademark license fees for the years ended November 30, 1998, 1999 and 2000 were \$518, \$649 and \$679 respectively.

The Company provides accounting services, at cost, to certain entities owned and controlled by certain of its officers. The entities are obligated to reimburse the Company for such services provided. The cost of such services were \$154, \$46 and \$85 for the years ended November 30, 1998, 1999 and 2000, respectively, and the balance due the Company was \$200 and \$285 as of November 30, 1999 and 2000, respectively.

\*\*\*\*\*

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
FINANCIAL STATEMENTS  
FEBRUARY 28, 2001

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Balance Sheets - November 30, 2000 and February 28, 2001 (unaudited)

Statements of Operations - Three Month Periods Ended February 29, 2000 (unaudited) and February 28, 2001 (unaudited)

Statement of Changes in Stockholders' Equity - Three Month Period Ended February 28, 2001 (unaudited)

Statements of Cash Flows - Three Month Periods Ended February 28, 2000 (unaudited) and February 28, 2001 (unaudited)

Notes to Financial Statements

CRC HOLDINGS, INC. - GAMING DIVISION  
BALANCE SHEETS  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

	NOVEMBER 30, 2000 ----	FEBR (una
ASSETS -----		
Current Assets		
Cash and cash equivalents	\$ 27,395	\$
Trade accounts receivable, net of allowances for doubtful accounts of \$357 and \$390 at 2000 and 2001, respectively	9,100	



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Receivables	5,937	
Deferred income tax	976	
Other current assets	1,278	
	-----	
Total current assets	44,686	
Property and equipment, net	43,049	
Goodwill, net	3,366	
Other assets	2,946	
	-----	
Total Assets	\$ 94,047	\$
	=====	=====

LIABILITIES AND STOCKHOLDERS' EQUITY

Current Liabilities		
Accounts payable	\$ 2,314	\$
Due to affiliates and officers	163	
Accrued expenses	17,054	
Deferred compensation plan liability	1,123	
Current portion of long-term debt	5,949	
	-----	
Total current liabilities	26,603	
Long-term debt	53,000	
Deferred income tax	4,974	
Other liabilities	157	
	-----	
Total liabilities	84,734	
	-----	
Commitments and contingencies (Note 4)		
Minority interest	1,690	
Stockholders' Equity		
Common stock, \$.005 par value; 20,000 shares authorized; 10,742 shares issued and outstanding	54	
Additional paid-in capital	1,434	
Retained earnings	6,186	
Cumulative translation adjustment	(51)	
	-----	
Total stockholders' equity	7,623	
	-----	
Total liabilities and stockholders' equity	\$ 94,047	\$
	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
STATEMENTS OF OPERATIONS  
(IN THOUSANDS)  
(UNAUDITED)

THREE MONTHS ENDED  
FEBRUARY 28/29  
2000                      2001

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	-----	-----
Revenues		
Casino	\$ 22,871	\$ 24,284
Food and beverage	2,102	1,756
Management service fees	3,419	2,371
Less: promotional allowances	(1,569)	(1,328)
	-----	-----
Net revenues	26,823	27,083
Operating Expenses		
Casino	10,241	11,156
Food and beverage	339	253
Management service and operating costs	8,432	7,105
Depreciation and amortization	1,478	1,221
	-----	-----
Total operating expenses	20,490	19,735
	-----	-----
Income from operations	6,333	7,348
Other Income (Expenses)		
Interest income	422	370
Interest expense	(1,876)	(1,670)
Foreign currency losses	(48)	(48)
Other expense	--	(268)
	-----	-----
Total other (expense)	(1,502)	(1,616)
	-----	-----
Income before provision for income taxes and minority interest	4,831	5,732
Provision for income taxes	1,958	2,384
	-----	-----
Income before minority interest	2,873	3,348
Minority interest	815	1,082
	-----	-----
Net income	\$ 2,058	\$ 2,266
	=====	=====

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CRC HOLDINGS, INC. - GAMING DIVISION  
STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY  
THREE MONTHS ENDED FEBRUARY 28, 2001  
(IN THOUSANDS)  
(UNAUDITED)

	Common Stock		Additional		Cumulative	
	-----		Paid-In		Translation	
	Shares	Amount	Capital	Retained Earnings	Adjustment	Sto
	-----	-----	-----	-----	-----	Eq
Balance, November 30, 2000	10,742	\$ 54	\$ 1,434	\$ 6,186	\$ (51)	\$ 7

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Net change in hospitality division intercompany account	--	--	(613)	--	--	
Net income	--	--	--	2,266	--	2
Other comprehensive income:						
Foreign currency translation adjustment	--	--	--	--	4	---
Comprehensive income	-----	-----	-----	-----	-----	2
BALANCE, FEBRUARY 28, 2001	10,742	\$ 54	\$ 821	\$ 8,452	\$ (47)	\$ 9
	=====	=====	=====	=====	=====	=====

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
STATEMENTS OF CASH FLOWS  
(IN THOUSANDS)  
(UNAUDITED)

	THREE MONTH FEBRUARY 2 2000 ----	
Cash flows from operating activities:		
Net income	\$ 2,058	\$
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for doubtful accounts	30	
Depreciation and amortization	1,478	
Amortization of deferred charges	145	
Foreign currency losses	48	
Deferred income taxes	160	
Operating costs (Note 1)	--	
Minority interest	815	
Changes in assets and liabilities:		
(Increase) decrease in:		
Trade accounts receivable	2,500	
Other assets	521	
Increase (decrease) in:		
Accounts payable	856	
Accrued expenses	(6,355)	
Deferred compensation plan liability	74	
Other liabilities	(89)	
Net cash provided by operating activities	2,241	
Cash flows from investing activities:		
Receipts from project loans and advances	3,067	
Capital expenditures	(1,555)	
Net cash flows provided (used) by investing activities	1,512	

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Cash flows from financing activities:	
Decrease in due to affiliates	(47)
Payments of debt and other deferred charges	(1,587)
Common stock dividends of subsidiary	(214)
Net change in hospitality division intercompany account	(2,855)
<hr style="border-top: 1px dashed black;"/>	
Net cash flows used by financing activities	(4,703)
<hr style="border-top: 1px dashed black;"/>	
Net decrease in cash and cash equivalents	(950)
Cash and cash equivalents at beginning of period	22,395
<hr style="border-top: 1px dashed black;"/>	
Cash and cash equivalents at end of period	\$ 21,445
<hr style="border-top: 3px double black;"/>	
Supplemental disclosure of cash flow information:	
Cash paid during the period for interest	\$ 3,525
Cash paid during the period for income taxes	\$ 30

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS.

CRC HOLDINGS, INC. - GAMING DIVISION  
NOTES TO FINANCIAL STATEMENTS  
(dollars in thousands)

NOTE 1 - BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

CRC Holdings, Inc. ("CRC"), d/b/a Carnival Resorts & Casinos, owns, operates and develops casino properties (for purposes hereof, the "CRC Gaming Division" or the "Company") and develops and manages hotel and resort properties. The CRC Gaming Division consists principally of an approximate 60% interest in Louisiana Casino Cruises, Inc. ("LCCI"), which owns the Casino Rouge, a riverboat casino based in Baton Rouge, Louisiana, and through a wholly owned subsidiary, CHC Casinos Canada Limited ("CHC Canada"), the operations of Casino Rama located north of Toronto, Canada, on behalf of the Chippewas of Rama First Nation and the Ontario Lottery and Gaming Corporation. These financial statements depict the financial condition and results of operations of the CRC Gaming Division as of and for the periods presented.

Pursuant to the Agreement and Plan of Merger among CRC, Penn National Gaming, Inc. ("Penn"), Casino Holdings, Inc. ("Casino Holdings"), a wholly-owned subsidiary of Penn and certain shareholders of CRC, dated July 31, 2000 (the "Merger Agreement"), subject to appropriate approvals and certain conditions including financing, CRC has agreed to (i) distribute its hospitality division and certain other assets and liabilities to the stockholders of CRC, (ii) distribute its net after-tax income, as defined, less certain adjustments for the period from the date of the Merger Agreement through the closing date of the Merger Agreement to the stockholders of CRC, and (iii) immediately subsequent to the distributions, merge the CRC Gaming Division with and into Casino Holdings. In addition, pursuant to a Stock Purchase Agreement among certain minority stockholders of a 40% interest in LCCI (the "LCCI Minority Stockholders") and Penn dated July 31, 2000 (the "Stock Purchase Agreement"), the LCCI Minority Stockholders, subject to closing of the Merger Agreement, appropriate approvals and certain conditions, have agreed to sell their 40% interest in LCCI to Penn. The Merger Agreement and Stock Purchase Agreement provide the foregoing transactions shall be consummated on or before October 31, 2001 although there

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can be no assurance to that effect. Financing and regulatory approvals from the Louisiana Gaming Control Board (the "Board") and the Alcohol and Gaming Commission of Ontario have been obtained while consent from the Chippewas of Rama First Nation has been withheld. CRC and Penn are pursuing all options available to obtain this consent although there can be no assurances that this consent will be obtained (Note 6).

The financial statements have been prepared as if the Company has operated as an independent, stand alone entity for all periods presented. Such financial statements have been prepared using the historical basis of accounting and include all of the assets, liabilities, revenues and expenses previously included in CRC's consolidated financial statements prior to the transaction contemplated by the Merger Agreement and the Stock Purchase Agreement, except for all the assets, liabilities (including contingent liabilities), revenues and expenses of the hospitality division of CRC and its respective subsidiaries. Consequently, these financial statements include certain balances and allocations for assets and liabilities and corresponding income and expense items related to the Company that were previously included in CRC's consolidated financial statements. In accordance with Securities and Exchange

### CRC HOLDINGS, INC. - GAMING DIVISION NOTES TO FINANCIAL STATEMENTS (dollars in thousands)

Commission Staff Accounting Bulletin No. 55, these financial statements exclude certain corporate expenses incurred by CRC on the hospitality division's behalf. All significant intercompany balances and transactions within the CRC Gaming Division have been eliminated. Investments in less than majority-owned gaming businesses, in which a significant equity ownership interest is held, are accounted for on the equity method.

#### INTERIM UNAUDITED INFORMATION

The accompanying financial statements as of February 28, 2001 and for the three month periods ended February 29, 2000 and February 28, 2001 are unaudited and do not include all information and footnotes necessary for the presentation of financial position, results of operations and cash flows in conformity with accounting principals generally accepted in the United States of America. However, in the opinion of management, all adjustments (consisting of normal recurring accruals) have been included to present fairly, in all material respects, the financial position of the Company as of February 28, 2001, and the results of its operations and its cash flows for the three month periods ended February 29, 2000 and February 28, 2001. Operating results for the three month periods ended February 29, 2000 and February 28, 2001 are not necessarily indicative of the results that may be expected for a full year.

#### PROMOTIONAL ALLOWANCES

The estimated direct costs of providing promotional allowances for food and beverage and other items have been classified as casino operating expenses and totaled \$885 and \$810 for the three month periods ended February 29, 2000, and February 28, 2001, respectively.

#### MANAGEMENT SERVICE AND OPERATING COSTS

During the three month period ended February 28, 2001, the Company and certain officers renegotiated the deferred compensation arrangements,

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resulting in a \$923 reduction in the Company's deferred compensation obligations. In addition, \$300 in receivables from certain officers relating to accounting services performed by the Company on certain officers' behalf were forgiven. These amounts have been recorded as adjustments to management service and operating costs.

### NEW ACCOUNTING STANDARDS

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards ("SFAS"), No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133 establishes accounting and reporting standards for derivative instruments and is, as amended, effective for all fiscal quarters of fiscal years beginning after June 15, 2000. The Company's adoption of SFAS No. 133 in the quarter ended February 28, 2001 had no effect on its financial condition, results of operations or cash flows.

### CRC HOLDINGS, INC. - GAMING DIVISION NOTES TO FINANCIAL STATEMENTS (dollars in thousands)

#### NOTE 2 - LONG TERM DEBT

Pursuant to the indenture, dated as of January 27, 1999, between LCCI and U.S. Bank Trust National Association, as Trustee (the "1999 Indenture"), LCCI issued in a private placement, \$55,000 of its 11% Senior Secured Notes (the "1999 Notes"), due December 1, 2005, in an offering under Rule 144A under the Securities act of 1933, with interest due semi-annually beginning June 1, 1999. LCCI exchanged the privately issued 1999 Notes in May 1999 for \$55,000 in aggregate principal of new, publicly tradable 1999 Notes. The new 1999 Notes are identical in all material respects to the privately issued 1999 Notes, other than certain provisions relating to registration rights and related liquidated damages. LCCI used the proceeds to redeem \$50,000 of LCCI's Senior Secured Increasing Rate Notes, due December 1, 2001, and for general corporate purposes. On May 28, 1999, LCCI repurchased \$2,000 of the 1999 Notes at a cost of \$2, 010 plus accrued interest. On March 5, 2001, LCCI cancelled the repurchased 1999 Notes.

The 1999 Notes are collateralized by substantially all of LCCI's assets, other than certain identified excluded assets. The 1999 Indenture includes certain covenants which limit the ability of LCCI and its restricted subsidiaries, (as defined in the 1999 Indenture) subject to certain exceptions, to: (i) incur additional indebtedness; (ii) pay dividends or other distributions, repurchase capital stock or other equity interest or subordinated indebtedness; (iii) enter into certain transactions with affiliates; (iv) create certain liens or sell certain assets; and (v) enter into certain mergers and consolidations.

Under the terms of the 1999 Indenture, after December 1, 2001, LCCI may, at its option, redeem all or some of the 1999 Notes at a premium that will decrease over time from 105.5% to 100% of their face amount, plus accrued but unpaid interest. Prior to December 1, 2001, if LCCI publicly offers certain equity securities LCCI may, at its option apply certain of the net proceeds from those transactions to the redemption of up to one-third of the principal amount of the notes at 111% of their face amount, plus interest. If LCCI goes through a change in control (which for these purposes would include the proposed transactions involving CRC, LCCI and Penn), it must give holders of the notes the opportunity to sell their notes to LCCI at 101% of their face amount, plus interest.

On February 20, 2001, Penn commenced a cash tender offer to purchase all of the

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1999 Notes, and a related consent solicitation to eliminate certain restrictive covenants and related provisions in the 1999 Indenture pursuant to which the 1999 Notes were issued. On March 6, 2001, Penn announced that all of the holders of the 1999 Notes had tendered Notes and delivered consents in connection with Penn's tender offer and consent solicitation. The tender offer and the effectiveness of the related amendments to the indenture are conditioned upon, among other things, consummation of Penn of its acquisition of CRC and LCCI. The principal purpose of the tender offer is to permit Penn to acquire all of the outstanding 1999 Notes in connection with Penn's acquisition of CRC and LCCI.

The total consideration payable pursuant to the tender offer and consent solicitation will be calculated using a fixed spread of 50 basis points over the bid side yield on the 5 5/8% U.S. Treasury Note due November 30, 2002, on the second business day immediately preceding the expiration date which has been extended to April 27, 2001. The total consideration includes a consent fee of \$30 per \$1,000 principal amount of the 1999 Notes. Under the terms of the tender offer and consent solicitation, holders may not deliver consents without also tendering their 1999 Notes (Note 6).

### CRC HOLDINGS, INC. - GAMING DIVISION NOTES TO FINANCIAL STATEMENTS (dollars in thousands)

#### NOTE 3 - GAMING TAX INCREASE

On March 22, 2001, the Louisiana Legislature passed a riverboat gaming tax increase. The increase raised the riverboat gaming tax beginning April 1, 2001, on the nine riverboat casinos in southern Louisiana from 18.5% to 21.5%. In return, these riverboats are no longer required to cruise when weather and water conditions allow for safe cruising. For the five riverboat casinos in northern Louisiana, the riverboat gaming tax increase is being phased in over a 25-month period. Effective April 1, 2001, their riverboat gaming tax rate is 19.5%, followed by an annual increase of 1% on April 1, 2002 and 2003. These boats are currently allowed to remain dockside due to low water levels at their locations.

#### NOTE 4 - MINORITY INTEREST

The Company owns an approximate 60% interest in LCCI. The Company's financial statements include 100% of the assets, liabilities and operations of LCCI. The effects of the minority interest have been reflected in the accompanying balance sheets and statements of operations. During the three-month periods ended February 29, 2000 and February 28, 2001, LCCI paid a cash dividend to the minority holders of its common stock of \$214 and \$355, respectively. On March 5, 2001, LCCI paid a cash dividend to the minority holders of its common stock of \$521.

#### NOTE 5 - COMMITMENTS AND CONTINGENCIES

In the ordinary course of its business, the Company is involved in legal proceedings including but not limited to proceedings resulting from incidents taking place at casinos it manages, or in which it has an ownership interest. The Company maintains comprehensive liability insurance and also requires casino owners to maintain adequate insurance coverage. In the opinion of management, the ultimate outcome of all such matters should not have a material adverse effect on the financial position of the Company, but, if decided adversely to the Company, could have a material adverse effect upon the Company's operating results during the period in which the litigation is resolved.

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LCCI's original five-year gaming license for the Casino Rouge was up for renewal in July 1999. On June 15, 1999, LCCI received conditional license approval from the Board until the completion of their investigation. On March 29, 2001, the Board approved relicensing of LCCI through July 18, 2005, with two conditions. The first condition relates to CRC Gaming Division officer Robert Sturges. The Board stipulated that Mr. Sturges shall not participate in the day-to-day management and operation of LCCI until the Board has a hearing as to whether this condition can be rescinded. LCCI has advised the Board that it will abide by the results of the hearing. The second condition relates to Capitol Lake Properties, Inc. ("CLP"), the landlord of the leased property where Casino Rouge is located. The Board stipulated that the Company shall use good faith efforts to require CLP to comply with all suitability requirements of the Board and the Division of the Louisiana Attorney General's Office. Additionally, the Board required that if a final judgement by a Louisiana court determines that it would not be a default under LCCI's lease with CLP, LCCI shall deposit rental payments and other sums due CLP into escrow or the registry of the court until further order of the court or the Board. CLP, which previously objected to submitting to a suitability investigation by the Board, caused LCCI, on or about November

### CRC HOLDINGS, INC. - GAMING DIVISION NOTES TO FINANCIAL STATEMENTS (dollars in thousands)

29, 2000, to file suit in the 19th Judicial District Court of Louisiana against CLP. In its action, LCCI seeks a declaratory judgment that CLP must, as a matter of law, submit to a suitability investigation by the Board, and a declaration of what, if any, obligations CLP has under its lease with LCCI to submit to such a suitability investigation. LCCI intends to prosecute the action vigorously, but it is not possible to determine the outcome of the litigation at this time.

Gaming licenses in Ontario are issued for four-year terms. CHC Canada's original gaming license is up for renewal in July 2000. CHC Canada has filed its renewal application and paid its annual renewal fee and its license is deemed to continue to July 2001 pending completion of the re-licensing investigation. CHC Canada and its officers, directors, managers, principal shareholders, including the Company and its officers and directors and key gaming employees, will be subject to strict scrutiny and full suitability investigations and approval by the Ontario Alcohol and Gaming Commission in connection with CHC Canada's renewal application.

CHC Canada believes it will be successful in receiving renewal of its license, but no assurance can be given as to whether or when the license will be renewed, or extent of any restrictions that may be imposed as conditions thereof. The loss, suspension or failure to obtain renewal of the license subject to burdensome conditions, would have a material adverse effect on the Company.

#### NOTE 6 - SUBSEQUENT EVENTS

On April 24, 2001, consent of the Chippewas of Rama First Nation for Penn's acquisition of CRC was obtained. On April 27, 2001, Penn completed its acquisition of CRC pursuant to the Merger Agreement and repaid the 1999 Notes.

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### UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

On April 27, 2001, Penn National Gaming, Inc. (the "Company" or "PNGI") completed its acquisitions of: (i) CRC Holdings, Inc. and (ii) the minority interest in Louisiana Casino Cruises, Inc. ("LCCI") not owned by CRC (together, "CRC"). The transactions were accounted for as purchases. As a result, the net assets of CRC were recorded at their fair value with the excess of the purchase price over the fair value of the net assets acquired allocated to goodwill. The total purchase price for the acquisitions was approximately \$181.3 million, including the repayment of certain existing debt at CRC and its subsidiaries. The purchase price of the acquisitions was funded by the proceeds of the Company's offering of \$200 million of its senior subordinated notes, which was completed in March 2001.

The following unaudited pro forma consolidated statement of operations for the year ended December 31, 2000 has been prepared giving effect to the acquisition of CRC, the acquisition of the net assets of the Casino Magic Bay St. Louis and Boomtown Biloxi casinos (together, the "Mississippi Properties"), the offering of the Company's \$200 million senior subordinated notes and the tender offer to purchase all of the LCCI 11% senior secured notes as if they occurred on January 1, 2000.

The following unaudited pro forma consolidated statement of operations for the three months ended March 31, 2001 has been prepared giving effect to the acquisition of CRC, the offering of the Company's \$200 million senior subordinated notes and the tender offer of the LCCI 11% senior secured notes as if they occurred on January 1, 2001.

The following unaudited pro forma consolidated balance sheet has been prepared as if the acquisition of CRC and the tender offer of the LCCI 11% senior secured notes occurred on March 31, 2001.

The unaudited pro forma consolidated financial information should be read in conjunction with the notes hereto and the following:

- o The Company's historical consolidated financial statements and notes thereto for the year ended December 31, 2000 included in the Company's Annual Report on Form 10-K.
- o The Company's historical consolidated financial statements and notes thereto for the three months ended March 31, 2001 included in the Company's Quarterly Report on Form 10-Q.
- o The historical financial statements and notes thereto of CRC Holdings, Inc.-Gaming Division included elsewhere in this Form 8-K.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
YEAR ENDED DECEMBER 31, 2000  
(IN THOUSANDS, EXCEPT PER SHARE DATA)

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	PNGI and Subsidiaries as reported (1)	Mississippi Properties (2)	Mississippi Pro Forma Adjustments (3)	CRC Hold Inc. - G Divisi (4a)
-----				
REVENUES				
Gaming	\$ 159,589	\$ 84,840	\$ --	\$ 89,
Racing	113,230	--	--	--
Management service fees	--	--	--	13,
Other	21,304	12,362	--	1,
-----				
TOTAL REVENUES	294,123	97,202	--	104,
-----				
OPERATING EXPENSES				
Gaming	94,087	47,516	--	41,
Racing	77,063	--	--	--
Other operating expenses	18,776	9,961	--	1,
General and administrative	44,716	17,104	--	33,
Depreciation and amortization	13,594	5,070	1,078 (a)	5,
-----				
TOTAL OPERATING EXPENSES	248,236	79,651	1,078	81,
-----				
INCOME FROM OPERATIONS	45,887	17,551	(1,078)	23,
OTHER INCOME (EXPENSES)				
Interest income	1,875	3	--	1,
Interest expense	(19,089)	(93)	(8,898) (b)	(7,
Foreign currency (losses)	--	--	--	(
Other income (expense), net	39	(301)	--	(
-----				
TOTAL OTHER (EXPENSES), net	(17,175)	(391)	(8,898)	(6,
-----				
INCOME BEFORE TAXES AND MINORITY INTEREST	28,712	17,160	(9,976)	17,
INTEREST INCOME TAX EXPENSE (BENEFIT)	10,137	3,946	2,793 (c)	7,
-----				
INCOME BEFORE MINORITY INTEREST	18,575	13,214	(12,769)	10,
MINORITY INTEREST	--	--	--	3,
-----				
INCOME FROM CONTINUING OPERATIONS	\$ 18,575	\$ 13,214	\$ (12,769)	\$ 6,
=====				
INCOME PER COMMON SHARE FROM CONTINUING OPERATIONS				
Basic	\$1.24			
Diluted	1.20			
=====				
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING				
Basic	14,968			
Diluted	15,443			
=====				

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PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
 UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF OPERATIONS  
 THREE MONTHS ENDED MARCH 31, 2001  
 (IN THOUSANDS, EXCEPT PER SHARE DATA)

	PNGI and Subsidiaries as reported (1)	CRC Holdings Inc. - Gaming Division (4b)	CRC Pro Forma Adjustments (5)	Pro Forma as Adjusted for CRC Acquisition
<hr/>				
REVENUES				
Gaming	\$ 70,609	\$ 24,284	--	\$ 94,893
Racing	27,123	--	--	27,123
Management service fees	--	2,371	--	2,371
Other	8,497	428	--	8,925
<hr/>				
TOTAL REVENUES	106,229	27,083	--	133,312
<hr/>				
OPERATING EXPENSES				
Gaming	39,069	11,156	--	50,225
Racing	18,474	--	--	18,474
Other operating expenses	7,228	253	--	7,481
General and administrative	19,145	7,105	(350) (a)	25,900
Depreciation and amortization	6,935	1,221	1,756 (b)	9,912
<hr/>				
TOTAL OPERATING EXPENSES	90,851	19,735	1,406	111,992
<hr/>				
INCOME FROM OPERATIONS	15,378	7,348	(1,406)	21,320
OTHER INCOME (EXPENSES)				
Interest income	1,006	370	--	1,376
Interest expense	(8,598)	(1,670)	(1,788) (c)	(12,056)
Foreign currency (losses)	--	(48)	--	(48)
Other income (expense), net	(559)	(268)	268 (f)	(559)
<hr/>				
TOTAL OTHER (EXPENSES), net	(8,151)	(1,616)	(1,520)	(11,287)
<hr/>				
INCOME BEFORE TAXES AND MINORITY INTEREST	7,227	5,732	(2,926)	10,033
INCOME TAX EXPENSE (BENEFIT)	2,611	2,384	(1,024) (d)	3,971
<hr/>				
INCOME BEFORE MINORITY INTEREST	4,616	3,348	(1,902)	6,062
MINORITY INTEREST	--	1,082	(1,082) (e)	--

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-----									
INCOME FROM CONTINUING OPERATIONS	\$	4,616	\$	2,266	\$	(820)	\$	6,062	
=====									
INCOME PER COMMON SHARE FROM CONTINUING OPERATIONS									
Basic		\$	.31					\$	.40
Diluted			.30						.39
=====									
=====									
WEIGHTED-AVERAGE COMMON SHARES									
OUTSTANDING									
Basic		15,044						15,044	
Diluted		15,524						15,524	
=====									
=====									

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS (AMOUNTS IN THOUSANDS)

The following notes describe the column headings in the pro forma consolidated statements of operations and the pro forma adjustments that have been made to these statements:

- (1) (a) Reflects the audited consolidated historical statement of operations of PNGI for the year ended December 31, 2000.
- (b) Reflects the unaudited consolidated historical statement of operations of PNGI for the three months ended March 31, 2001.
- (2) Represents the combined historical statements of operations for the Mississippi Properties for the period from January 1, 2000 through August 7, 2000. The Company acquired the Mississippi Properties on August 8, 2000 and accounted for the acquisitions by the purchase method of accounting. As a result, the operating results of the combined statements for the period August 8, 2000 through December 31, 2000 are included in the operating results of the Company.
- (3) (a) Reflects the following pro forma adjustments to the operating results as a result of the acquisition of the Mississippi properties:

	Year ended December 31, 2000
	-----
Net (decrease) in expense resulting from the depreciation of \$139,400 of property using lives ranging from 5 to 39 years	\$ (243)
Amortization of goodwill of \$56,800 using a life of 40 years	856
Net increase in expense resulting from the amortization of	

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\$10,200 in deferred financing costs over the six-year term of the notes payable under the Company's \$350,000 senior secured credit facility

465

-----

\$1,078

=====

- (b) Net increase in interest expense resulting from the \$350,000 senior secured credit facility entered into in August 2000. The proceeds of the credit facility were used to finance the Mississippi acquisitions and to pay off other long-term debt.
- (c) Reflects the income tax adjustments associated with the pro forma adjustments described above and pro forma entry necessary to adjust for Boomtown Biloxi becoming a consolidated tax payor with PNGI upon consummation of the Mississippi acquisition.
- (4) (a) Reflects the audited historical results of operations of CRC Holdings, Inc. - Gaming Division for the year ended November 30, 2000.
- (b) Reflects the unaudited historical results of operations of CRC Holdings, Inc. - Gaming Division for the three months ended February 28, 2001.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED  
STATEMENTS OF OPERATIONS  
(AMOUNTS IN THOUSANDS)  
(CONTINUED)

- (5) Reflects pro forma adjustments relating to the CRC acquisition as follows:
  - (a) Adjustments to reflect the following eliminations:

	Year ended December 31, 2000	Three months ended March 31, 2001
	-----	-----
Management fees	\$ (599)	\$ (178)
Royalty fees	(678)	(172)
Management bonus	(1,000)	--
Other charges	(200)	--
	-----	-----
	\$ (2,477)	\$ (350)
	=====	=====

- (b) Adjustments to reflect the acquisition of CRC:

Three

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	Year ended December 31, 2000	months ended March 31, 2001
	-----	
Net (decrease) in expense resulting from the depreciation of \$97,000 of property using lives ranging from 5 to 39 years	\$ (150)	\$ (9)
Amortization of goodwill of \$82,100 using a life of 40 years, net of historical amortization related to \$3,300 of existing goodwill of CRC	1,953	491
Amortization of the fair value of a management contract of \$43,000 over its 10 1/2-year term	4,095	1,024
Increase in expense resulting from the amortization of \$7,000 in deferred financing costs related to the issuance of the senior subordinated notes to be amortized over the 7-year term of the notes.	1,000	250
	-----	
	\$ 6,898	\$ 1,756
	=====	

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED  
STATEMENTS OF OPERATIONS  
(AMOUNTS IN THOUSANDS)  
(CONTINUED)

- (c) Reflects the net increase in interest expense resulting from the Company's offering of \$200,000 of senior subordinated notes, the proceeds of which were used to fund the acquisition of CRC and repayment of existing debt of LCCI.
- (d) Adjustment to reflect the income tax effect associated with the pro forma adjustments other than in (e) below and to adjust for LCCI becoming a consolidated tax payor with CRC/PNGI upon consummation of the CRC acquisition.
- (e) Adjustment to reflect elimination of minority interest in LCCI.
- (f) Adjustment to reflect elimination of legal fees and other expenses paid by CRC in connection with the acquisition.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET  
MARCH 31, 2001  
(IN THOUSANDS)

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	PNGI and Subsidiaries as reported (1)	CRC Holdings Inc. - Gaming Division (2)	CRC Pro Forma Adjustments (3)		Pro Forma as Adjusted for CRC Acquisition
<hr/>					
ASSETS					
CURRENT ASSETS					
Cash and cash equivalents	\$ 29,045	\$ 26,134	\$ (15,000)	(d)	\$ 40,179
Accounts receivable	9,874	6,143	--		16,017
Prepaid expenses	6,020	--	(832)	(a) (e)	5,188
Deferred income taxes	--	730	--		730
Prepaid income taxes	442	--	--		442
Other current assets	--	6,100	--		6,100
<hr/>					
TOTAL CURRENT ASSETS	45,381	39,107	(15,832)		68,656
PROPERTY, PLANT AND EQUIPMENT, NET	285,706	43,860	53,140	(e)	382,706
OTHER ASSETS					
Investments and advances to unconsolidated affiliate	14,577	--	--		14,577
Cash in escrow	199,483	--	(199,483)	(a) (c)	--
Intangible assets	77,653	3,341	121,771	(e)	202,765
Deferred financing costs	15,328	782	(782)	(f)	15,328
Miscellaneous	3,660	1,840	(1,470)	(g)	4,030
<hr/>					
TOTAL OTHER ASSETS	310,701	5,963	(79,964)		236,700
<hr/>					
TOTAL ASSETS	\$ 641,788	\$ 88,930	\$ (42,656)		\$ 688,062
<hr/>					

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET  
MARCH 31, 2001  
(IN THOUSANDS)

	PNGI and Subsidiaries as reported (1)	CRC Holdings Inc. - Gaming Division (2)	CRC Pro Forma Adjustments (3)		Pro Forma as Adjusted for CRC Acquisition
<hr/>					
LIABILITIES AND STOCKHOLDERS' EQUITY					
CURRENT LIABILITIES					
Current maturities of					

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long-term debt	\$ 12,327	\$ 4,376	\$ (4,376)	(c)	\$ 12,327
Accounts payable	11,160	4,117	--		15,277
Due to affiliates	--	172	(172)	(g)	--
Purses due horsemen	3,412	--	--		3,412
Uncashed pari-mutuel tickets	1,693	--	--		1,693
Accrued expenses	16,746	10,155	8,054	(b) (e)	34,955
Deferred pension plan liability	--	218	--		218
Customer deposits	922	--	--		922
Taxes, other than income taxes	2,881	--	--		2,881
<hr/>					
TOTAL CURRENT LIABILITIES	49,141	19,038	3,506		71,685
<hr/>					
LONG-TERM LIABILITIES					
Long-term debt, net of					
current maturities	496,597	53,000	(70,361)	(d)	479,236
Deferred income taxes	14,530	5,052	36,868	(e) (h)	56,450
Other liabilities	--	143	--		143
<hr/>					
TOTAL LONG-TERM LIABILITIES	511,127	58,195	(33,493)		535,829
<hr/>					
MINORITY INTEREST	--	2,417	(2,417)	(g)	--
<hr/>					
STOCKHOLDERS' EQUITY					
Common stock	155	54	(54)	(g)	155
Treasury stock	(2,379)	--	--		(2,379)
Additional paid-in capital	39,593	821	(821)	(g)	39,593
Retained earnings	46,579	8,452	(9,424)	(b) (g)	45,607
Other comprehensive income	(2,428)	(47)	47	(g)	(2,428)
<hr/>					
TOTAL STOCKHOLDERS' EQUITY	81,520	9,280	(10,252)		80,548
<hr/>					
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 641,788	\$ 88,930	\$ (42,656)		\$ 688,062
<hr/>					

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED  
BALANCE SHEET  
(AMOUNTS IN THOUSANDS)

The following notes describe the column headings in the unaudited pro forma consolidated balance sheet and the pro forma adjustments that have been made to the unaudited pro forma consolidated balance sheet:

- (1) Reflects the historical unaudited consolidated balance sheet of PNGI as of March 31, 2001.
- (2) Reflects the unaudited balance sheet of CRC Holdings, Inc. - Gaming Division as of February 28, 2001.
- (3) Reflects pro forma adjustments of the CRC acquisitions as follows:



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(a)	CRC purchase price, net of cash in escrow of \$5,183	\$	123,117
	Acquisition fees and other charges		1,242
			-----
	Cash paid at settlement to acquire CRC	\$	124,359
			=====
(b)	LCCI 11% senior secured notes	\$	53,000
	Tender premium		7,786
	Interest expense through settlement date		2,418
			-----
	Cash paid at settlement to complete tender offer	\$	63,204
			=====

Total interest accrued at February 28, 2001 amounted to \$1,446. Interest expense charged to operations from the period March 1, 2001 through the date of settlement amounted to \$972.

(c)	Cash paid at settlement was as follows:		
	Acquisition of CRC	\$	124,359
	Tender offer on LCCI 11% senior secured notes		63,204
	Payment of other debt of CRC		4,376
			-----
	Total cash paid		191,939
	Total cash in escrow		(194,300)
			-----
	Net decrease in borrowings under senior secured credit facility	\$	(2,361)
			=====

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED  
BALANCE SHEET  
(AMOUNTS IN THOUSANDS)  
(CONTINUED)

(d) The pro forma activity for long-term debt is as follows:

	Senior Secured Credit Facility	Subordinated Notes	CRC Senior Secured Notes	Total
As reported	\$ 308,924	\$ 200,000	\$ --	\$ 508,924
Acquisition of CRC	--	--	53,000	53,000
Payment of LCCI notes	--	--	(53,000)	(53,000)

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Net decrease in borrowings	(2,361)	--	--	(2,361)
Debt payments using CRC cash	(15,000)	--	--	(15,000)

Total pro forma debt	\$ 291,563	\$ 200,000	\$ --	\$ 491,563
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(e) Pro forma purchase price allocation:				
CRC acquisition consideration				\$ 128,300
Tender offer premium on LCCI 11% senior secured notes				7,786
Accrued liabilities in connection with acquisitions				9,500
Acquisition fees and costs				2,074

Pro forma purchase price				\$ 147,660
--------------------------	--	--	--	------------

Pro forma purchase price allocation:

Property, plant and equipment	\$ 97,000
Management contract	43,000
Net operating liabilities	(37,584)
Goodwill	82,112
Deferred income tax liability	(36,868)

	\$ 147,660
--	------------

Property, plant and equipment - adjusted to fair value as follows:

Property, plant and equipment acquired at cost	\$ 43,860
Adjustment to increase property, plant and equipment to fair value	53,140

Property, plant and equipment at fair value	\$ 97,000
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NOTES TO UNAUDITED PRO FORMA CONSOLIDATED  
BALANCE SHEET  
(AMOUNTS IN THOUSANDS)  
(CONTINUED)

Certain operating assets, net of certain liabilities, were recorded at historical cost at the acquisition date, which approximates their market value.

Intangible assets recorded in connection with CRC acquisition:

Goodwill	\$ 82,112
Management contract	43,000

Total intangible assets recorded in connection with acquisition	125,112
Less: Elimination of goodwill related to CRC	(3,341)

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Net increase to intangible assets

\$ 121,771

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The goodwill will be amortized over a 40-year period. The management contract will be amortized over the life of the contract, which is 10.5 years.

- (f) To write off deferred financing costs related to repayment of the LCCI 11% senior secured notes.
- (g) To eliminate CRC's amount due to/from affiliate, minority interest and equity accounts.
- (h) To record deferred tax liability attributable to the difference between the tax and accounting basis of the management contract and property, plant, and equipment acquired from CRC.

SIGNATURE

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 hereunto duly authorized.

PENN NATIONAL GAMING, INC.  
(Registrant)

By /s/ Robert S. Ippolito

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Robert S. Ippolito  
Chief Financial Officer

Dated: June 8, 2001

EXHIBIT INDEX

EXHIBIT NO. DESCRIPTION OF DOCUMENT

- 2.1 + Agreement and Plan of Merger among CRC Holdings, Inc., Penn National Gaming, Inc., Casino Holdings, Inc. and certain shareholders of CRC Holdings, Inc. dated as of July 31, 2000.
- 2.2 + Stock Purchase Agreement by and among Penn National Gaming, Inc., Dan S. Meadows, Thomas L. Meehan and Jerry S. Bayles, dated as of July 31, 2000.
- 99.1 ++ Press Release dated April 30, 2000.

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- + Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed August 8, 2000 and incorporated herein by reference.

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++ Previously filed as an exhibit to the Registrant's Current Report on Form 8-K filed May 7, 2001 and incorporated herein by reference