

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

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

Date of Report (Date of earliest event reported): January 15, 1997

PENN NATIONAL GAMING, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	0-24206 (Commission File Number)	23-2234473 (I.R.S. Employer Identification No)
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825 Berkshire Blvd. Wyomissing, PA (Address of principal executive offices)	19610 (Zip code)
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Registrant's telephone number, including area code 610-373-2400

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Item 2. Acquisition or Disposition of Assets

General

On January 15, 1997, pursuant to an Amended and Restated Option Agreement dated as of February 17, 1995 (the "Option Agreement"), PNGI Charles Town Gaming Limited Liability Company ("PNGI LLC") acquired substantially all of the assets (the "Acquired Assets"), subject to certain of the liabilities, of Charles Town Races, Inc. ("CTR") and of Charles Town Racing Limited Partnership ("Racing") (the "Acquisition"). The Acquired Assets include approximately 250 acres of real property and improvements thereon, including the Charles Town Races thoroughbred horse racing track, in Charles Town, West Virginia (all of such real property and improvements, the "Track") and related assets. PNGI LLC is 80% owned by Penn National Gaming of West Virginia, Inc. ("PNGI/WVA"), an indirect, wholly-owned subsidiary of Penn National Gaming, Inc. (the "Company"), and 20% owned by Bryant Development Company ("BDC"), pursuant to the terms of an Amended and Restated Operating Agreement of PNGI LLC dated as of December 31, 1996, among PNGI LLC, PNGI/WVA and BDC (the "Operating Agreement").

Pursuant to a letter dated January 14, 1997 from Peter M. Carlino, Chairman and Chief Executive Officer of the Company, on behalf of the Company, PNGI/WVA and PNGI LLC, to James A. Reeder, President of BDC (the "January 14th Letter"), the parties confirmed an agreement to amend the Operating Agreement to provide PNGI/WVA with an 89% ownership interest and BDC with an 11% ownership interest in PNGI LLC, and to eliminate BDC's obligation to fund any initial portion of the funding of PNGI LLC up to \$40,000,000. The January 14 Letter further provides that the initial funding of PNGI LLC up to \$40,000,000 will be treated, as between the members of PNGI LLC, as a loan from PNGI/WVA or the

Company to PNGI LLC, regardless of form. The proposed changes in the ownership of PNGI LLC are subject to review by the applicable West Virginia racing and lottery regulatory authorities.

The Company provided 100% of the purchase price for the Acquisition, and anticipates that it will provide 100% of the cost of refurbishing the Track as described below.

Basic Terms of the Acquisition.

The Acquired Assets consist principally of approximately 250 acres of real property in Charles Town, West Virginia and improvements thereon, including the Charles Town Races thoroughbred racetrack, a right of first refusal to acquire an additional 250 acres adjacent to the racetrack, and related facilities and personal property used in connection with the conduct of thoroughbred horse racing at the Track. CTR and Racing also assigned to PNGI LLC certain agreements related to the operations of the racetrack to the extent such agreements are valid and legally binding, and PNGI LLC assumed certain executory obligations under those particular contracts, to the extent such obligations are valid and legally binding, and PNGI LLC further repaid a loan obligation of CTR to One Valley Bank, Inc. in the amount of approximately \$168,000, using proceeds from an approximately \$168,000, thirty-day loan from Racing to PNGI LLC.

PNGI/WVA also agreed to indemnify Racing for any claim by GTECH Corporation ("GTECH") or by AmTote International, Inc. ("AmTote") that Racing may have failed to fulfill certain obligations under a certain contract among AmTote International, Inc., CTR and Racing, certain portions of which contract were allegedly assigned to GTECH, and the Company guaranteed such indemnification obligations. Certain litigation among CTR, Racing, the Company and GTECH relating to the foregoing is described on pages 14

and 57 of the Company's Amendment No. 1 dated January 21, 1997 to Registration Statement Number 333-18861 on Form S-3 (the "Registration Statement"), and is incorporated herein by reference.

The purchase price for the Acquired Assets was approximately \$16,500,000 (subject to reduction of up to approximately \$500,000 based upon the resolution of certain disputed items, for which amounts have been placed in escrow), plus an estimated \$2,000,000 in acquisition related fees and expenses. The purchase price for the Acquired Assets was paid at the closing by wire transfer of funds. At the closing, CTR repaid to PNGI LLC \$1,155,000 previously loaned to CTR by PNGI LLC. The funds for the purchase price for the Acquired Assets were provided by the Company, which borrowed such funds pursuant to its credit facility under the Credit Agreement (described below).

Prior to the Acquisition, CTR and Racing conducted live thoroughbred horse racing, pari-mutuel wagering on live races run at the Track, and pari-mutuel wagering on races import simulcast from other tracks. On November 11, 1996, the Track was closed for the racing season, and currently remains closed.

PNGI LLC expects to refurbish the Track as an entertainment complex that will feature live racing, dining, simulcast wagering and, upon the completion of the interior refurbishment, initially 400 video lottery gaming machines ("Gaming Machines"). The estimated cost of the refurbishment, exclusive of the cost of the purchase or lease of the Gaming Machines, is expected to be approximately \$16,000,000. The Company expects the Track to open for live racing and on-site pari-mutuel wagering on or about April 1, 1996, and for Gaming Machines in mid-1997, in each case subject to all required regulatory approvals. PNGI LLC has been granted a conditional license to conduct thoroughbred racing and simulcast wagering at the Track, and has applied for but not yet received at this time a license to operate Gaming Machines at the Track.

The voters of Jefferson County, West Virginia passed a local referendum on November 5, 1996 to permit Gaming Machines to be operated at the Track. The West Virginia legislation which permits such Gaming Machine operations expires on June 30, 1997. No Gaming Machines may be operated at the Track if an appropriate license is not granted or, if it is granted, the enabling legislation is not extended. GTECH has claimed an exclusive right to install and operate PNGI LLC's video lottery system at the Track, as described above and at pages 14 and 57 of the Registration Statement.

Showboat Operating Company ("Showboat"), which was the original optionee under the Option Agreement (which was subsequently assigned to BDC and by BDC to PNGI LLC), has retained a right of first refusal to operate any casino at the Track in return for a management fee (to be negotiated at the time, based on rates payable for similar properties). Showboat has also retained a right of first refusal to purchase or lease the site of any casino at the Track proposed to be leased or sold and to purchase any interest proposed to be sold in any such casino (on the same terms offered by a third party or otherwise negotiated with PNGI LLC). The rights retained by Showboat extend for a period of five years from the date PNGI LLC exercised its option to purchase the Track, and expire thereafter unless legislation to permit casino gaming at the Track has been adopted prior to the end of the five year period. If such legislation has been adopted prior to such time, then the rights of Showboat continue for a reasonable time (not less than 24 months) to permit completion of negotiations.

Financing for the Acquisition. On January 15, 1997, the Company borrowed \$16,500,000 in term loans from a syndicate of banks for which Bankers Trust Company serves as agent, pursuant to the terms of a Credit Agreement dated as of November 27, 1996 among the Company, Bankers Trust Company as Agent, CoreStates Bank, N.A. as Co-Agent, and certain banks party to the Credit Agreement, and which provides for a \$75,000,000 credit facility (the "Credit Agreement"). Advances under the credit facility established by the Credit Agreement are secured by substantially all of the assets of the Company and its subsidiaries other than the assets of PNGI LLC. PNGI/WVA has pledged its equity interest in PNGI LLC to the banks party to the Credit Agreement as security for the advances under the Credit Agreement, and has

agreed not to permit PNGI LLC to grant a security interest in or otherwise encumber any of the assets of PNGI LLC.

Failure by PNGI LLC to obtain from the West Virginia Lottery Commission, by June 1, 1997, a license to install and operate Gaming Machines at the Track, or to retain such license or a license from the West Virginia Racing Commission to conduct thoroughbred horse racing at the Track, constitute events of default under the Credit Agreement.

The Credit Agreement was previously filed with the Securities and Exchange Commission as Exhibit 10.1 to the Company's Report on Form 8-K dated December 12, 1996, and is incorporated herein by reference. The Credit Agreement was amended by a certain First Amendment and Consent dated as of January 7, 1997 among the parties to the Credit Agreement (the "First Amendment"). The First Amendment is attached hereto as Exhibit 2.6.

Tax and AccountingThe Company intends to account for the acquisition of the Acquired Assets as a purchase for financial reporting purposes.

Item 7. Financial Statements and Exhibits

(a) Financial Statements.

To be filed on Form 8-K/A as soon as practicable, but not later than 60 days after this Form 8-K must be filed.

(b) Pro Forma Financial Information (unaudited).

To be filed on Form 8-K/A as soon as practicable, but not later than 60 days after this Form 8-K must be filed.

(c) Exhibits.

Exhibit No.	Description
2.1	Amended and Restated Option Agreement dated as of February 17, 1995 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Gaming Limited Liability Company. (^)
2.2	Transfer, Assignment and Assumption Agreement and Bill of Sale dated January 15, 1997 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Gaming Limited Liability Company. (^)
2.3	Closing Agreement dated January 15, 1997 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Gaming Limited Liability Company. (^)
2.4	Amended and Restated Operating Agreement dated as of December 31, 1996 among Penn National Gaming of West Virginia, Inc., Bryant Development Company and PNGI Charles Town Gaming Limited Liability Company. (^)
2.5	Letter dated January 14, 1997 from Peter M. Carlino to James A. Reeder
2.6	First Amendment and Consent dated as of January 7, 1997 among the Company, Bankers Trust Company as Agent, CoreStates Bank, N.A. as Co-Agent, and certain banks party to the Credit Agreement dated as of November 27, 1996.

(^) The Company will upon request provide the Commission with copies of any schedule or exhibits to this agreement.

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

PENN NATIONAL GAMING, INC.

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

Date: January 30, 1997

EXHIBIT INDEX

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(^) The Company will upon request provide the Commission with copies of any schedule or exhibits to this agreement.

AMENDED AND RESTATED
OPTION AGREEMENT

THIS AMENDED AND RESTATED OPTION AGREEMENT (the "Agreement"), is made and entered into as of February 17, 1995, by and between CHARLES TOWN RACING LIMITED PARTNERSHIP, a West Virginia limited partnership ("Racing"), CHARLES TOWN RACES, INC., a West Virginia corporation ("CTR", Racing and CTR are herein collectively referred to as "Optionor"), and PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY, a West Virginia limited liability company ("PCTG").

WHEREAS, Racing is the owner of the fee simple interest, and CTR is the owner of the tenancy interest, in approximately two hundred fifty (250) acres of real property and improvements thereon located in Jefferson County, West Virginia, known as the Charles Town Race Track and Shenandoah Downs and a right of first refusal on approximately two hundred fifty acres of adjacent property, described in Annex 1 attached hereto, together with certain tangible and intangible personalty more particularly described below (collectively the "Property") and CTR leases such Property from Racing;

WHEREAS, PCTG is interested in acquiring the Property for the purpose of continuing thoroughbred horse racing and legally operating video lottery terminals thereon;

WHEREAS, on or about February 17, 1995, Optionor granted to a third party an option to purchase the Property, which option was subsequently assigned to Bryant Development Company ("BDC"), and further assigned by BDC to PCTG; and

WHEREAS, Optionor and PCTG desire to amend and restate the option on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of Ten Dollars (\$10.00) and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereby agree as follows:

I. Grant of Option. Subject to and under the terms, covenants and conditions hereinafter set forth, Optionor hereby grants to PCTG the exclusive right and sole option (the "Option") to purchase Optionor's

entire fee and leasehold interest in the real estate constituting the Property and all personalty relating to the operation of the Property and service contracts, trade names (including but not limited to "Charles Town Race Track" and "Shenandoah Downs"), equipment (including but not limited to trucks, tractors, tote boards, starting gates, grandstands, and the like) relating thereto, and a right of first refusal on approximately two hundred fifty acres of adjacent property except for certain apartment buildings owned by Racing in Berkeley County, West Virginia, the Property's general manager's automobile and house on Belvedere Avenue in Charles Town, and any cash on hand or in any bank accounts, for the purchase price of Eighteen Million Dollars (\$18,000,000). Said purchase price shall be reduced, dollar for dollar, by (i) any sales proceeds received as a result of any transfer of a portion of the Property permitted by Section 4(c) below, (ii) \$1.60 for each \$1 borrowed by Optionor under that certain line of credit (the "Line") under those certain loan documents (the "Loan Documents") between Optionor and PCTG (it being understood that only the receipt of funds by Optionor upon its request under the Line, and not the mere execution of the Line, will reduce the purchase price, and it being further understood that the reduction in the purchase price shall not in any manner affect Optionor's obligation to repay such indebtedness pursuant to the terms and provisions of the Loan Documents; (iii) all amounts of principal and interest outstanding under the Line as of the Closing Date; and (iv) any payments

made pursuant to Section 11 below. Subject to the terms hereof, this Option is irrevocable and coupled with an interest.

II. Registered Holder; Extension; Termination. Optionor acknowledges and agrees that (a) PCTG is the sole holder of the Option; and (b) that the prior holders of this Option and PCTG have, prior to the date hereof, made aggregate payments to Optionor in the sum of Seven Hundred Fifty Thousand Dollars (\$750,000) and the Option Period has been extended until December 31, 1996 (the "Extension Date"); and (c) upon the recording of this Agreement in accordance with Section 6 hereof, PCTG will be the sole record holder of the Option. Such payments are non-refundable unless Optionor fails to convey title to the Property in the condition it is in as of the date hereof, less and except any monetary encumbrances, liens, accrued taxes, and the like or Optionor is otherwise in breach of this Agreement. This Option shall terminate at 11:59 P.M. Eastern Standard Time on the Extension Date, unless the

November 5, 1996 referendum fails (or if the question of permitting video lottery games in Jefferson County, West Virginia is not placed on the ballot for the referendum), in which case the Option shall remain outstanding and may be exercisable at any time during which the Line is outstanding or PCTG has any obligation to make loans to Optionor under the Loan Documents, whether by extension, default or otherwise, notwithstanding anything to the contrary contained or implied in this Agreement or in any other agreement between or among the parties hereto (the date the Option terminates is referred to herein as the "Termination Date");

III. Method of Exercise. The Option may be exercised by delivery of written notice to Optionor at any time from the date hereof to the Termination Date (the "Option Period") and fixing a date not more than sixty (60) days in advance for the closing of title to the Property and the other items set forth in Section 8 below. In the event the Option is exercised, Optionor shall sell and PCTG shall purchase the Property and the parties will otherwise consummate the transactions contemplated hereby on the terms and conditions set forth herein and in the Related Agreements (as defined in Section 8 below). EXTENSION

IV. Representations, Warranties and Covenants of Optionor. Optionor hereby represents, warrants and covenants to PCTG to the best of Optionor's actual knowledge and belief as provided herein. "Optionor's actual knowledge" means the actual knowledge of D. Keith Wagner, Chief Operating Officer of CTR, as of the date hereof.

A. Good Title; Acreage. Optionor is seized of fee simple title to the real estate portion of the Property, and is the sole owner of and has authority to convey and transfer all Property, rights, and benefits which are the subject matter of this Agreement, subject only to the exceptions set forth in Schedule 4(a) hereto (the "Permitted Exceptions"). The Property includes approximately two hundred fifty (250) acres of land, more or less Any liens either on real estate or personalty or other monetary title exceptions shall be paid by Optionor at closing.

B. Litigation; Compliance with Laws. Optionor has no knowledge, nor has Optionor received any notice, of any actual or pending litigation or proceeding by any organization, person, individual or governmental agency against Optionor with respect to the Property, or any part thereof, nor does Optionor know of any basis for any such action; and Optionor has no knowledge, nor has Optionor received any notice, of any violations of law, municipal or county ordinances, or other legal requirements with respect to the Property, or any part thereof, or with respect to the use, occupancy or construction thereof, nor does Optionor know of any basis for such violations. Optionor has no knowledge of any proceeding to change such currently applicable laws and regulations.

C. No Other Transfers. Other than the Permitted Exceptions, or documents executed with the prior written consent of PCTG, Optionor has not executed and will not execute any document or instrument granting, conveying assigning, or otherwise transferring, or in which Optionor has agreed to grant, convey, assign, or otherwise transfer, all or any part of Optionor's interest in the Property. PCTG hereby consents to the sale of approximately 100,000 square feet of land situated at State Route 17 and US Route 340. Notwithstanding the foregoing, after providing PCTG with prior written notice, Optionor may encumber the Property with additional deeds of trust and UCC liens subject to the restrictions set forth in Section 11 below and may execute options on the Property to third parties provided the same are expressly subordinate to this Agreement

D. Condemnation. There is no pending or threatened condemnation proceeding with respect to all or any portion of the Property by any governmental authority having the power of eminent domain, nor is there any contemplated sale of all or any portion of the Property proposed to be made in lieu of any such pending or threatened condemnation or eminent domain proceeding. In the event of a condemnation, PCTG shall have the option of terminating this Agreement or proceeding to closing with an assignment of any condemnation proceeds or claims therefor.

E. Environmental. No portion of the Property contains any hazardous substance or hazardous waste, as said terms are used in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. subsections 9601 et seq., the Resources

Conservation and Recovery Act, as amended, 42 U.S.C. subsections 6901 et seq., or any West Virginia environmental protection statute.

F. Solvency. Neither Optionor nor any of Optionor's general partners has (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by any of its or their creditors; (iii) suffered the appointment of a receiver to take possession of all or substantially all, of its or their assets; or (iv) suffered the attachment or other judicial seizure of all, or substantially all, of its or their assets; or (v) admitted in writing its inability to pay its debts as they come due; (vi) made an offer of settlement, extension or composition to its creditors generally.

G. Leases. There are no written leases with respect to the Property except (i) the unrecorded year-to-year lease (the "Lease") between Racing and CTR dated January 1, 1992, amended January 1, 1993, and no subleases or agreements with respect thereto (except collateral assignments in favor of One Valley Bank, Inc.); and (ii) Concert Rental and Exclusive Option with IMP, Inc. dated May 17, 1993, as amended July 27, 1994, and which terminates on December 31, 1999 (the "IMP Agreement"). Optionor shall not execute any other leases or amend or extend the above leases without the consent of PCTG, except for (i) annual renewals of the Leases; or (ii) after prior written notice to PCTG, extension of the IMP Agreement in each case for not more than twelve months. The Lease shall be terminated as of the closing of the transfer of the Property to PCTG, and PCTG shall have no liability (whether for lease payments accrued prior to the date of such termination or otherwise), in connection with the Lease.

H. Service Contracts. There are no operating contracts with respect to the Property ("Service Contracts") with affiliates of Optionor.

I. Insurance. Optionor has and will maintain such casualty insurance policy as may be required by the Optionor's institutional lender, and, from the date hereof through closing, PCTG will be an additional insured, loss payee and notice party thereunder (provided PCTG will bear any cost associated with it being included in such coverage). In the event of a casualty to the Property, PCTG shall have the option of

terminating this Agreement or proceeding to closing with an assignment of insurance proceeds or claims therefor.

J. Taxes. Optionor shall pay all real estate taxes and other taxes accrued with respect to the Property through the date of closing upon the sooner of (i) closing, or (ii) such times pending closing as may be necessary to avoid a loss of title to the Property.

K. Authorization; Consent. Optionor is properly organized and in good standing in the State of West Virginia, and has the full corporate or partnership (as applicable) authority to enter into and perform its respective obligations under this Agreement and the transactions contemplated hereby. Optionor has taken all corporate and/or partnership actions necessary to authorize execution and performance of this Agreement and the Related Agreements, and the persons executing this Agreement and the Related Agreements on its behalf have full authorization to do so. All necessary consents from third parties, including but not limited to Optionor's lenders, have been obtained. Neither the execution and the delivery of this Agreement nor the consummation of the transactions contemplated hereby, will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Optionor is subject, or any provision of the charter or bylaws or of the Certificate of Limited Partnership or the Partnership Agreement of Optionor (as applicable), or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice or consent under any agreement, contract, lease, license, instrument, or other arrangement to which Optionor is a party or by which Optionor is bound or to which any of Optionor's assets is subject, and which is to be assigned to PCTG hereunder or under any Related Agreement; or (iii) result in the imposition of any Lien upon any of Optionor's assets.

L. Operating License. Optionor will take all commercially reasonable actions necessary or appropriate to operate the Property as Charles Town Race Track pending closing, and to maintain in good standing all licenses and permits necessary for same.

Optionor shall take no actions inconsistent with the foregoing pending closing of the transaction contemplated by this Agreement, and will promptly notify PCTG of any fact which renders the above inaccurate. All representations and warranties herein shall be true and correct as of the date of closing, and shall survive recordation of the deed to the Property and the closing of the transactions contemplated by this Agreement. The representations and warranties contained in this Agreement (including any Schedules hereto) and in the Related Agreements (including any schedules thereto) do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements and information contained herein or therein not misleading.

V. Inspection Rights.

A. The physical condition of the Property shall be "as is, where is." Optionor's only obligations with respect to same shall be to provide routine maintenance and repairs as may be necessary for continued operation. During the Option Period, PCTG and PCTG's experts, engineers and consultants shall have the right and opportunity to conduct reasonable studies of the Property, including, but not limited to, review of the records possessed by Optionor relating to the use, occupancy, operation, and physical condition of the Property. Within three (3) business days from the commencement of the Option Period, Optionor shall either deliver to PCTG, or make available to PCTG or PCTG's experts, engineers and consultants during normal business hours, at the Property, documents relating to the Property, including but not limited to the following to the extent the same are in the custody or control of Optionor:

1. Current tenant roll, existing leases and rental agreements, side letters, occupancy agreements, licenses or other agreements affecting the use and occupancy of the Property, existing mortgages and trust deeds, and insurance policies.

2. Accounting records, property tax bills, and copies of tax returns filed for the previous two calendar years and the current year to date, actual utility bills and other original bills or invoices for goods and services rendered to the Property.

Environmental site assessments.

4. Litigation files, plans and specifications, and statement of receivables and payables.

5. Engineering surveys and reports.

6. Building material design surveys for asbestos-containing materials.

Title reports and surveys.

Service Contracts.

9. Leases.

10. Such other records as PCTG may reasonably request.

11. Promptly after execution of this Agreement, Optionor shall order and pay for and deliver to PCTG a preliminary title report for the real estate portion of the Property, it being understood and agreed that PCTG shall be responsible for the payment of premium on any title insurance purchased.

The information provided by Optionor to PCTG in connection with the foregoing shall not intentionally contain any untrue statement of a material fact or intentionally omit to state any material fact or other relevant information necessary in order to make the information provided not misleading or incomplete.

B. During the Option Period, PCTG and PCTG's experts, engineers and consultants shall have the opportunity with the prior written consent of Optionor not to be unreasonably withheld:

1. To inspect the structural condition of the Property and all major components thereof, including, without limitation, heating, air conditioning, roof, elevators, utility systems, appliances, and conduct such geological and soil tests and engineering studies as Showboat shall require.

2. To inspect the personal property inventory of the Property.

To commission a survey by a licensed asbestos removal contractor regarding the cost of removal or encapsulation of asbestos from the Property (if applicable).

4. To commission a survey by a licensed contractor regarding the cost of installation of a sprinkler system in the Property (if applicable).

5. To inspect such other aspects of the physical elements of the Property, and make all such other inquiries of third parties, including governmental authorities, as PCTG and PCTG's experts, engineers and Consultants deem necessary or appropriate with respect to the Property.

C. PCTG may terminate this Agreement on the basis of its findings during the Option Period by giving notice of such termination to Optionor prior to the expiration of the Option Period or any permitted extension thereof. In the event of such termination not caused by the failure of Optionor to convey title to the Property as provided herein, Optionor may retain any consideration paid by PCTG hereunder and the parties shall have no further obligation to each other except for obligations hereunder which expressly survive such termination.

D. PCTG hereby indemnifies and holds Optionor harmless from and against any and all loss, cost, damage, liability or expense (including reasonable attorneys' fees) arising from the activities of PCTG, its agents, employees, contractors and consultants, at or with respect to the Property during the Option Period. The terms of this indemnification shall survive expiration or termination of this Agreement.

VI. Recordation. PCTG may, at its expense, record a memorandum of this Agreement in the land records of Jefferson County, West Virginia in a form reasonably acceptable to Optionor. In the event the Option is not exercised or closing fails to occur as provided herein, PCTG shall execute an appropriate release to remove said memorandum from such land records.

VII. Disclosure. Neither PCTG nor Optionor shall disclose to third parties (other than their respective counsel, accountants, lenders and other professionals working on the acquisition) any proprietary or otherwise confidential information disclosed by the other pursuant to this Agreement and the transactions contemplated hereby. PCTG shall advise Optionor of the groups that shall have access to the due diligence information, and Optionor shall not unreasonably withhold its consent to such groups having access to such information. The parties agree that such

information shall not be disclosed to Martin & Seibert, L.C. unless such disclosure is required by law.

VIII. Closing. At Closing, taxes (which shall be re-prorated when actual tax bills are available), rents, operating costs and the like shall be pro-rated, and Optionor shall deliver or take the following actions:

A. A special warranty deed and bill of sale for the Property; cancel the Lease; assign all Service Contracts which shall be assumed if not Cancelable; execute a mechanic's lien affidavit in favor of the PCTG or its title insurer;

B. An operating transition agreement in form and substance agreed to by the parties hereto;

C. Optionor shall deliver a certificate recertifying all representations set forth in Section 4 hereof; and

D. Optionor shall do all things and execute and deliver all documents reasonably necessary to consummate the transaction contemplated by this Agreement, but limited solely to Optionor's obligations set forth herein.

Transfer stamps shall be shared equally. Each party shall bear its own attorney's fees.

IX. No Liabilities Transferred. Except as otherwise expressly provided herein or in any Related Agreement, Optionor shall not transfer, and PCTG shall not assume, any obligations or liabilities with respect to the Property or otherwise with respect to Optionor or Optionor's business.

X. Notices. All notices, demands, requests, consents, approvals, or other communications required or permitted to be given hereunder or which are given with respect to this Agreement ("Notices") shall be in writing, and shall be deemed to have been given (i) when delivered personally, (ii) by telecopy (provided that a confirmation copy is sent by the means set forth in (iii) or (iv) below within twenty-four (24) hours), or (iii) one (1) business day after being sent by confirmed air courier, or (iv) three (3) business days after being mailed by United States registered or certified mail, return receipt requested, postage prepaid. All Notices shall be addressed as follows:

To PCTG: William Bork, President
Penn National Gaming, Inc.
c/o Wyomissing Professional Center
825 Berkshire Boulevard, Suite 203
Wyomissing, PA 19610
Telecopy Number: (610) 376-2842

Copy to: Robert P. Krauss, Esquire
Mesirov Gelman Jaffe Cramer
& Jamieson
1735 Market Street
Philadelphia, PA 19103-7598
Telecopy Number: (215) 994-1111

To Racing: D. Keith Wagner, President
Charles Town Races
Post Office Box 551
Charles Town, West Virginia 25414
Telecopy Number: (304) 725-6979

Copy to: Michael Keller, Esquire
Bowles Rice McDavid Graff & Love
105 West Burke Street
P.O. Box 1419
Martinsburg, West Virginia 25401
Telecopy Number: (304) 267-3822

or to such other address as such party shall have specified most recently by like Notice. Any Notices given or delivered by other means shall not be effective.

XI. Deeds of Trust. Optionor represents and warrants to PCTG that the only deeds of trust affecting the Property as of the date hereof are those of record in favor of One Valley Bank, Inc. and PCTG (the "Existing Deeds of Trust"). Optionor covenants to give PCTG prompt notice of any event of default or notice of default with respect to the Existing Deeds of Trust. Optionor irrevocably authorizes PCTG to contact any lender with respect to the Existing Deeds of Trust (or subsequent lenders provided below) from time to time, either in PCTG's own name or as Optionor's attorney-in-fact, (i) as to whether Optionor is in default thereunder, and (ii) to cure any such default if PCTG so chooses. The costs of any such cure, together with incidental expenses including but not limited to reasonable attorneys fees (the "Cure Costs") shall, at PCTG's sole option, (i) be credited, dollar for dollar, against the purchase price set forth in Section 1 hereof in the event PCTG exercises the Option or (ii) be repaid by Optionor on demand, together with

interest thereon at the lesser of (X) the prime rate as reported in the Wall Street Journal from time to time plus 4% and (Y) the maximum rate of interest allowed by law. Optionor shall execute such letters to such lenders in confirmation of this section, and such documents as may be necessary to create a security interest in and to the Property in favor of PCTG to adequately secure monies paid pursuant to this provision as PCTG may request. Said security instrument shall be executed promptly upon request following such payment. Optionor shall not suffer any liens on the Property other than Permitted Exceptions except that Optionor may encumber the Property with additional deeds of trust provided that (i) PCTG receives prior written notice of such deeds of trust, and (ii) the total deeds of trust on the Property, including any Existing Deeds of Trust, at any one time shall not exceed Ten Million Dollars (\$10,000,000).

XII. Remedies. In the event Optionor fails to perform its obligations hereunder, including failure to convey the Property at closing, PCTG shall be entitled to maintain an action for specific performance to compel such transfer and/or maintain an action for money damages. In the event a representation or warranty in Section 4 hereof is false when made or re-certified and the misrepresentation was made willfully and intentionally for the purpose of fraudulently obtaining the Option money, then in addition to any other remedy available at law or in equity, Optionor shall be liable for all consideration paid for the Option or any extension thereof together with such other money damages as may be available at law or in equity. The parties acknowledge that the representations made in Section 4 hereof are made by D. Keith Wagner in his capacity as an officer of CTR only, and he shall not be named as a party in any lawsuit hereunder unless he is a general partner of Racing and it is necessary to name him in order to maintain an action against Racing.

XIII. Time. Time is of the essence.

XIV. Governing Law. The law of West Virginia shall govern this Agreement.

XV. Assignment. This Agreement is binding upon the parties, their successors and assigns.

XVI. Final Agreement. This Agreement is the final understanding of the parties and all prior or contemporaneous negotiations are merged herein. This

Agreement may not be modified except in writing signed by all parties. This Agreement is not intended to and shall not modify, amend or supersede the Loan Documents entered into in connection with a certain line of credit previously entered into between Optionor and PCTG, or that certain Cooperation Agreement previously entered into between Optionor and PCTG.

17. Severability. In the event that a court of competent jurisdiction determines that one or more provisions of this Agreement are not enforceable, such provision or provisions shall be deemed to be severed from this Agreement and the remaining terms hereof shall be accorded full force and effect.

18. Press Releases and Public Announcements. Neither PCTG nor Optionor shall issue any press release or make any public announcement relating to the subject matter of this Agreement without the prior written approval of the other; provided however, Penn National Gaming, Inc. may make any public disclosure it deems appropriate in connection with its status as a public company or that it believes is required by applicable law or any listing or trading agreement concerning its publicly-traded securities (in which case Penn National Gaming, Inc. will use its best efforts to advise Optionor prior to making the disclosure and to provide Optionor the opportunity to comment upon the disclosure).

WITNESS the hand and seal of the parties as of the date and year first above written.

PNGI CHARLES TOWN GAMING LIMITED
LIABILITY COMPANY

By: PENN NATIONAL GAMING OF WEST
VIRGINIA, its Managing Member

By: /s/ William J. Bork (SEAL)
WILLIAM BORK
Its: President

CHARLES TOWN RACING LIMITED PARTNERSHIP

By: D.K.W. INC., its general partner

By: /s/ D. Keith Wagner(SEAL)
D. KEITH WAGNER
Its: President

CHARLES TOWN RACES, INC.

By: /s/ Roger Ramey (SEAL)
ROGER RAMEY
Its: President

STATE OF West Virginia)

COUNTY OF Berkeley)

Before me, a notary public in and for the above jurisdiction, appeared D. KEITH WAGNER, President of D.K.W. Inc., known to me to a general partner of Charles Town Racing Limited Partnership, a West Virginia limited partnership, and acknowledged that he executed the within instrument as his act and deed and the act and deed of said partnership.

(SEAL)

/s/ Deborah Grissinger
Notary Public in and for
the State of West Virginia

Deborah Gissinger
Name printed or typed
My commission expires: April 14, 2003

STATE OF West Virginia)

COUNTY OF Jefferson)

Before me, a notary public in and for the above jurisdiction, appeared ROGER RAMEY, known to me to be the President of Charles Town Races, Inc., a West Virginia corporation, and acknowledged that he executed the within instrument as his act and deed and the act and deed of said corporation.

(SEAL)

/s/ Charlotte L Burner
Notary Public in and for
the State of West Virginia

Charlotte L Burner
Name printed or typed
My commission expires: November 27, 2001

STATE OF West Virginia)
)
COUNTY OF Berkeley)

Before me, a notary public in and for the above jurisdiction, appeared WILLIAM BORK, known to me to be the President of Penn National Gaming of West Virginia, Inc., Managing Member of PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company, and acknowledged that he executed the within instrument as his act and deed and the act and deed of said company.

(SEAL)
/s/ Deborah Grissinger
Notary Public in and for
the State of West Virginia

Deborah Grissinger
Name printed or typed
My commission expires: April 14, 2003

TRANSFER, ASSIGNMENT AND ASSUMPTION AGREEMENT
AND BILL OF SALE

THIS TRANSFER, ASSIGNMENT AND ASSUMPTION AGREEMENT AND BILL OF SALE ("Agreement") made this 15th day of January, 1997 by and between Charles Town Racing Limited Partnership, a West Virginia limited partnership ("Racing"), Charles Town Races, Inc., a West Virginia corporation ("CTR" and together with Racing, collectively, "Optionor"), and PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company ("PCTG").

BACKGROUND

Optionor and PCTG are parties to that certain Amended and Restated Option Agreement dated as of February 17, 1995 (the "Option Agreement"), pursuant to which Optionor agreed to transfer certain assets to PCTG and PCTG agreed to assume certain liabilities of Optionor, all as more specifically set forth therein. This Agreement is entered into in connection with the closing of the transactions contemplated by the Option Agreement.

All initially capitalized terms used in this Agreement (including in the Exhibits hereto) but not defined herein shall have the meanings ascribed to them in the Option Agreement or, if not defined therein, in the Definitions Appendix attached to this Agreement.

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

1. Transfer. Optionor hereby sells, assigns, transfers, conveys and delivers to PCTG, free and clear of all Security Interests, the Property (as defined in the Option Agreement but not including any real property which is being transferred pursuant to a deed of even date herewith) including, but not limited to all personalty and other assets, tangible or intangible, and rights relating or pertaining to, or used or held for use in connection with the Optionor's business or the operation of the Property and Service Contracts, tradenames (including but not limited to "Charles Town Race Track" and "Shenandoah Downs"), equipment (including but not limited to trucks,

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tractors, tote boards, starting gates, and the like) relating thereto, and the Rights of First Refusal including without limitation those assets listed on Schedule 1A attached hereto (the "Acquired Assets"), and excluding only those assets listed on Schedule 1B attached hereto (the "Excluded Assets"). Each Optionor is transferring that part of the Property as is owned by it as indicated on Schedule 1A attached hereto.

2. Assignment. Optionor hereby assigns, transfers, conveys and delivers to PCTG all of Optionor's rights and interests under the Service Contracts and other agreements pertaining to the Business set forth on Schedule 2 attached hereto (the "Assigned Contracts").

3. Assumption of Liabilities. PCTG hereby agrees to assume, discharge, pay and perform, as applicable, in accordance with and subject to their respective terms, to the extent such are legally binding agreements, and provided that PCTG has been assigned all legal and equitable rights, remedies, defenses, claims, counterclaims or rights of set-off, Optionor, or either of them has, had or might have in relation thereto, only those specific obligations of Optionor set forth on Schedule 3 attached hereto (the "Assumed Liabilities").

4. Cooperation by Optionor. Upon PCTG's request, Optionor and their partners, officers, representatives and successors shall perform all acts reasonably necessary to ensure the full and complete enjoyment by PCTG and its successors and assigns of all right, title and interest in

and to the Acquired Assets and the Assigned Contracts, including without limitation, the execution and delivery of such further assignments, bills of sale, certificates, applications, instruments and other documents as may reasonably be requested by PCTG.

5. Use of Facilities by Optionor. For a period of ninety (90) days following the date hereof, PCTG shall permit Optionor to utilize certain office space at Charles Town Race Track for administrative purposes, as PCTG and Optionor may agree.

6. Bill of Sale; Covenants. This Agreement is intended also to and does constitute a Bill of Sale to the Acquired Assets. Each Optionor covenants to PCTG that each Optionor is the lawful owner of that portion

of the Acquired Assets and the Assigned Contracts owned by it and has the right to transfer such Acquired Assets and such Assigned Contracts to PCTG, free and clear of all Liens, Security Interests, claims, charges and encumbrances thereon or related thereto.

7. "Bringdown" and Survival of Representations, Warranties and Covenants of Optionor. Optionor hereby represents, warrants and covenants to PCTG that, only to the extent set forth in Paragraph 4 of the Option Agreement and except as set forth in Schedule 7, the representations and warranties made by Optionor in the Option Agreement, attached hereto, are true and correct as of the date hereof; that the representations and warranties of Optionor in this Agreement and the Option Agreement or in any related agreement (including in each case any schedules or exhibits hereto or thereto) do not contain any untrue statement of a material fact or omit to state any material fact necessary to make the statements or information contained herein or therein not misleading; and Optionor further represents, warrants and agrees that the representations and warranties of Optionor in the Option Agreement and in this Agreement shall survive recordation of the deed related to the Property and the closing of the transactions contemplated by the Option Agreement and this Agreement.

8. Payment of Obligations. Racing and CTR hereby covenant and agree that they shall pay, perform or discharge their respective accounts payable and other liabilities and obligations in a commercially reasonable manner as soon as practicable following the date hereof but saving to each of them any right or remedy they may have to contest any such liability or obligation, including but not limited to its obligations to One Valley Bank, Inc. and those certain liabilities and obligations listed on Schedule 8 attached hereto.

9. Disbursements. PCTG and Optionor agree that PCTG shall disburse the purchase price for the Property as set forth on Schedule 9 attached hereto, including a holdback/escrow for certain items as described on Schedule 9.

10. Consents. Optionor covenants that it has obtained such consents as are required to transfer to PCTG the Acquired Assets and to assign the Assigned Contracts as set forth above; however, to the extent any such consents have not been obtained, Optionor

covenants and agrees to obtain such consents as may be necessary to transfer to PCTG the Acquired Assets and to assign to PCTG the Assigned Contracts, or to take any other actions necessary or desirable to otherwise provide to PCTG the economic benefit of such assets and agreements, as if such assets and agreements had been transferred to PCTG.

11. No Third Party Beneficiaries. This Agreement shall not confer any rights or remedies upon any person other than the parties hereto and their respective successors and permitted assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Transfer, Assignment and Assumption Agreement and Bill of Sale to be executed by their respective duly authorized officers as of the date first above written.

COMPANY
PNGI CHARLES TOWN GAMING
LIMITED LIABILITY

BY: /s/ William J. Bork
WILLIAM J. BORK, President

CHARLES TOWN RACING LIMITED
PARTNERSHIP

By: D.K.W. Inc. authorized
General Partner

BY: /s/ D. Keith Wagner
D. KEITH WAGNER, President

AND

By: G&G Associates, Inc.,
authorized General Partner

By: /s/ George S. Yeatras
GEORGE S. YEATRAS, President

CHARLES TOWN RACES, INC.

By: /s/ Roger R. Ramey
ROGER R. RAMEY, President

DEFINITIONS APPENDIX

"Intellectual Property" means all trademarks (including the names "Charles Town Race Track" and "Shenandoah Downs" and any other names used by Optionor, and all derivations thereof), tradenames, trademark applications, registration and renewals, logos and corporate names (together with any derivations, modifications or adaptations thereof, and all goodwill associated therewith), patents (and applications), copyrights (and applications and registrations), confidential information and similar proprietary information.

"Liability" means any liability, obligation or commitment of any nature (whether known or unknown, disclosed or undisclosed, asserted or unasserted, absolute or contingent, accrued or unaccrued, liquidated or unliquidated, and whether due or to become due), including any liability or obligation for Taxes.

"Lien" means any interest in property securing an obligation owed to, or a claim, right or interest of, any Person, whether created by agreement, statute, common law or judicial or governmental authority, action or proceeding, including, but not limited to, any Security Interest, lien, encumbrance, mortgage, assignment, pledge, conditional sale, lease, consignment or bailment.

"Person" means an individual, a partnership, a corporation, an association, a joint stock company, a trust, a joint venture, a limited liability company, a limited liability partnership, an unincorporated organization, or a governmental entity (or any department, agency, or political subdivision thereof) or any similar entity.

"Premises" means the approximately 250 acre property on which the Charles Town Race Track and Shenandoah Downs are located and on which the Business is conducted, and which is owned by Racing and leased to CTR.

"Rights of First Refusal" means CTR's rights of first refusal with respect to approximately 250 acres of land adjoining or adjacent to the Premises, pursuant to (i) Right of First Refusal dated December 24th, 1990 between Joseph R. Shaeffer, III, Susan Shaeffer, Ronald

Shaeffer, Jane Shaeffer, Joseph Robert Shaeffer, Eleanor B. Burns and Catherine B. Halbert, as Grantors, and Charles Town Races, Inc. as Grantee, and recorded in the Jefferson County Clerk's Office in Deed Book 675 beginning at page 547, and (ii) Right of First Refusal dated December 28th, 1990 between John K. Dorsey, Guardian ad Litem for Kristin Ann Shaeffer, and Kristin Ann Shaeffer, an infant, as Grantor, and Charles Town Races, Inc. as Grantee, and recorded in the Jefferson County Clerk's Office in Deed Book 675 beginning at page 556.

"Security Interest" means any mortgage, pledge, Lien, encumbrance, charge, Tax, or other security interest or claim of any kind.

"Tax" means any federal, state, local, or foreign income, gross receipts, license, payroll, employment, excise, severance, stamp, occupation, premium, windfall profits, environmental (including taxes under Code Sec. 59A), customs duties, capital stock, franchise, profits, withholding, social security (or similar), unemployment, disability, real property, personal property, sales, use, transfer, registration, value added, alter-native or add-on minimum, estimated, or other tax of any kind whatsoever, including any interest, penalty, or addition thereto, whether disputed or not.

CLOSING AGREEMENT

THIS CLOSING AGREEMENT dated January 15, 1997 by and among PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company ("PCTG"), Charles Town Races, Inc., a West Virginia corporation ("CTR"), and Charles Town Racing Limited Partnership, a West Virginia limited partnership ("Racing"). CTR and Racing are sometimes referred to collectively as "Optionor."

BACKGROUND

A closing (the "Closing") is being conducted simultaneously with the execution and delivery of this Closing Agreement, under the terms of an Amended and Restated Option Agreement dated as of February 17, 1995 among PCTG and Optionor (the "Option Agreement").

In connection with the Closing, Racing is delivering to PCTG a Deed for the real property portion of the Property, and Optionor and PCTG are entering into a Transfer, Assignment and Assumption Agreement and Bill of Sale (the "Transfer Agreement").

The Option Agreement, the Deed, the Transfer Agreement, and the other agreements, instruments and documents entered into in connection with the transactions contemplated by the Option Agreement (the "Acquisition") are sometimes called the "Acquisition Agreements".

At the Closing, PCTG and Optionor determined it to be in their respective best interests to clarify certain issues relating to the Acquisition and the Acquisition Agreements, and, to induce Optionor and PCTG to consummate the Closing, the parties have entered into this Closing Agreement.

NOW, THEREFORE, the parties hereto, in consideration of the above recitals and the mutual undertakings contained herein and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, and intending to be legally bound hereby, agree as follows:

1. Definitions. Initially capitalized terms used but not defined in this Closing Agreement shall have the respective meanings ascribed to such terms in the Option Agreement or, where applicable, another Acquisition Agreement, except where the context clearly requires otherwise.

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2. Application. The terms and provisions of this Closing Agreement shall apply as to the particular items set forth herein, notwithstanding anything to the contrary contained or implied in any of the Acquisition Agreements. The Acquisition Agreements shall remain in full force and effect, however, except to the extent specifically modified by the terms of this Closing Agreement.

3. Purchase Price Reduction Amount.

(a) Paragraph 1(ii) of the Option Agreement provides that the purchase price (the "Purchase Price") for the Property shall be reduced by, among other things, \$1.60 for each \$1 borrowed by Optionor under the Line. Optionor and PCTG agree that Optionor has borrowed \$936,400.29 under the Line, and that such amount (plus any accrued but unpaid interest) is being repaid by Optionor to PCTG upon the Closing. Optionor and PCTG further agree that PCTG has made a payment in the amount of \$219,469.41 on behalf of Optionor for real property taxes (the "Tax Payment"), and that such amount (plus any accrued but unpaid interest) is also being repaid by Optionor to PCTG upon the Closing.

(b) PCTG and Optionor disagree as to whether the Tax Payment constitutes an additional borrowing under the Line of Credit, and therefore whether the \$1.60:\$1 reduction multiple applies to the Tax Payment. The difference of \$219,469.41 multiplied by the reduction multiple of \$1.60:\$1 equals \$351,151.06 (the "Purchase Price Reduction Amount").

(c) Optionor and PCTG agree that upon the Closing, an amount of the Purchase Price equal to the Purchase Price Reduction Amount shall be placed in escrow as provided in paragraph 6 of this Closing Agreement.

(d) The dispute relating to the Purchase Price Reduction Amount shall be resolved in accordance with paragraph 7 below, and the Purchase Price Reduction Amount shall be paid to PCTG or returned to Racing as determined under paragraph 7 of this Closing Agreement.

4. Environmental Indemnification.

(a) GeoSystems Consultants, Inc. conducted a Phase II Environmental Site Assessment of the real property constituting a portion of the Property, and issued a report thereon dated January 3, 1997 (the

"Report"). The Report includes estimated costs for the remediation or other clean-up ("Remediation") of various items, in an aggregate amount of approximately \$400,000.

(b) Optionor may be required by operation of law or pursuant to any breach of the representation set forth in Section 4(e) of the Option Agreement, if any, to pay for certain of the Remediation.

(c) Optionor and PCTG agree that upon the Closing, an amount of the Purchase Price equal to \$200,000 (the "Environmental Indemnification Amount") shall be placed in escrow as provided in paragraph 6 of this Closing Agreement, and shall be paid to PCTG or returned to Racing as determined under paragraph 7 of this Closing Agreement.

5. Operating Expenses Liabilities Amount.

(a) Optionor hereby represents and warrants to PCTG that upon the Closing, Optionor shall pay, perform and discharge those certain liabilities of Optionor in an aggregate amount of approximately \$10,829,370.47, as set forth on Schedule 5(a) to this Closing Agreement (the "Closing Date Payments"). Optionor may pay certain of the Closing Date Payments by directing PCTG to make such payments to Optionor's creditors on behalf of Optionor, from the Purchase Price. Optionor may also direct all or a portion of the amount of the Closing Date Payments shall be paid from the Purchase Price to the Escrow Fund (as hereinafter defined), accompanied by payment instructions, and shall be paid to creditors of Optionor as determined under paragraph 7 of this Closing Agreement.

(b) (i) Optionor and PCTG agree that upon Closing, an amount of the Purchase Price equal to \$1,040,000, as set forth on Schedule 5(b) (the "Known Liabilities Amount") shall be placed by Racing in escrow as provided in paragraph 6 of this Closing Agreement, and shall be paid to creditors of Optionor or returned to Optionor as determined under paragraph 7 of this Closing Agreement. Optionor hereby represents and warrants to PCTG that Optionor shall pay, perform or discharge the liabilities and obligations set forth on Schedule 5(b) in a commercially reasonable manner as soon as practicable after the date hereof but saving to each of them any right or remedy they may have to contest any such liability or obligation.

(ii) Optionor and PCTG acknowledge that a portion of the Known Liabilities Amount includes an amount which is for the payment of the expenses, liabilities and obligations incurred or to be incurred by Optionor as set forth in that certain Agreed Order dated November 7, 1996 in Jefferson County Civil Action No. 95-C-121, WVA 340 Limited Partnership v. Charles Town Races, Inc. and Charles Town Racing Limited Partnership, recorded in the Jefferson County Clerk's Office in Deed Book 850 at page 89 (the "Agreed Order"). As a result of the Agreed Order, Optionor is required to make certain improvements to the Premises for the management of storm water runoff (the "Work"). PCTG hereby grants Optionor and its agents performing the Work reasonable rights of ingress and egress as reasonably necessary to properly perform the Work.

(iii) Optionor hereby represents and warrants to PCTG that Optionor shall cause the Work to be properly and timely completed and that Optionor shall otherwise comply with the Agreed Order, and Optionor hereby indemnifies, defends and holds harmless PCTG from and against any and all losses, costs, damages, expenses, claims and attorney's fees, including but not limited to costs of investigation, suffered or incurred by PCTG in connection with or arising from the Agreed Order and the Work or out of the failure of Optionor to comply with its obligations in connection therewith, including any losses, costs, damages, expenses, claims and attorney's fees incurred by PCTG by reason of any acts or omissions of Optionor or Optionor's direct or indirect agents performing the Work.

(c) Optionor and PCTG agree that upon Closing, an amount of the Purchase Price equal to \$250,000 to be used for payment of obligations, liabilities and expenses of Optionor identified by Optionor or PCTG subsequent to the date hereof and which either PCTG would be obligated to pay to a third party if not paid by Optionor or which Optionor would owe to PCTG under any of the Acquisition Agreements (the "Operating Expense Liabilities Amount") shall be placed in escrow as provided in paragraph 6 of this Closing Agreement. The Operating Expense Liabilities Amount shall be applied towards payment of the operating expense liabilities of Optionor existing as of the Closing Date or arising thereafter, with any balance returned to Racing, as determined under paragraph 7 of this Closing Agreement. Optionor and PCTG acknowledge and agree that \$29,933.70 of the \$250,000.00 is being held in escrow pursuant to condition (3) of PCTG's license

dated December 12, 1996 from the West Virginia Racing Commission.

6. Escrow.

(a) At the Closing, a portion of the Purchase Price equal to the aggregate of the Purchase Price Reduction Amount, the Environmental Indemnification Amount, the Operating Expense Liabilities Amount, the Known Liabilities Amount, and any amounts for Closing Date Payments under the last sentence of paragraph 5(a) (collectively, the "Escrow Fund") shall each be paid by Racing into an escrow account (the "Account") at One Valley Bank - East, Martinsburg, West Virginia. The Account shall be entitled "Joint Escrow Account of Charles Town Racing Limited Partnership and PNGI Charles Town Gaming Limited Liability Company, Michael B. Keller, Esq. and Robert P. Krauss, Esq. joint Escrow Agents." The Account shall be a money market or similar interest bearing account as the Escrow Agents may in their discretion determine. The interest earned on the Escrow Fund shall become part of the Escrow Fund and shall be paid to Racing upon termination of the escrow, except that PCTG shall be paid interest on any amounts PCTG receives from the Purchase Price Reduction Amount, the Environmental Indemnification Amount and any sums awarded to PCTG from the Operating Expense Liabilities Amount.

(b) Optionor and PCTG hereby appoint Michael Keller, Esq. and Robert P. Krauss, Esq. as joint escrow agents (the "Escrow Agents") and the Escrow Agents by their respective signatures on the execution page of this Closing Agreement, accept such appointment, and agree to receive, deposit and deliver the Escrow Fund subject to the terms contained herein.

(c) The Escrow Agents' duties and responsibilities shall be limited to those expressly set forth in the escrow provisions of this Closing Agreement. The Escrow Agents shall have no responsibility or obligation of any kind in connection with this Closing Agreement and the Escrow Fund except to disburse such funds either: (I) in accordance with the joint instructions of Optionor and PCTG, or (ii) in accordance with the final determination of the Arbitrator (as defined below) or a court order enforcing the determination of the Arbitrator. The Escrow Agents shall not be required to deliver the Escrow Fund or any part thereof or take any action with respect to any matters that might arise in connection

therewith, other than to receive, deposit and deliver the Escrow Fund as herein provided.

(d) The Escrow Agents shall not be charged with notice or knowledge of any fact or information not herein set out. The Escrow Agents shall not be required in any way to determine the validity, sufficiency, accuracy or genuineness, whether in form or in substance, of the Escrow Fund or of any instrument, document, certificate, statement or notice referred to in this Closing Agreement or contemplated hereby, or of any endorsement or lack of endorsement thereon, or of any description therein. It shall be sufficient if any writing purporting to be such instrument, document, certificate, statement or notice is delivered to the Escrow Agents and purports on its face to be correct in form and signed or otherwise executed by the party or parties required to sign or execute the same under this Closing Agreement. The Escrow Agents shall not be required in any way to determine the identity or authority of any person executing the same or the genuineness of any such signature.

(e) Should any controversy arise between or among Optionor and PCTG or any other person, firm or entity with respect to the escrow provisions of this Closing Agreement, the Escrow Fund, or any part thereof, or the right of any party or other person to receive the Escrow Fund or any part thereof, or should the escrow provisions of this Closing Agreement terminate, or if the Escrow Agents should be in doubt or disagreement as to what action to take, (I) the Escrow Agents shall have the right, but not the obligation, either to withhold delivery of the Escrow Fund or portion thereof until the controversy is resolved in writing to the satisfaction of the Escrow Agents, the conflicting demands are withdrawn, or the doubt is resolved in writing to the satisfaction of Escrow Agents, or (ii) either Escrow Agent may institute a bill of interpleader in any court of competent jurisdiction to determine the rights of the parties hereto. The right of either Escrow Agent to institute such a bill of interpleader shall not, however, be deemed to modify the manner in which the Escrow Agents are entitled to make disbursements of the Escrow Fund as herein set forth other than to tender the Escrow Fund into the registry of such court. Should a bill of interpleader be instituted, or should either Escrow Agent be threatened with litigation or become involved in litigation in any manner whatsoever on account of the

escrow provisions of this Closing Agreement or the Escrow Fund, or any portion thereof, then, as between themselves and the Escrow Agents, Optionor and PCTG hereby bind and obligate themselves, their successors and assigns, to pay to the Escrow Agents the respective attorney's fees and any and all other disbursements, expenses, losses, costs and damages of each Escrow Agent in connection with or resulting from such threatened or actual litigation, as provided in subparagraphs (h), (i) and (j) below.

(f) In the event of any disagreement or conflicting instructions resulting in adverse claims or demands being made upon the Escrow Agents in connection herewith, or in the event that the Escrow Agents (or either of them), in good faith, are in doubt as to what action should be taken hereunder, either may, at his option, refuse to comply with any claims or demands on him, or refuse to take any other action hereunder, so long as such disagreement continues or such doubt exists, and in any such event, the Escrow Agents shall not be or become liable in any way or to any party for their failure or refusal to act until all differences shall have been adjusted and all doubt resolved in writing to the satisfaction of the Escrow Agents.

(g) Without in any way limiting any other provision of the escrow provisions of this Closing Agreement, it is expressly understood and agreed that Escrow Agent shall be under no duty or obligation to give any notice, or to do or to omit the doing of any action or anything with respect to the Escrow Fund, except to receive, deposit and deliver the Escrow Fund in accordance with the escrow provisions of this Closing Agreement. The Escrow Agents shall not be liable for any error in judgment, any act or omission, any mistake of law or fact, or for anything either may do or refrain from doing in connection herewith, except for his own willful misconduct or gross negligence. All actions to be taken by the Escrow Agents hereunder shall be taken only upon the agreement of both Escrow Agents, except for actions specifically stated herein which may be taken by one or either Escrow Agent.

(h) Optionor and PCTG jointly and severally hereby agree to indemnify the Escrow Agents against, and hold each harmless from, any and all losses, costs, damages, expenses, claims and attorney's fees, including but not limited to costs of investigation, suffered or incurred by any Escrow Agent in connection with or arising from or out of this Closing Agreement, except such acts or

omissions as may result from the willful misconduct or gross negligence of such Escrow Agent.

(i) Each of the Escrow Agents may consult with his counsel or other counsel satisfactory to him concerning any question relating to his duties or responsibilities hereunder or otherwise in connection herewith and shall not be liable for any action taken, suffered or omitted by the Escrow Agent in good faith upon the advice of such counsel. All of the Escrow Agents' rights hereunder are cumulative of any other rights either may have by law or otherwise.

(j) Robert P. Krauss, Esq. in his capacity as Escrow Agent shall be entitled to reimbursement from PCTG, and Michael B. Keller, Esq. in his capacity as Escrow Agent shall be entitled to reimbursement from Optionor, for all reasonable fees and expenses of legal counsel or other costs incurred by such Escrow Agent in connection with the operation, administration and enforcement of the escrow provisions of this Closing Agreement and such Escrow Agent's rights or obligations hereunder.

(k) The Escrow Agents (or either of them) may resign upon ten (10) days' prior written notice to each of Optionor and PCTG. If Robert P. Krauss, Esq. or his successor shall resign, PCTG shall appoint a successor Escrow Agent and, if Michael B. Keller, Esq. or his successor shall resign, Optionor shall appoint a successor Escrow Agent.

(l) Upon disbursement of the Escrow Fund as provided herein, the escrow provisions of this Closing Agreement shall terminate; provided, that the provisions hereof respecting indemnification of the Escrow Agents and payment of costs incurred by the Escrow Agents shall remain in full force and effect for so long as the Escrow Agents may have any liability or incur any costs in connection herewith.

(m) Optionor and PCTG hereby agree that Michael B. Keller, Esq. through Bowles Rice McDavid Graff & Love represent Optionor as general counsel, and that Robert P. Krauss, Esq. through Mesirov Gelman Jaffe Cramer & Jamieson represent PCTG as general counsel, and agree that neither Escrow Agent, nor their respective firms, shall be deemed to have a conflict representing their respective client against the client of the other, whether in connection with this Agreement or the transactions or agreements contemplated hereby or entered into in connection herewith, or otherwise,

solely by reason of the Escrow Agents respective roles as Escrow Agents hereunder.

7. Dispute Resolution.

(a) As to the Purchase Price Reduction Amount, Optionor and PCTG shall attempt to mutually resolve the dispute by good faith negotiations during the period of forty-five (45) days following the Closing. If Optionor and PCTG agree on a resolution, they shall jointly instruct the Escrow Agents as to the resolution, and shall instruct the Escrow Agents to pay the Purchase Price Reduction Amount in accordance with the resolution, and the Escrow Agents shall make the payments as so instructed. If Optionor and PCTG are unable to reach an agreement by good faith negotiations within such 45 day period, unless the Optionor and PCTG agree to extend the period of good faith negotiations, either PCTG or Optionor, or both jointly, may instruct the Escrow Agent that no resolution has been reached. In such case, the dispute will be submitted to binding arbitration as set forth in subparagraph (d) below.

(b) As to the Environmental Indemnification Amount, Optionor and PCTG shall attempt to mutually resolve the dispute by good faith negotiations for a period of one year following the Closing, and shall instruct the Escrow Agents as to the results of such negotiations. If the results determined how the Environmental Indemnification Amount should be distributed between Optionor and PCTG, the Escrow Agents shall make the payments in the manner instructed by the parties. If the parties are unable to reach an agreement as to the distribution of all or a portion of the Environmental Indemnification Amount during such one year period, the dispute will be submitted to binding arbitration as set forth in subparagraph (d) below.

(c) (i) As to the Closing Date Payments, to the extent amounts therefore have been paid into the Escrow Fund as permitted under subparagraph 5(a) above, the Escrow Agents are hereby instructed by Optionor and PCTG to make the Closing Date Payments for those liabilities for which amounts have been deposited into the Escrow Fund, solely as instructed by Optionor from time to time, consistent with the terms and provisions hereof.

(ii) As to the Known Liabilities Amount, the Escrow Agents are hereby instructed by Optionor and

PCTG to make the payments for the liabilities set forth on Schedule 5(b), solely as instructed by Optionor, consistent with the terms and provisions hereof. If, after the known liabilities set forth on Schedule 5(b) have been paid, discharged and performed, there remains a balance of the Known Liabilities Amount, such balance shall be returned to Racing, as described on Schedule 5(b).

(iii) As to the Operating Expense Liabilities Amount, to the extent additional operating liabilities of Optionor are determined and agreed to by Optionor, Optionor shall instruct the Escrow Agents to make payment of such additional liabilities, and the Escrow Agents shall make such payments. One half of the balance (unpaid amount) of the Operating Expense Liabilities Amount (less the amount of any disputes as to payment of Operating Expense Liabilities, including as to additional operating expense liabilities as to which Optionor does not agree) shall be returned to Racing 120 days after the Closing. The balance, likewise less the amount of any disputes as to payment of Operating Expense Liabilities, including as to additional operating expense liabilities as to which Optionor does not agree, shall be returned to Racing 180 days after the Closing. Any disputes as to Operating Expense Liabilities Amounts shall upon such 180 day period be submitted to arbitration as provided in subparagraph (d) below, and any such disputed amounts shall be retained by the Escrow Agents pending the results of the arbitration.

(d) (i) Optionor and PCTG agree that any controversy, claim or dispute arising out of or relating to the items set forth in this Closing Agreement or any of the other Acquisition Agreements, or otherwise related to or arising from or in connection with the transactions contemplated hereby or thereby, including, but not limited to, the breach, validity or termination of this subparagraph (d) (a "Dispute"), shall be finally settled by arbitration before a single arbitrator (the "Arbitrator") to be held in the city of Martinsburg, West Virginia, or such other place as Optionor and PCTG shall mutually agree, in accordance with the then governing Commercial Arbitration Rules of the American Arbitration Association then in effect ("Rules").

(ii) If the parties do not agree upon an arbitrator within 15 days after a party's receipt of a demand for arbitration then, upon the written request

of Optionor or PCTG, the arbitrator shall be appointed in accordance with Rule 13 of the Rules. The arbitration and this subparagraph (d) shall be governed by the Federal Arbitration Act, 9 U.S.C. section 1 et seq. The decision of the Arbitrator shall be final and conclusive on the parties unless determined by a court of competent jurisdiction that the decision of the Arbitrator was capricious, arbitrary, or so grossly erroneous as to imply bad faith. Judgment may be entered on the Arbitrator's award in any court having jurisdiction. Except as set forth above in this paragraph or to enforce any award of the Arbitrator, no suit in law or equity based on any arbitrable dispute or controversy hereunder shall be instituted by any Optionor or PCTG.

8. Water Pollution Control Permit. In connection with the Closing, Optionor is required to transfer to PCTG the water control permit for the waste water treatment plant, West Virginia National Pollutant Discharge Elimination System Permit No. WV0088757 (the "Permit"). Optionor and PCTG acknowledge and understand that the process to transfer the Permit may not be completed until 30-60 days after the Closing, and agree as follows:

(a) Optionor agrees that it shall use its best efforts to cause the Permit to be transferred and assigned to PCTG, and PCTG shall fully cooperate with Optionor and otherwise use its best efforts to likewise cause the Permit to be transferred to PCTG.

(b) From and after the date hereof, PCTG will be responsible to operate the waste water treatment plant in compliance with the Permit (which has been extended to March 3, 1997 pursuant to a letter dated January 3, 1997 to Optionor from the West Virginia Division of Environmental Protection) and applicable law, and Optionor will have no further responsibility vis-a-vis PCTG for operation of the waste water treatment plant including compliance with the Permit. Optionor acknowledges and agrees that Optionor is responsible for the operation of the waste water treatment plant in compliance with the Permit and applicable law up to the date hereof.

(c) If any permits, licenses or authorities (including the Permit) held by Optionor with respect to the Property and the operations conducted with respect thereto, cannot be transferred to PCTG on the date hereof or, if not transferable, if PCTG cannot obtain

new permits, licenses or authorities (including a permit to discharge from the waste water treatment plant) with respect thereto on or before the date hereof, then Optionor will cooperate with PCTG so as to permit the continued conduct and operation of the business or Property (including discharge from and operation of the waste water treatment plant) after the date hereof, including, without limitation, to the extent permitted by law, continuing to conduct and operate the business and Property of Optionor under their permits, licenses and authorities for the account of PCTG, or permitting PCTG to conduct and operate the business under Optionor's permits, licenses and authorities, for up to sixty (60) days after closing, in a manner similar to the manner in which the same are currently conducted and operated by Optionor. If continued operation under Optionor's permits, licenses or authorities occurs pursuant hereto, then PCTG will reimburse Optionor for Optionor's out-of-pocket costs in connection therewith, if any, and the indemnification provisions of subparagraph (d) below shall apply to such operation, except to the extent any Losses (as defined in subparagraph (d) below) are a result of or caused by the gross negligence or willful misconduct of Optionor or its employees or agents.

(d) Optionor and PCTG agree to indemnify the other against, and hold the other harmless from, any and all losses, costs, damages, expenses, claims and attorney's fees, including but not limited to costs of investigation ("Losses"), suffered or incurred by the other in connection with or arising from or out of the breach of or failure of the other to comply with the provisions of this paragraph 8.

9. Indemnification for Assumed Liabilities.

(a) PCTG hereby agrees to indemnify Optionor against, and hold Optionor harmless from, any and all losses, costs, damages, expenses, claims and attorney's fees, including but not limited to costs of investigation, suffered or incurred by Optionor in connection with or arising from or out of the failure of PCTG to pay, perform or discharge the Assumed Liabilities (as defined in the Transfer Agreement), including the obligations under the Assigned Contracts (as defined in the Transfer Agreement) to the extent such agreements are legally binding on Optionor or either of them and provided PCTG has been assigned all legal and equitable rights, remedies, defenses, claims, counterclaims or rights of set-off, Optionor or either of them has, had or might have in connection therewith.

(b) Notwithstanding any provision of this paragraph 9 to the contrary, and without enlarging the obligations of PCTG to any third party, PCTG hereby agrees to indemnify (as set forth in subparagraph (a) above) Racing for any claim by GTECH Corporation or AmTote International, Inc. ("AmTote") that Racing failed to fulfill its obligations under Section/Clause 7 of the Amendment Agreement dated January 1, 1995 among Optionor and AmTote, regardless of whether such agreement or the "Binding Agreement" dated October 20, 1994 by and between AmTote and CTR is legally binding.

(c) Penn National Gaming, Inc., of which PCTG is an affiliate, by its signature on the execution page of this Closing Agreement, hereby guarantees the performance by PCTG, to provide indemnification to Racing as set forth in subparagraph (b) above.

10. Notice. Any notice or communications required or permitted hereunder shall be provided to the parties (including the Escrow Agents) in the manner and at the respective addresses set forth in the Option Agreement (any notice to the Escrow Agents shall be delivered to both Escrow Agents in each case).

11. Severability If one or more of the provisions hereof shall for any reason be held to be invalid, illegal or unenforceable in any respect under applicable law, such invalidity, illegality or unenforceability shall not affect any other provisions hereof, and this Closing Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

12. No Third Party Beneficiaries. This Closing Agreement shall not confer any rights or remedies upon any person other than the parties hereto and their respective successors and permitted assigns.

13. Governing Law. This Closing Agreement shall be governed by the internal laws of the State of West Virginia.

IN WITNESS WHEREOF, the undersigned have executed this Closing Agreement as of the date first above written.

PNGI Charles Town Gaming
Limited Liability Company

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

Charles Town Races, Inc.

By: /s/ Roger R. Ramey
Roger R. Ramey, President

Charles Town Racing Limited
Partnership

By: D.K.W. Inc., authorized
General Partner

By: /s/ D. Keith Wagner
D. Keith Wagner, President

and

By: G&G Associates, Inc.,
authorized General Partner

By: /s/ George S. Yeatras
George S. Yeatras,
President

Acknowledged and Agreed as to Paragraphs 6 and 7:

The Escrow Agent

/s/ Robert P. Krauss
Robert P. Krauss, Esq.

/s/ Michael B. Keller
Michael B. Keller, Esq.

Acknowledged and Agreed as to Paragraph 9(c)

Penn National Gaming, Inc.

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

Amended and Restated
Operating Agreement

of

PNGI CHARLES TOWN GAMING
LIMITED LIABILITY COMPANY

December 31, 1996

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This Amended and Restated Operating Agreement (the "Operating Agreement") of PNGI Charles Town Gaming Limited Liability Company, a limited liability company organized pursuant to the Act, is entered into as of this 31st day of December, 1996 and shall be effective as of the Effective Date, by and among the Company and the Members.

For and in consideration of the mutual covenants herein contained and for other good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the Members executing the Operating Agreement hereby agree to the following terms and conditions of the Operating Agreement, as it may from time to time be amended according to its terms.

ARTICLE I

FORMATION

1.1. Organization - The Members confirm that they have organized the Company on March 22, 1996 as a West Virginia limited liability company pursuant to the provisions of the Act.

1.2. Agreement, Effect of Inconsistencies with Act -

It is the express intention of the Members that the Operating Agreement shall be the sole source of agreement of the parties with respect to the subject matter hereof, and, except to the extent a provision of the Operating Agreement expressly incorporates federal income tax rules by reference to sections of the Code or Regulations or is expressly prohibited or ineffective under the Act, the Operating Agreement shall govern, even when inconsistent with, or different than, the provisions of the Act or any other law or rule.

To the extent any provision of the Operating Agreement is prohibited or ineffective under the Act, the Operating Agreement shall be considered amended to the smallest degree possible in order to make such provision effective under the Act, consistent with the intent of the parties. In the event the Act is subsequently amended or interpreted in such a way to make any such provision of the Operating Agreement that was formerly invalid valid, such provision shall be considered to be valid from the effective date of such amendment or interpretation.

1.3. Name - The name of the Company is PNGI Charles Town Gaming Limited Liability Company, and all business of the Company shall be conducted under that name or under any other name, but in any case, only to the extent permitted by applicable law.

1.4. Effective Date - The Operating Agreement became effective on March 22, 1996, the "Effective Date".

1.5. Registered Agent and Office - The registered agent for the service of process and the registered office shall be that Person and location reflected in the Articles as filed in the office of the Secretary of State of West Virginia. The Managing Member may, from time to time, change the registered agent or office through appropriate filings with the Secretary of State of West Virginia. In the event the registered agent ceases to act as such for any reason or the registered office shall change, the Managing Member shall promptly designate a replacement registered agent or file a notice of change of address as the case may be. If the Managing Member shall fail to designate a replacement registered agent or change of address of the registered office, any Member may designate a replacement registered agent or file a notice of change of address.

1.6. Principal Office - The Principal Office of the Company shall be located at:

Wyomissing Professional Center
825 Berkshire Boulevard, Suite 203
Wyomissing, Pennsylvania 19610

1.7. Term - The period of duration of the Company shall expire on December 31, 2045, or when the Company is dissolved in accordance with Article XV hereof.

ARTICLE II

DEFINITIONS

2.1. Definitions - For purposes of the Operating Agreement, unless the context clearly indicates otherwise, the terms set forth on Appendix I attached hereto shall have the meanings set forth in such Appendix.

ARTICLE III

NATURE OF BUSINESS

3.1. Purpose - The purpose of the Company shall be to transact any lawful business that a limited liability company, corporation, general partnership, limited partnership or other business entity may conduct under the laws of the State of West Virginia, including but not limited to the conducting of Licensed Activities, auto racing, casino or riverboat gambling, or other gaming or wagering or other entertainment and hotel activities, and all forms of communications and publications pertaining to the foregoing, and the Company shall have the authority to do all things necessary or convenient to accomplish its purpose and operate such business.

ARTICLE IV

POWERS

4.1. Powers - The Company may exercise the powers and privileges conferred upon limited liability companies by the laws of the State of West Virginia only in furtherance of and subject to its Company purpose and subject further to the following limitations:

4.1.1 The Company shall do nothing which if done by a Member would violate the Statutes or the Rules; and

4.1.2 The Company, and if applicable to a Member then such Member, shall at all times comply with the Statutes and the Rules, including that the Company and if required each Member shall be, and the Company or Member shall cause each employee of the Company or shareholder, partner, other equity owner, officer, director or employee of such Member who is required under the Statutes or the Rules, to be a Licensed Person.

ARTICLE V

ACCOUNTING AND RECORDS

5.1. Records to be Maintained - The Managing Member shall maintain such business and financial records at the Principal Office as it deems necessary or appropriate, including but not limited to a current list of the full name and last known business address of each Member, former Member and other holder of a Membership Interest. All of

such records shall be available for inspection by a Member, or that Member's authorized representative during normal business hours upon reasonable notice to the Managing Member.

5.2. Reports to Members -

5.2.1. The Managing Member shall provide, for their confidential use, financial reports at least quarterly, and, if otherwise available, monthly, to the Members promptly after the same become available.

5.2.2. The Managing Member shall provide all Members with those information returns required by the Code and the tax laws of any state in which a Member resides.

5.2.3. The Managing Member shall promptly notify the other Member of the occurrence of any event which reasonably would be expected to have a material effect on the business or results of operations of the Company.

ARTICLE VI

MEMBERS

6.1. Member Eligibility - All Members, and, to the extent applicable, their respective equity owners, officers, directors and employees, shall be Licensed Persons if required by the Statute or the Rules, and shall otherwise meet any applicable requirements of the Statutes and the Rules.

6.2. Members - The names and addresses of the Members and the designation of the Managing Member as of the date hereof are as set forth on Exhibit A attached hereto.

ARTICLE VII

RIGHTS AND DUTIES OF MEMBERS

7.1. Voting Rights -

7.1.1. Except with respect to actions governed by Section 7.1.2. below, all policy decisions on behalf of the Company, and any other matters which pursuant to this Operating Agreement require a determination or vote by the

Members, shall be made by a Percentage Majority of the Members.

7.1.2. Notwithstanding anything herein to the contrary, the unanimous vote of the Members, with each Member having one vote, shall be required to approve the following matters: any decision by the Company concerning the sale of substantially all the assets of the Company; the termination, dissolution or liquidation of the Company; the merger or consolidation of the Company with or into any other person; Capital Contributions, Member Loans or Member Guarantees in excess of those identified in Section 9.2 below; issuance of additional equity in the Company where each existing Member has not been offered the opportunity to purchase equity on the same terms and conditions as the same is offered to non Members; incurrence by the Company of loans, or guarantees of loans aggregating more than \$5,000,000 (but not including any loans or guarantees referred to in Section 9.2 below); admission of additional Members (other than permitted transferees of Members as set forth in Section 12.1 below); an amendment to the Operating Agreement which would materially prejudice the rights or increase the obligations or liabilities of any Member as compared with the pre-existing rights, obligations or liabilities of Members; the election and qualification of the Managing Member's successor (except that the lender holding a pledge of or security interest in the Managing Member's Membership Interest may serve as or designate the Managing Member should such lender foreclose on such pledge or security interest); or the establishment of reserves in excess of those provided for in Section 10.5.(d) below. Where unanimous consent is required under this Section 7.1.2., neither Member shall unreasonably withhold its consent.

7.2. Management Rights -

7.2.1. No Member other than the Managing Member shall have any authority to take any actions with respect to the business or affairs of the Company, to execute or deliver any instrument or document binding upon the Company, or to obligate the Company in any way.

7.2.2. The officers of the Company shall be as follows and shall serve in said offices until the Members vote to remove or replace one or more of them:

Chairman	-	Peter M. Carlino
President	-	William J. Bork

Secretary - Robert S. Ippolito
Treasurer - Robert S. Ippolito

7.3. Liability of Members - No Member shall be liable as such for the liabilities of the Company. The failure of the Company to observe any formalities or requirements relating to the exercise of its powers or management of its business or affairs under the Operating Agreement or the Act shall not be grounds for imposing personal liability on the Members for liabilities of the Company.

7.4. Indemnification - The Company shall indemnify the Company's current and former Members, officers, employees and agents for all costs, losses, liabilities, and damages paid or incurred by any of them arising out of or in connection with the business of the Company, to the fullest extent provided for in Section 31-1A-4(12) of the Act or such additional indemnification as allowed by any other laws of the State of West Virginia.

7.5. Representations and Warranties - Each Member hereby represents and warrants to the Company and the other Member that: (a) such Member has all necessary power and authority to execute and deliver the Operating Agreement and to perform its obligations hereunder; (b) the Member is acquiring its interest in the Company for the Member's own account as an investment and without an intent to distribute the interest; and (c) the Member acknowledges that the Membership Interests have not been registered under the Securities Act of 1933 or any state securities laws, and may not be resold or transferred by the Member without appropriate registration or the availability of an exemption from such requirements.

7.6. Conflicts of Interest -

7.6.1.A Member, including the Managing Member, does not violate a duty or obligation to the Company merely because the Member's conduct furthers the Member's own interest. A Member or an affiliate of a Member may lend money to and transact other business with the Company, so long as the terms and provisions of any such transaction are substantially similar to those which would be available to the Company, in an arms-length transaction, with a person who is not an affiliate. The rights and obligations of a Member who directly or indirectly lends money to or transacts business with the Company are the same as those of a person who is not a Member, subject to other applicable law. No transaction with the Company shall be void or

voidable or shall be rescinded solely because a Member has a direct or indirect interest in the transaction if either the transaction is fair to the Company or the other Member, knowing the material facts of the transaction and the Member's interest, authorize, approve, or ratify the transaction.

7.6.2. For purposes of the Operating Agreement, the conduct by Penn National Gaming, Inc. (the ultimate parent of PNGI/West Virginia) or its subsidiaries or affiliates of horse racing and wagering (including simulcast wagering and off-track wagering), auto racing, casino or riverboat gambling, video lottery games, or other entertainment, hotel or gaming or wagering activities, and all forms of communications and publications pertaining to the foregoing, and the management of such activities as they currently or may hereafter exist shall not be deemed a conflict or potential conflict of interest. The Members acknowledge and agree that PNGI/West Virginia has specifically relied upon this provision as an inducement to enter into the Operating Agreement. Notwithstanding anything herein to the contrary, Penn National Gaming, Inc. or any of its majority owned subsidiaries or affiliates shall not own or operate any pari-mutuel wagering or video lottery wagering facility located in West Virginia within 25 miles of Charles Town Races, West Virginia.

7.7. Miscellaneous Obligations -

7.7.1. Each Member shall maintain that Member's License and the license of each Member's equity owners, officers, directors and employees if necessary under the Statutes or the Rules. Each Member shall at all times comply and shall cause the Member's officers, directors and employees to comply with the Statutes and the Rules.

7.7.2. It shall be the duty of each Member to act at all times consistently with and in compliance with all and each of the provisions of the Operating Agreement and with all policies, rules and decisions of the Company adopted in accordance with any of the provisions of the Operating Agreement.

7.8. Members' Rights and Liabilities - The Members shall have the same rights and liabilities as shareholders of corporations organized under the laws of the State of West Virginia, and the Managing Member shall have the same rights and liabilities as a director of a corporation so organized.

ARTICLE VIII

MANAGING MEMBER

8.1. Managing Member - The sole initial Managing Member shall be PNGI/West Virginia. The Managing Member shall serve until the earliest of:

8.1.1. The Dissociation of such Managing Member;
or

8.1.2. The Resignation of such Managing Member; or

8.1.3. The Withdrawal of such Managing Member; or

8.1.4. The election and qualification of the Managing Member's successor by the vote of the Members as provided in Section 7.1.2 hereof.

8.2. Authority of Members to Bind the Company - All actions with respect to the business of the Company shall be taken as directed by the Managing Member, who may exercise, without limitation, (except as specifically provided herein or in the Act) all of the powers of the Company set forth in Section 31-1A-4 of the Act and who shall have, without limitation, all powers of a Manager set forth in Sections 31-1A-20 and 21 of the Act. Only the Managing Member and agents of the Company authorized by the Managing Member shall have the authority to bind the Company. No Member who is not either a Managing Member or otherwise authorized as an agent shall take any action to bind the Company, and each Member shall indemnify the Company for any costs or damages incurred by the Company as a result of the unauthorized action of such Member.

8.3. Compensation of Managing Member - BDC shall pay \$65,000 annually to the Managing Member for all expenses by it incurred in managing the Company. Such amount shall be paid by BDC within 20 days after an invoice therefor is received by BDC or if not so paid, the same shall be paid by the Company and charged to the Capital Account of BDC.

8.4. Bank Accounts - All funds of the Company shall be deposited in such account or accounts to be maintained in such bank or banks as shall be selected from time to time by the Managing Member. Withdrawals from any such bank account or accounts shall be made in the Company's name upon the

signature or signatures which the Managing Member shall from time to time designate. Funds in such account or accounts shall not be commingled with the funds of any Member.

ARTICLE IX

CONTRIBUTIONS AND CAPITAL ACCOUNTS

9.1. Initial Contributions - Each Member has made their respective Initial Capital Contributions and shall have the respective Membership and Percentage Interests set forth on Exhibit A attached hereto. No interest shall accrue on any Capital Contribution and no Member shall have the right to withdraw or be repaid any Capital Contribution except as provided in the Operating Agreement.

9.2. Additional Contributions - In addition to the Initial Capital Contributions, the Managing Member may determine from time to time that additional Capital Contributions, Member Loans or Member Guarantees are required up to an aggregate of \$40,000,000 as Capital Contributions, Member Loans and Member Guarantees and, as limited by Section 7.1.2. hereof, amounts in excess thereof if the consent required by Section 7.1.2. above is obtained in accordance with the provisions thereof. Upon making such a determination, the Managing Member shall give Notice to the other Member in writing at least ten Business Days prior to the date on which such additional Capital Contributions, Member Loans or Member Guarantees are due. Such Notice shall set forth the amount of additional Capital Contributions, Member Loans or Member Guarantees, the purpose of the same, and the date by which the Members shall make the additional Capital Contributions, Member Loans or Member Guarantees. Each Member shall be required to contribute a share of such additional Capital Contribution, Member Loan or Member Guarantee in proportion to the Member's Membership Interest. In the event any one Member does not make its additional Capital Contribution, Member Loan or Member Guarantee, the other Member shall be given the opportunity to make the Capital Contribution, Member Loan or Member Guarantee in addition to the rights of a Contributing Member as set forth in Section 9.4. below.

9.3. Contributions of Additional Members - Intentionally omitted.

9.4. Enforcement of Commitments - In the event a Member (a Delinquent Member) fails to perform the Delinquent

Member's Commitment, the Contributing Member shall give the Delinquent Member a Notice of the failure to meet the Commitment. If the Delinquent Member fails to perform the Commitment (including any costs associated with the failure to comply with the Commitment and interest on such obligation at the Default Interest Rate) within ten Business Days of the giving of Notice, the Contributing Member may take such action, including but not limited to enforcing the Commitment in the court of appropriate jurisdiction in the state in which the Principal Office is located or the state of the Delinquent Member's address as reflected in the Operating Agreement. Each Member expressly agrees to the jurisdiction of such courts but only for the enforcement of Commitments. As an alternative, the Contributing Member may elect to provide all or a portion of the Commitment. The Contributing Member shall be entitled to treat the amounts provided pursuant to this section as a demand loan from the Contributing Member to the Delinquent Member bearing interest at the Default Interest Rate and secured by the Delinquent Member's Membership Interest in the Company. Until such Contributing Member is fully repaid, such Contributing Member shall be entitled to all Distributions to which the Delinquent Member would have been entitled. Notwithstanding the foregoing, no Commitment or other obligation to make an additional Capital Contribution, Member Loan or Member Guarantee may be enforced by a creditor of the Company or other Person other than the Company unless the Contributing Member expressly consents to such enforcement or to the assignment of the obligation to such creditor.

9.5. Maintenance of Capital Accounts - The Company shall establish and maintain Capital Accounts for each Member. Each Member's Capital Account shall be increased by (A) the amount of any Money actually contributed by the Member to the capital of the Company, (B) the fair market value of any Property or "in-kind" services contributed, as determined by the Company and the contributing Member at arm's length at the time of contribution (net of liabilities assumed by the Company or subject to which the Company takes such Property, within the meaning of Section 752 of the Code), and (C) the Member's share of Net Profits and of any separately allocated items of income or gain (including any gain and income from unrealized income with respect to accounts receivable allocated to the Member to reflect the difference between the book value and tax basis of assets contributed by the Member). Each Member's Capital Account shall be decreased by (x) the amount of any Money distributed to the Member by the Company, (y) the fair

market value of any Property distributed to the Member, as determined by the Company and the contributing Member at arm's length at the time of contribution (net of liabilities of the Company assumed by the Member or subject to which the Member takes such Property within the meaning of Section 752 of the Code), and (z) the Member's share of Net Losses and of any separately allocated items of deduction or loss (including any loss or deduction allocated to the Member to reflect the difference between the book value and tax basis of assets contributed by the Member).

9.6. Distribution of Assets - If the Company at any time distributes any of its assets in-kind to any Member, the Capital Account of each Member shall be adjusted to account for that Member's allocable share (as determined under Article X below) of the Net Profits or Net Losses that would have been realized by the Company had it sold the assets that were distributed at their respective fair market values immediately prior to their distribution.

9.7. Compliance with Section 704(b) of the Code - The provisions of this Article IX as they relate to the maintenance of Capital Accounts are intended, and shall be construed, and, if necessary, modified to cause the allocations of profits, losses, income, gain and credit pursuant to Article X hereof to have substantial economic effect under the Regulations promulgated under Section 704(b) of the Code, in light of the distributions made pursuant to Articles X and XV hereof and the Capital Contributions made pursuant to this Article IX.

ARTICLE X

ALLOCATIONS AND DISTRIBUTIONS

10.1. Allocations of Net Profits and Net Losses from Operations - Except as may be required by section 704(c) of the Code, and Sections 10.2, 10.3, and 10.4 of this Article X, net profits, net losses, and other items of income, gain, loss, deduction and credit shall be apportioned among the Members in proportion to their Percentage Interests (which shall be in proportion to their Membership Interests).

10.2. Company Minimum Gain Chargeback - If there is a net decrease in Company Minimum Gain for a Taxable Year, each Member must be allocated items of income and gain for that Taxable Year equal to that Member's share of the net decrease in Company Minimum Gain. A Member's share of the

net decrease in Company Minimum Gain is the amount of the total net decrease multiplied by the Member's percentage share of the Company Minimum Gain at the end of the immediately preceding Taxable Year. A Member's share of any decrease in Company Minimum Gain resulting from a revaluation of Company Property equals the increase in the Member's Capital Account attributable to the revaluation to the extent the reduction in minimum gain is caused by the revaluation. A Member is not subject to the Company Minimum Gain Chargeback Requirement to the extent the Member's share of the net decrease in Company Minimum Gain is caused by a guarantee, refinancing, or other change in the debt instrument causing it to become partially or wholly a Recourse Liability or a Member Nonrecourse Liability, and the Member bears the economic risk of loss (within the meaning of section 1.752-2 of the regulations) for the newly guaranteed, refinanced, or otherwise changed liability.

10.3. Member Minimum Gain Chargeback - If during a Taxable Year there is a net decrease in Member Minimum Gain, any Member with a share of that Member Minimum Gain (as determined under section 1.704-2(i)(5) of the Regulations) as of the beginning of that Taxable Year must be allocated items of income and gain for that Taxable Year (and, if necessary, for succeeding Taxable Years) equal to that Member's share of the net decrease in the Company Minimum Gain. A Member's share of the net decrease in Member Minimum Gain is determined in a manner consistent with the provisions of paragraph (g)(2) of section 1.704-2 of the Regulations. A Member is not subject to this Member Minimum Gain Chargeback, however, to the extent the net decrease in Member Minimum Gain arises because the liability ceases to be Member Nonrecourse Liability due to a conversion, refinancing, or other change in the debt instrument that causes it to become partially or wholly a Company Nonrecourse Liability. The amount that would otherwise be subject to the Member Minimum Gain Chargeback is added to the Member's share of Company Minimum Gain. In addition, rules consistent with those applicable to Company Minimum Gain shall be applied to determine the shares of Member Minimum Gain and Member Minimum Gain Chargeback to the extent provided under the Regulations issued pursuant to section 704(b) of the Code.

10.4. Qualified Income Offset - In the event any Member, in such capacity, unexpectedly receives an Offsettable Decrease, such Member will be allocated items of income and gain (consisting of a portion of each item of partnership income and gain for such year) in an amount and

manner sufficient to offset such Offsettable Decrease as quickly as possible.

10.5. Interim Distributions - The Company shall carry on its books a drawing account for each Member. On the Business Days nearest the 15th and last day of each month, and at such other times as may be determined by the Managing Member, in accordance with the Company's cash flow and financial projections, each Member shall be paid such amounts as may be determined by the Managing Member, which shall thereupon be charged to that Member's drawing account. Such distributions shall be in cash and/or Property which shall be distributed proportionately to the Members in accordance with their Membership Interests. All interim distributions which, when made, exceed the recipient Member's basis in that Member's Membership Interest shall be considered advances or drawings against the Member's distributive share of net income. To the extent it is determined at the end of the Taxable Year of the Company that the recipient Member has been allocated net income that is less than the total of such advances or drawings for such year, the recipient Member shall, at the request of the Managing Member, be obligated to promptly restore any such advances or drawings to the Company. Notwithstanding the foregoing sentence, the Member will not be required to restore such advances or drawings to the extent that, on the last day of the Taxable Year, the recipient Member's basis in the Member's Membership Interest in the Company has increased from the time of such advance or drawing. The Members intend that, if possible, sufficient Money be distributed to permit the Members to pay any local, state and Federal tax liabilities owed by the Members with respect to income in respect of their Membership Interests. In addition, the Company shall distribute all available cash after providing for (a) debt service, (b) scheduled capital expenditures, (c) reserves for debt service, and (d) reserves for additional capital improvements and working capital requirements which shall not, in the case of this clause (d), exceed 10% of the gross annualized revenues of the Company, without the unanimous consent of the Members, provided that, if the \$40 million limit set forth in Section 9.2 hereof has previously been reached, no additional reserves may be established pursuant to this clause (d) (and the 10% gross annualized revenue provision in this clause (d) shall be inapplicable) without the unanimous consent of the Members, which consent shall not be unreasonably withheld.

10.6. Limitations on Distributions - No distribution shall be declared and paid which would be in violation of Section 31-1A-29 of the Act.

ARTICLE XI

TAXES

11.1. Elections - The Managing Member may make any tax elections for the Company allowed under the Code or the tax laws of any state or other jurisdiction having taxing jurisdiction over the Company.

11.2. Taxes of Taxing Jurisdictions - To the extent that the laws of any Taxing Jurisdiction requires, each Member (or such Members as may be required by the Taxing Jurisdiction) will submit an agreement indicating that the Member will make timely income tax payments to the Taxing Jurisdiction and that the Member accepts personal jurisdiction of the Taxing Jurisdiction with regard to the collection of income taxes attributable to the Member's income, and interest, and penalties assessed on such income. If the Member fails to provide such agreement, the Company may withhold and pay over to such Taxing Jurisdiction the amount of tax, penalty and interest determined under the laws of the Taxing Jurisdiction with respect to such income. Any such payments with respect to the income of a Member shall be treated as a distribution for purposes of Article X hereof.

The Managing Member may, where permitted by the rules of any Taxing Jurisdiction, file a composite, combined or aggregate tax return reflecting the income of the Company and pay the tax, interest and penalties of some or all of the Members on such income to the Taxing Jurisdiction, in which case the Company shall inform the Members of the amount of such tax interest and penalties so paid.

11.3. Tax Matters - The Managing Member shall be designated the "tax matters partner" of the Company pursuant to Section 6231(a)(7) of the Code. The Managing Member shall also be the notice partner within the meaning of Section 6223 of the Code.

11.4. Accrual Method of Accounting - The records of the Company shall be maintained on an accrual method of accounting.

ARTICLE XII

DISPOSITION OF MEMBERSHIP INTERESTS

12.1. Disposition of Membership Interests - No Member shall have the right, without the prior written consent of the other Member, to transfer all or any part of a Membership Interest, including the Member's interest in any of the Company's Property, except that: (i) other Members of the Company may succeed to the rights of some of them in accordance with the terms of the Operating Agreement or by operation of law; (ii) a Member may pledge or grant a security interest in its Membership Interest so long as the pledgee or secured party (or the pledgee's or secured party's transferee) agrees in writing to be bound by the terms and provisions hereof in the place and stead of the debtor Member in the event of a foreclosure on such pledge or security interest, and, in such event, such a foreclosing creditor (or the creditors transferee) shall have and may exercise all of the rights of the Member whose obligation is being foreclosed, subject to the terms and provisions hereof; or (iii) Members may transfer their Membership Interest to the equity owners of a Member or to a trust or estate for the benefit of the heirs or beneficiaries of such equity owners or to another entity controlled by such equity owners or such trust or estate, provided that such transferee agrees in writing to be bound by the terms and provisions hereof in the place and stead of the transferring Member. No collateral assignment by a Member of that Member's Membership Interest shall cause such Member to cease to be a Member pursuant to the provisions of Section 31-1A-34(b) of the Act. The Members hereby unanimously consent, pursuant to Section 31-1A-34(c)(1) of the Act, to the admission as a Member of an assignee of a Member's Membership Interest pursuant to this Section 12.1.

ARTICLE XIII

DISSOCIATION OF A MEMBER

13.1. Dissociation - A Person shall cease to be a Member upon the happening of any of the following events:

13.1.1. the Withdrawal of a Member;

13.1.2. the Member's ceasing to be eligible to be a Member of the Company;

13.1.3. the Member's becoming a Bankrupt Member;

13.1.4. in the case of a Member that is a corporation, the filing of a certificate of dissolution, or its equivalent, for the corporation or the revocation of its charter.

13.1.5. in the event that a Member, or its equity owners, officers, directors or employees fail, if required by either Commission, to become a Licensed Person on or before April 1, 1997, or such person ceases to be a Licensed Person and the failure of which could cause the Company to lose a License.

13.2. Purchase of Dissociated Member's Membership Interest - Upon the Dissociation of a Member, the Disassociated Member's Membership Interest shall be purchased by the Company or the other Member (or an affiliate of such Member) (collectively referred to in Sections 13.2 and 13.3 hereof as a "Purchaser") for a purchase price equal to the aggregate fair market value of the Member's Membership Interest determined according to the provisions of section 13.3 hereof. The purchase price of such interest shall be paid by the Purchaser to the Member in cash within 60 days of determination of the aggregate fair market value or, at the Purchaser's option, provided the Purchaser can adequately secure such obligation to the reasonable satisfaction of the Dissociated Member, such debt may be evidenced by a promissory note bearing interest payable quarterly at the Prime Rate, which shall be due and payable upon the earlier of (A) expiration of five years or (B) the sale or other disposition of all a substantially of the Property or the business of the Company.

13.3. Purchase Price of Dissociated Member's Membership Interest -

13.3.1. The fair market value of a Member's Interest to be purchased by the Purchaser pursuant to section 13.2 hereof shall be determined by agreement between the Dissociated Member and the Purchaser, which agreement is subject to approval by the other Member. For this purpose, the fair market value of the Dissociated Member's Membership Interest shall be computed as the amount which could reasonably be expected to be realized by such Member upon the sale of the business conducted by the Company (or, if the Company is not conducting its business as contemplated in Article III hereof, then upon the sale of the Company Property), in the ordinary course of business at the time of

the Dissociation, subject to any discounts (not to exceed 5%) which may apply by virtue of a Member owning a minority interest in the Company where the fair market value is determined in contemplation of a sale of the business conducted by the Company rather than a sale of the Company Property, and the distribution of such amounts as if the Company were wound up and its assets distributed as provided in Section 15.3 (subject to Section 15.4) hereof.

13.3.2. If the Dissociated Member and the Purchaser cannot agree upon the fair market value of such Membership Interest within 30 days, the fair market value thereof shall be determined by appraisal, the Purchaser and the Dissociated Member each to choose one appraiser. If the fair market values as determined by each appraiser are within ten (10%) of each other, the fair market value shall be the average of the two appraisals. If the fair market values determined by each appraiser are not within ten percent of each other, and the Purchaser and the Dissociated Member are still unable to agree on the fair market value, the two appraisers shall choose a third appraiser, and the third appraiser shall choose the fair market value of one of such original appraisers as the most accurate. Each such appraiser shall be required to have substantial experience appraising the type of business predominately conducted by the Company at the time of Dissociation. The decision of the third appraiser as to the fair market value of such Membership Interest in accordance with this Section 13.3. shall be final and binding and may be enforced by legal proceedings. The Dissociated Member and the Purchaser shall each compensate the appraiser appointed by it and the compensation of the third appraiser, if such third appraiser is engaged, shall be borne equally by such parties.

ARTICLE XIV

ADMISSION OF ADDITIONAL MEMBERS

14.1. Admission of Additional Members - The Members by unanimous consent may admit Additional Members.

ARTICLE XV

DISSOLUTION AND WINDING UP

15.1. Dissolution - The Company shall be dissolved and its affairs wound up, upon the unanimous written consent of the Members, the expiration of the term set forth in Section

1.7, or as otherwise provided by Section 31-1A-35 of the Act.

15.2. Effect of Dissolution - Upon dissolution, the Company shall cease carrying on as distinguished from the winding up of the Company business, but the Company shall not be terminated, but shall continue until the winding up of the affairs of the Company is completed and the Certificate of Dissolution has been issued by the Secretary of State.

15.3. Distribution of Assets on Dissolution - Upon the winding up of the Company, the Company Property shall be distributed as follows:

15.3.1. to secured creditors to the extent of their security, including Members who are secured creditors for reasons other than unpaid Distributions;

15.3.2. to general unsecured creditors, including Members who are creditors for reasons other than unpaid Distributions, to the extent permitted by law, in satisfaction of Company Liabilities;

15.3.3. to Members who are creditors as a result of unpaid Distributions; provided, however, that if such Distributions were made within one year of the Dissolution then such Member will be at parity with other general unsecured creditors;

15.3.4. to Members in the amount of their respective positive Capital Account balances taking into account all Capital Account adjustments for the Company's taxable year in which the liquidation occurs;

15.3.5. to Members in proportion to their respective Percentage Interests.

15.4. Capital Account Deficits - If, after any such distribution upon dissolution, any Member has a deficit balance in his Capital Account, each such Member then shall make a Capital Contribution to the Company by the end of the taxable year (or, if later, within 90 days after the date of such liquidation), in accordance with the provisions of Treasury Regulation 1.704-1(b)(2)(ii)(b)(2), as amended from time to time. The amount of the Capital Contribution shall be equal to the lessor of: (i) the amount of such deficit balance or (ii) such Member's shares (determined pro rata in proportion to the deficit balances in the Capital Accounts

of all Members then having deficit Capital Account balances) of the sum of the amounts required to satisfy any then unsatisfied recourse liabilities of the Company plus the sum of the positive Capital Account balances. All such Capital Contributions shall be applied first in satisfaction of such recourse liabilities, if any, and the excess of such contributions, if any, shall be distributed to the Members with positive Capital Account balances, in proportion to such positive Capital Account balances.

15.5. Payment of Liquidation Proceeds - Liquidation proceeds shall be paid within 60 days of the end of the Company's taxable year or, if later, within 90 days after the date of liquidation. Such distributions shall be in cash and/or Property which shall be distributed proportionately to the Members in accordance with their Membership Interests.

15.6. Winding Up and Certificate of Dissolution - The winding up of the Company shall be completed when all debts, liabilities, and obligations of the Company have been paid and discharged or reasonably adequate provision therefor has been made, and all of the remaining property and assets of the Company have been distributed to the Members. Upon the completion of winding up of the Company, a Certificate of Dissolution shall be delivered to the Secretary of State of West Virginia for filing. The Certificate of Dissolution shall set forth the information required by the Act.

ARTICLE XVI

AMENDMENT

16.1. Operating Agreement May Be Modified - The Operating Agreement may be modified or amended as provided in this Article XVI (as the same may from time to time be amended). No Member or Managing Member shall have any vested rights in the Operating Agreement which may not be modified through an amendment to the Operating Agreement.

16.2. Amendment or Modification of Operating Agreement - The Operating Agreement may be amended or modified from time to time only by a vote of or written instrument signed by the Members as provided in Section 7.1. hereof. Notwithstanding the foregoing, no amendment or modification to the Operating Agreement which adversely affects a Member's right to allocations or distributions as provided for herein shall be effective against any such Member which

did not vote in favor of, consent to or ratify such amendment or modification.

ARTICLE XVII

MISCELLANEOUS PROVISIONS

17.1. Entire Agreement - The Operating Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof, and supersedes and is instead of the original Operating Agreement between the parties hereto dated February, 1996 and any and all other prior or contemporaneous agreements or understandings, written or oral, between or among such parties with respect to such subject matter. All of the terms and provisions of the Operating Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and permitted assigns of the parties hereto.

17.2. No Partnership Intended for Nontax Purposes - The Members have formed the Company under the Act, and expressly do not intend hereby to form a partnership under either the West Virginia Partnership Act nor the West Virginia Uniform Limited Partnership Act. The Members do not intend to be partners one to another, or partners as to any third party. To the extent any Member, by word or action, represents to another person that any other Member is a partner or that the Company is a partnership, the Member making such wrongful representation shall be liable to any other Member who is incurs personal liability by reason of such wrongful representation.

17.3. Rights of Creditors and Third Parties under Operating Agreement - The Operating Agreement is entered into among the Company and the Members for the exclusive benefit of the Company, its Members, and their successors and permitted assignees. The Operating Agreement is expressly not intended for the benefit of any creditor of the Company or any other Person, except as specifically provided herein. Except and only to the extent provided herein or by applicable statute, no such creditor or third party shall have any rights under the Operating Agreement or any agreement between the Company and any Member with respect to any Capital Contribution or otherwise.

17.4. Arbitration - The Members agree that any controversy, claim or dispute arising out of or relating to

the Operating Agreement, including, but not limited to, the breach, validity or termination thereof (a "Dispute"), shall be finally settled by arbitration before a single arbitrator to be held in the city of Wilmington, Delaware in accordance with the Commercial Arbitration Rules of the American Arbitration Association then in effect ("Rules"). If the parties do not agree upon an arbitrator within 15 days after a Member's receipt of a demand for arbitration then, upon the written request of either Member, the arbitrator shall be appointed in accordance with Rule 13 of the Rules. The arbitration and this Section 17.4. shall be governed by the Federal Arbitration Act, 9 U.S.C. section 1 et seq. Judgment may be entered on the Arbitrator's award in any court having jurisdiction.

17.5. Governing Law - The Operating Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of West Virginia applicable to agreements made and to be performed entirely within such State without reference to that states "conflict of laws" laws.

IN WITNESS WHEREOF, we have hereunto set out hand and seals on the date set forth beside our names.

PNGI CHARLES TOWN GAMING LIMITED
LIABILITY COMPANY

By: Penn National Gaming of West
Virginia, Inc., Managing Member

BY: /s/ William J. Bork
WILLIAM J. BORK, President

PENN NATIONAL GAMING OF
WEST VIRGINIA, INC.

BY: /s/ William J. Bork
WILLIAM J. BORK, President

Date: December 31, 1996

BRYANT DEVELOPMENT COMPANY

BY: /s/ James A. Reeder
JAMES A. REEDER, President

Date: December 31, 1996

(22)

EXHIBIT A

Member	Initial Contribution	Percentage Membership Interest	Interest
Penn National Gaming of West Virginia, Inc.	\$8,000	80%	80%
Bryant Development Company	\$2,000	20%	20%

Managing Member

Penn National Gaming of West Virginia, Inc., or any direct or indirect subsidiary of Penn National Gaming, Inc., shall be the sole Managing Member.

Members

Penn National Gaming of West Virginia, Inc., a West Virginia corporation and an indirect wholly-owned subsidiary of Penn National Gaming, Inc., with an address at:

Peter M. Carlino, Chairman
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 203
Wyomissing, Pennsylvania 19610

All notices with a copy to:

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

Bryant Development Company, a Virginia corporation with an address at:

James A. Reeder, President
Patton Boggs, L.L.P.
2550 M Street, N.W.
Washington, D.C. 20037

All notices with a copy to:

Nancy A. Lieberman, Esquire
Skadden, Arps, Slate, Meagher & Flom, LLP
919 Third Avenue
New York, New York 10022

APPENDIX I

DEFINITIONS

Act - The West Virginia Limited Liability Company Act and all amendments to the Act.

Additional Member - A Member other than an Initial Member who has acquired a Membership Interest from the Company.

Articles - The Articles of Organization of the Company as properly adopted and amended from time to time by the Members and filed with the Secretary of State.

Bankrupt Member - A Member who: (1) has become the subject of an Order for Relief under the United States Bankruptcy Code, (2) has initiated, either in an original Proceeding or by way of answer in any state insolvency or receivership proceeding, an action for liquidation arrangement, composition, readjustment, dissolution, or similar relief.

BDC - Bryant Development Company, a Virginia corporation.

Business Day - Any day other than Saturday, Sunday or any legal holiday observed in West Virginia.

Capital Account - The account maintained for a Member determined in accordance with Article IX of the Operating Agreement.

Capital Contribution - Any Contribution or contribution of services made by or on behalf of a new or exiting Member as consideration for a Membership Interest.

Code - The Internal Revenue Code of 1986 as amended from time to time.

Commission - The West Virginia Horse Racing Commission or any successor thereto and the West Virginia Lottery Commission (which collectively are referred to as the "Commissions").

Commitment - The obligation of a Member to make a Capital Contribution, Member Loan or Member Guarantee in the future.

Company - PNGI Charles Town Limited Liability Company, a limited liability company formed under the laws of the State of West Virginia, and any successor limited liability company.

Company Liability - Any enforceable debt or obligation for which the Company is liable or which is secured by any Company Property.

Company Minimum Gain - An amount determined by first computing for each Company Nonrecourse Liability any gain the Company would realize if it disposed of the Company Property subject to that liability for no consideration other than full satisfaction of the liability, and then aggregating the separately computed gains. The amount of Company Minimum Gain includes such minimum gain arising from a conversion, refinancing, or other change to a debt instrument, only to the extent a Member is allocated a share of that minimum gain. For any Taxable Year, the net increase or decrease in Company Minimum Gain is determined by comparing the Company Minimum Gain on the last day of the immediately preceding Taxable Year with the Minimum Gain on the last day of the current Taxable Year. Notwithstanding any provision to the contrary contained herein, Company Minimum Gain and increases and decreases in Company Minimum Gain are intended to be computed in accordance with section 704 of the Code and the Regulations issued thereunder, as the same may be issued and interpreted from time to time. A Member's share of Company Minimum Gain at the end of any Taxable Year equals: the sum of Nonrecourse Deductions allocated to that Member (and to that Member's predecessors in interest) up to that time and the distributions made to that Member (and to that Member's predecessors in interest) up to that time of proceeds of a nonrecourse liability allocable to an increase in Company Minimum Gain minus the sum of that Member's (and that Member's predecessors' in interest) aggregate share of the net decreases in Company Minimum Gain plus their aggregate share of decreases resulting from revaluations of Company Property subject to one or more Company Nonrecourse Liabilities.

Company Nonrecourse Liability - A Company Liability to the extent that no Member or Related Person bears the economic risk of loss (as defined in section 1.752-2 of the Regulations) with respect to the liability.

Company Property - Any Property owned by the Company.

Contributing Member - Members making Contributions, loans to the Company or a guarantee of Company debt as a result of the failure of a Delinquent Member to make the contributions required by the Commitment as described in Article IX of the Operating Agreement.

Contribution - Any contribution of Property made by or on behalf of a new or existing Member as consideration for a Membership Interest.

Default Interest Rate - The higher of the legal rate or the then-current prime rate quoted by the largest commercial bank in the jurisdiction of the Principal Office plus three percent.

Delinquent Member - A Member who has failed to perform that Member's Commitment.

Distribution - A transfer of Property to a member on account of a Membership Interest as described in Article X of the Operating Agreement.

Disposition (Dispose) - Any sale, assignment, transfer, exchange, mortgage, pledge, grant, hypothecation, or other transfer, absolute or as security or encumbrance (including dispositions by operation of law).

Dissociation - Any action which causes a Person to cease to be Member as described in Article XIII of the Operating Agreement.

Dissociated Member - A Person who has ceased to be Member as a result of Dissociation in Article XIII the Operating Agreement. In the case of a Dissociation by death or incompetence, "Dissociated Member" shall include the personal representative, executor, or other legal representative of the Dissociated Member.

Initial Capital Contribution - The Capital Contribution agreed to be made by the Initial Members as described in Article IX as Exhibit "A" of the Operating Agreement.

Initial Members - BDC and PNGI/West Virginia.

License - Any permit or license or other authorization required to conduct or participate in or otherwise be associated with any Licensed Activity. Any Person who obtains such a permit or license shall be a "Licensed Person."

Licensed Activities - The conduct of horse or dog racing and pari-mutuel wagering in connection therewith, the conduct of video lottery games or any other lawful wagering or gaming activity under current or future West Virginia law, and all activities necessary, customary, convenient, or incident to the foregoing.

Majority of the Members - A majority by number of the Members entitled to vote on, consent to, or approve a particular matter.

Managing Member - A Member selected to manage the affairs of the Company under Article VIII of the Operating Agreement.

Member - BDC and PNGI/West Virginia, and collectively the "Members".

Member Guarantee - Guarantees by a Member of a loan to the Company.

Member Loan - A loan from a Member to the Company or a loan incurred by a Member for the benefit of the Company and the Company receives the proceeds thereof (after payment or provision for fees and expenses relating thereto).

Member Minimum Gain - An amount determined by first computing for each Member Nonrecourse Liability any gain the Company would realize if it disposed of the Company Property subject to that liability for no consideration other than full satisfaction of the liability, and then aggregating the separately computed gains. The amount of Member Minimum Gain

includes such minimum gain arising from a conversion, refinancing, or other change to a debt instrument, only to the extent a Member is allocated a share of that minimum gain. For any Taxable Year, the net increase or decrease in Member Minimum Gain is determined by comparing the Member Minimum Gain on the last day of the immediately preceding Taxable Year with the Minimum Gain on the last day of the current Taxable Year. Notwithstanding any provision to the contrary contained herein, Member Minimum Gain and increases and decreases in Member Minimum Gain are intended to be computed in accordance with section 704 of the Code the Regulations issued thereunder, as the same may be issued and interpreted from time to time.

Member Nonrecourse Liability - Any Company Liability to the extent the liability is nonrecourse under state law, and on which a Member or Related Person bears the economic risk of loss under section 1.752-2 of the Code because, for example, the Member or Related Person is the creditor or a guarantor.

Membership Interest - The interest of a Member determined by such Member's Capital Account relative to the Capital Accounts of all Members.

Money - Cash or other legal tender of the United States, or any obligation that is immediately reducible to legal tender without delay or discount. Money shall be considered to have a fair market value equal to its face amount.

Net Losses - The losses and deductions of the Company determined in accordance with generally accepted accounting principles consistently applied from year to year employed under the method of accounting adopted by the Company and as reported separately or in the aggregate, as appropriate, on the tax return of the Company filed for federal income tax purposes.

Net Profits - The income and gains of the Company determined in accordance with generally accepted accounting principles consistently applied from year to year employed under the method of accounting adopted by the Company and as reported separately or in the aggregate, as appropriate, on the tax return of the Company filed for federal income tax purposes.

Nonrecourse Liabilities - Nonrecourse liabilities include Company Nonrecourse Liabilities and Member Nonrecourse Liabilities.

Notice - Notice shall be in writing. Notice to the Company shall be considered given one Business Day after being mailed by an overnight courier service which provides a receipt for delivery addressed to the Managing Member in care of the Company at the address of the Principal Office. Notice to a Member shall be considered given one Business Day after being mailed by an overnight courier service which provides a receipt for delivery addressed to the Member at the address reflected in the Operating Agreement or, if the Member has given the Company a Notice of a different address, the address set forth in such Notice.

Offsettable Decrease - Any allocation that unexpectedly causes or increases a deficit in the Member's Capital Account as of the end of the taxable year to which the allocation relates attributable to depletion allowances under section 1.704(b)(2)(iv)(k) of the Regulations, allocations of loss and deductions under section 704(e)(2) or 706 of the Code or under section 1.751-1 of the Regulations, or distributions that, as of the end of the year are reasonably expected to be made to the extent they exceed the offsetting increases to such Member's Capital Account that reasonably are expected to occur during or (prior to) the taxable years in which the such distributions are expected to be made (other than increases pursuant to a Minimum Gain Chargeback).

Operating Agreement - This operating agreement including all amendments adopted in accordance with the Operating Agreement and the Act.

Percentage Interest - The rights of a Member in Distributions (liquidating or otherwise) and allocations of the profits, losses, gains, deductions, and credits of the Company.

Percentage Majority of the Members - A majority by Percentage Interest of the Members entitled to vote on, consent to, or approve a particular matter.

Percentage Majority of the Remaining Members - A majority by Percentage Interest of all the Remaining Members.

PNGI/West Virginia - Penn National Gaming of West Virginia, Inc., a West Virginia corporation and an indirect wholly-owned subsidiary of Penn National Gaming, Inc., a publicly-held Pennsylvania corporation.

Proceeding - Any judicial or administrative trial, hearing or other activity, civil, criminal or investigative, the result of which may be that a court, arbitrator, or governmental agency may enter a judgment, order, decree, or other determination which, if not appealed and reversed, would be binding upon the Company, a Member or other Person subject to the jurisdiction of such court, arbitrator, or governmental agency.

Property - Any property real or personal, tangible or intangible, including money and any legal or equitable interest in such property, but excluding services and promises to perform services in the future.

Person - An individual, trust, estate, or any incorporated or unincorporated organization permitted to be a member of a limited liability company under the laws of West Virginia.

Regulations - Except where the context indicates otherwise, the permanent, temporary, proposed, or proposed and temporary regulations of Department of the Treasury under the Code as such regulations may be lawfully changed from time to time.

Related Person - A person having a relationship to a Member that is described in section 1.752-4(b) of the Regulations.

Removal - The act of the Remaining Members by which the Managing Member is Removed as the Managing Member but continues to be a Member.

Resignation - The act of a Managing Member by which such Member ceases to be a Managing Member but continues to be a Member.

Rules - The Rules promulgated by the Commission under the Statutes and as amended from time to time.

Statutes - Article 23 [Horse and Dog Racing] of Chapter 19 [Agriculture] of the West Virginia Code (including the amendments set forth in the 1996 Simulcast Facility and Telecommunications Bill if and when approved and adopted as provided under West Virginia law) and Article 22A [Racetrack Video Lottery] of Chapter 19 [Agriculture] of the West Virginia Code, and any other statute which governs any gaming or wagering activities conducted by the Company as such exist as of the date of the Operating Agreement or may hereafter be amended, or any successor rule or statute of similar purpose.

Taxable Year - The taxable year of the Company as determined pursuant to section 706 of the Code.

Taxing Jurisdiction - Any state, local, or foreign government that collects tax, interest or penalties, however designated, on any Member's share of the income or gain attributable to the Company.

Withdrawal- The act of a Member by which such Member voluntarily cease

January 14, 1997

Mr. James A. Reeder
President
Bryant Development Corporation
2550 M Street, NW
Washington, DC 20037

Dear Jim:

I am writing on behalf of PNGI Charles Town Limited Liability Company ("LLC"), Penn National Gaming of West Virginia, Inc. ("PWV") and Penn National Gaming, Inc. ("PNGI") and collectively with LLC and PWV are referred to as "Penn National"). PWV and Bryant Development Corporation ("BDC") are parties to an Operating Agreement pertaining to PNGI Charles Town Gaming Limited Liability Company dated February, 1996. Penn National and BDC have agreed to an Amended and Restated Operating Agreement to be entered into as of December 31, 1996, effective March 22, 1996. The parties have further agreed to further amend the Amended and Restated Operating Agreement consistent with the attached "Term Sheet".

Penn National has requested BDC to execute and deliver the Amended and Restated Operating Agreement and certain other documents in connection with the closing of the purchase by LLC of Charles Town Races. BDC has required, as a condition to executing such documents that Penn National assure BDC that the Amended and Restated Operating Agreement will be further amended in a manner consistent with the attached Term Sheet.

In order to induce BDC to execute and deliver the Amended and Restated Operating Agreement and the other documents which are necessary in connection with the consummation of the purchase of Charles Town Races by LLC, the undersigned, intending to be legally bound hereby, on behalf of each of the entities comprising Penn National agrees that:

1. Penn National will take no action under the Amended and Restated Operating Agreement to pursue any of their rights or remedies under the Amended and Restated Operating Agreement which are inconsistent with the terms and provisions of the Term Sheet.

Mr. James A. Reeder
January 14, 1996
Page 2

2. Penn National has instructed its counsel to work with the counsel of BDC to prepare for signature as soon as practicable a First Amendment to Amended and Restated Operating Agreement consistent with the Term Sheet.

3. Penn National will file with the West Virginia Racing Commission and the West Virginia Lottery Commission all documents necessary to reflect the changes set forth on the Term Sheet.

4. Penn National acknowledges that the foregoing is a material inducement to your executing and delivering the Amended and Restated Operating Agreement and the other documents necessary in connection with the closing of the purchase of Charles Town Races by LLC and that, but for such inducement, BDC would not execute such documents.

Please acknowledge your agreement with the foregoing by signing a copy of this letter and returning it to me.

Sincerely,

/s/ Peter M Carlino
PETER M. CARLINO
on behalf of PNGI Charles Town
Limited Liability Company, Penn
National Gaming of West Virginia,
Inc. And Penn National Gaming, Inc.

/smm

Read, Approved and Agreed to this 15 day of January, 1997.

BRYANT DEVELOPMENT CORPORATION

By: /s/ James A. Reeder
James A. Reeder, President

TERM SHEET
TO FIRST AMENDMENT
TO AMENDED AND RESTATED OPERATING AGREEMENT

1. BDC Interest - to be reduced from 20% to 11% (the "Agreed Percentage"). BDC to receive the Agreed Percentage of all net income and the Agreed Percentage of the net proceeds of a transaction (regardless of form) pursuant to which the LLC is sold.

2. BDC Responsibility - No responsibility to fund any portion of the initial funding of the LLC (up to \$40 million).

3. \$250,000 Obligation to Showboat - To be paid by the LLC.

4. \$250,000 Obligation to BDC - To be paid in accordance with current note.

5. Treatment of Initial Funding (up to \$40 million) - To be treated as a "loan" to the LLC regardless of form. All principal and interest payments (not to exceed the actual rate charged to Penn National by Bankers Trust or, if the loan is pre-paid, the Prime Rate in effect from time to time) will be made by the LLC (directly to the provider of the funds or indirectly as distributions to PNGI).

6. Preemptive Rights - BDC Shareholders to have the right to maintain their Agreed Percentage Interest in the event of the sale of additional equity in the LLC.

7. Miscellaneous - Existing Operating Agreement to be reviewed for necessary changes to reflect "investment status" of the BDC Shareholders.

8. New Ownership - The "BDC" interest, at the election of the BDC Shareholders may be held by the individual BDC Shareholders so that no person will own more than 5% of the LLC. Accordingly, none of the BDC Shareholders will be required to submit to the jurisdiction of the West Virginia Racing or Lottery Commission (e.g., no finger prints, financial request or background checks).

9. PNGI will agree to be bound by the Arbitration Provisions of the Amended and Restated Operating Agreement with respect to any dispute arising thereunder.

10. All fees and expenses charged to BDC shall be based on its Agreed Percentage Interest and the \$65,000 fee referred to in Paragraph 8.3 of the Amended and Restated Operating Agreement shall be reduced by a fraction, the numerator of which is the Agreed Percentage Interest and the denominator of which is 20.

(1)

FIRST AMENDMENT AND CONSENT

FIRST AMENDMENT AND CONSENT (this "Amendment"), dated as of January 7, 1997, among Penn National Gaming, Inc. (the "Borrower"), the lenders party to the Credit Agreement referred to below (the "Banks"), CoreStates Bank, N.A., as Co-Agent (the "Co-Agent"), and Bankers Trust Company, as Agent (the "Agent"). All capitalized terms used herein and not otherwise defined herein shall have the respective meanings provided such terms in the Credit Agreement.

W I T N E S S E T H:

WHEREAS, the Borrower, the Banks, the Co-Agent and the Agent are parties to a Credit Agreement, dated as of November 27, 1996 (the "Credit Agreement");

WHEREAS, the Borrower has requested certain amendments and/or modifications to the Credit Agreement in connection with the Charles Town Acquisition; and

WHEREAS, subject to the terms and conditions of this Amendment, the Banks are willing to grant such amendments and/or modifications;

NOW, THEREFORE, it is agreed:

I Consents, Agreements and Amendments

1. On and after the First Amendment Effective Date (as defined in Section II(1) below), Section 4.02(c) of the Credit Agreement shall be amended by (i) inserting the following proviso at the end of the first sentence thereof:

"; provided, however, from and after the consummation of the Charles Town Acquisition, the first \$6,000,000 of cash proceeds received by the Borrower from the initial sale or issuance of its equity which results in net cash proceeds to the Borrower of at least \$25,000,000 shall not be required to be applied as provided above in this Section 4.02(c) so long as (i) the Applicable Equity Issuance Percentage at such time is 100% and (ii) no Default or Event of Default then exists, provided, further, that such \$6,000,000 number shall be reduced on a dollar-for-dollar basis for each dollar of equity contribution that Bryant Development makes to the Charles Town Joint Venture after the Initial Borrowing Date";

and (ii) inserting the following new sentence at the end thereof:

"In addition to any other mandatory repayments or commitment reductions pursuant to this Section 4.02, on each date on which Bryant Development makes any capital contribution to the Charles Town Joint Venture following the initial sale or issuance by the Borrower of its equity which results in net cash proceeds to the Borrower of at least \$25,000,000 and in which the Borrower is permitted to retain any portion of such net cash proceeds pursuant to the proviso of the immediately preceding sentence, an amount equal to 100% of each such capital contribution (up to an aggregate amount for all such capital contributions not to exceed the amount of such net cash proceeds permitted to be so retained by the Borrower) shall be applied as a mandatory repayment of principal of outstanding Tranche B Term Loans (and/or, if the Total Tranche B Term Loan Commitment has not yet been terminated, as a mandatory reduction to the Total Tranche B Term Loan Commitment) in accordance with the requirements of Sections 4.02(h) and (i)."

2. On and after the First Amendment Effective Date, Section 4.02(i) of the Credit Agreement shall be amended by inserting the following proviso at the end of the first sentence thereof:

", provided, however, that any amount required to be applied pursuant to the second sentence of Section 4.02(c) shall only be applied to the Tranche B Term Loans and/or the Total Tranche B Term Loan Commitment".

3. Notwithstanding anything to the contrary contained in Sections 6.06 and 6.07(b) of the Credit Agreement, the Banks hereby waive the requirement that the Charles Town Joint Venture shall have obtained a license to conduct video lottery at the Charles Town Race Track from the West Virginia Lottery Commission at the time of the consummation of the Charles Town Acquisition.

4. On and after the First Amendment Effective Date, Section 6.08 of the Credit Agreement shall be amended by inserting the following text immediately following the words "On the Initial Tranche B Term Loan Borrowing Date" appearing therein:

"and except as disclosed on Annex A to the First Amendment, dated as of January 7, 1997, to this Agreement solely with respect to the Charles Town Acquisition".

5. Notwithstanding anything to the contrary contained in Sections 6.09 and 9.12 of the Credit Agreement or in the definition of "Subsidiary Guarantor" appearing in Section 12.01 of the Credit Agreement, the Banks hereby waive the requirement that the Charles Town Joint Venture enter into the Subsidiaries Guaranty or any Security Document at the time of the consummation of the Charles Town Acquisition or at any time thereafter so long as the Charles Town Joint Venture is a non-Wholly-Owned Subsidiary of the Borrower, it being understood and agreed, however, at such time (if any) as the Charles Town Joint Venture becomes a Wholly-Owned Subsidiary of the Borrower the Charles Town Joint Venture shall execute and deliver a counterpart of the Subsidiaries Guaranty, the Security Agreement and the Pledge Agreement and shall take all such other actions, and execute and deliver such Mortgages, Additional Security Documents, opinions, surveys, mortgage policies and financing statements as the Collateral Agent or the Required Banks may reasonably require in connection therewith.

6. Notwithstanding anything to the contrary contained in Section 6.12 of the Credit Agreement, the Banks hereby waive the requirement that Bryant Development be able to (i) provide \$3,300,000 to the Charles Town Joint Venture to fund a like amount of the purchase price for the Charles Town Acquisition or (ii) fund up to \$3,200,000 of the Capital Expenditures permitted under Section 10.08(d) of the Credit Agreement.

7. On and after the First Amendment Effective Date, Section 8.06 of the Credit Agreement shall be amended by inserting the following parenthetical immediately after the word "Document" appearing in clause (i) thereof:

"(except as disclosed on Annex A to the First Amendment, dated as of January 7, 1997, to this Agreement solely with respect to the Charles Town Acquisition)".

8. On and after the First Amendment Effective Date, Section 8.22(b) of the Credit Agreement shall be amended by inserting after the phrase "Charles Town Acquisition" appearing in clause (b) contained therein the following parenthetical.

"(or, with respect to any license to conduct video lottery at the Charles Town Race Track issued by the West Virginia Lottery Commission, at any time after June 1, 1997)".

9. On and after the First Amendment Effective Date, Section 10.01(ix) of the Credit Agreement shall be deleted in its entirety and the following new Section 10.01(ix) shall be inserted in lieu thereof:

"(ix) on or after the consummation of the Charles Town Acquisition, Liens placed upon video lottery terminals used at the Charles Town Race Track (the "Charles Town Video Lottery Terminals") at the time of the acquisition of such video lottery terminals by the Charles Town Joint Venture or within 90 days thereafter to secure Indebtedness incurred to pay all or at least 85% of the purchase price thereof or to secure Indebtedness incurred solely for the purpose of financing the acquisition of any such video lottery terminals or extensions, renewals or replacements of any such video lottery terminals for the same or a lesser amount, provided that (w) the aggregate outstanding principal amount of all Indebtedness secured by Liens permitted by this clause (ix) shall not at any time exceed \$11,000,000, (x) the only recourse in respect of such Indebtedness shall be against the Charles Town Video Lottery Terminals so financed and not against the Charles Town Joint Venture, the Borrower or any other Subsidiary of the Borrower, (y) in all events, the Lien encumbering the Charles Town Video Lottery Terminals so acquired does not encumber any other asset of the Charles Town Joint Venture or any assets of the Borrower or any other Subsidiary of the Borrower and (z) prior to the entering into of any such financing arrangements, the documentation with respect thereto shall have been delivered to the Banks and shall be in form and substance reasonably satisfactory to the Required Banks;"

10. On and after the First Amendment Effective Date, Section 10.02(ii) of the Credit Agreement shall be amended by deleting the first parenthetical appearing therein and inserting the following new parenthetical in lieu thereof:

"(other than the capital stock of any Subsidiary Guarantor, the equity interest in the Charles Town Joint Venture, any Mortgaged Property or the Charles Town Race Track)".

11. On and after the First Amendment Effective Date, Section 10.03(ii) of the Credit Agreement shall be amended by inserting the following proviso at the end thereof, but immediately before the semicolon appearing therein:

" , provided, however, until such time as Bryant Development shall have fully contributed its 20% share of the purchase price for the Charles Town Acquisition and for the Capital Expenditures pursuant to Section 10.08(d), the Charles Town Joint Venture may not pay any Dividends to Bryant Development pursuant to this Section 10.03(ii)".

12. On and after the First Amendment Effective Date, Section 10.04 of the Credit Agreement shall be amended by (i) deleting the period appearing at the end of clause (vii) thereof and inserting ";and" in lieu thereof, (ii) inserting the following new clause (viii) immediately following clause (vii) thereof:

"(viii) a guaranty by the Borrower of the Charles Town Joint Venture's indemnity obligations to Charles Town Races and the Charles Town Racing Limited Partnership in respect of the litigation set forth on Annex A to this First Amendment, dated as of January 7, 1997, to the Agreement."

and (iii) inserting the following new sentence at the end thereof:

"Notwithstanding anything to the contrary contained in this Section 10.04 or in Section 10.01, the only Indebtedness that the Charles Town Joint Venture shall be permitted to incur is under clause (i) above, clause (ii) above (but no refinancings thereof) and clause (v) above (but only in respect of Liens permitted under Section 10.01(ix))."

13. On and after the First Amendment Effective Date, Section 10.05(viii) of the Credit Agreement shall be amended by (i) deleting the word "and" appearing at the end of clause (i) thereof and inserting a comma in lieu thereof and (ii) inserting the following new clause (iii) at the end thereof:

"and (iii) in an amount not to exceed \$6,400,000 to fund its working capital requirements so long as no Default or Event of Default then exists".

14. Notwithstanding anything to the contrary contained in Section 10.05(viii) of the Credit Agreement, in the event that Bryant Development is unable to fund its 20% share of the purchase price for the Charles Town Acquisition and of the Capital Expenditures pursuant to Section 10.08(d) of the Credit Agreement, as the case may be, the Borrower and its Subsidiaries may make cash equity contributions to the Charles Town Joint Venture to fund the total purchase price for the Charles Town Acquisition and to make Capital Expenditures pursuant to Section 10.08(d).

15. Notwithstanding anything to the contrary contained in Section 10.08(d) of the Credit Agreement, the Banks hereby agree that the Charles Town Joint Venture may make Capital Expenditures pursuant to such Section 10.08(d) even if Bryant Development cannot fund its proportionate share of such Capital Expenditures as required under such Section 10.08(d).

16. On and after the First Amendment Effective Date, Section 10.08(e) of the Credit Agreement shall be amended by deleting the words "the Borrower or any of its Subsidiaries, the Borrower and its Subsidiaries" appearing therein and inserting the words "the Charles Town Joint Venture, the Charles Town Joint Venture" in lieu thereof.

17. On and after the First Amendment Effective Date, Section 11 of the Credit Agreement shall be amended by (i) inserting the word "or" at the end of Section 11.13 and (ii) inserting the following Section 11.14 immediately after such Section 11.13:

"11.14 Video Lottery Licenses. The Borrower or one of its Subsidiaries does not obtain a license from the West Virginia Lottery Commission to operate at least 400 video lottery terminals at the Charles Town Race Track by June 1, 1997".

18. On and after the First Amendment Effective Date, the definition of "Applicable Equity Insurance Percentage" appearing in Section 12.01 of the Credit Agreement shall be amended by inserting the phrase "plus the Total Tranche B Term Loan Commitment" immediately after the phrase "Term Loans" each place such phrase appears in said definition.

19. From and after the consummation of the Charles Town Acquisition, the term "Collateral" in the Security Agreement and in the Pledge Agreement shall include all of Penn National Gaming of West Virginia, Inc.'s right, title and interest in and to (i) the equity interest of the Charles Town Joint Venture, (ii) the Amended and Restated Operating Agreement, dated as of December 31, 1996, by and among the Charles Town Joint Venture, Penn National Gaming of West Virginia, Inc. and Bryant Development (as in effect from time to time), including, but not limited to, all rights to receive distributions and other payments thereunder and all voting and other consensual rights with respect thereto and (iii) all proceeds and products of the foregoing.

II. Miscellaneous Provisions

20. This Amendment shall become effective on the date (the "First Amendment Effective Date") when each of the following conditions all have been satisfied:

20.0.0.1. the Borrower and the Required Banks shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of facsimile transmission) the same to the Agent at its Notice Office; and

20.0.0.2. the Joint Venture Agreement for the Charles Town Joint Venture shall have been amended substantially in the form of Exhibit A hereto, with such changes thereto as may be satisfactory to the Agent.

21. In order to induce the Banks to enter into this Amendment, the Borrower hereby represents and warrants that:

21.0.0.1. no Default or Event of Default exists on the First Amendment Effective Date, both before and after giving effect to this Amendment; and

21.0.0.2. on the First Amendment Effective Date, both before and after giving effect to this Amendment, all representations and warranties contained in the Credit Agreement and in the other Credit Documents are true and correct in all material respects as though such representations and warranties were made on the First Amendment Effective Date.

22. This Amendment may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts when executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A complete set of counterparts shall be delivered to the Borrower and the Agent.

23. THIS AMENDMENT AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE STATE OF NEW YORK.

24. From and after the First Amendment Effective Date, all references in the Credit Agreement and each of the other Credit Documents to the Credit Agreement shall be deemed to be references to the Credit Agreement as modified hereby.

25. This Amendment is limited as specified and shall not constitute a modification, acceptance or waiver of any other provision of the Credit Agreement or any other Credit Document (including, but not limited to, a waiver or modification of any other condition precedent to the incurrence of Tranche B Term Loans or to the consummation of the Charles Town Acquisition).

* * *

IN WITNESS WHEREOF, each of the parties hereto has caused a counterpart of this Amendment to be duly executed and delivered as of the date first above written.

PENN NATIONAL GAMING, INC.

By /s/ William J Bork

Title:President

BANKERS TRUST COMPANY,

Individually and as Agent

By /s/ Timothy J. Morris

Title: Vice-President

CORESTATES BANK, N.A.,

Individually and as Co-Agent

By /s/ Jeff Wasmuth

Title: Vice President

SUMMIT BANK

By /s/ Donald McCarty

Title: Regional Vice-President

SUMITOMO BANK, LIMITED

By /s/ Wade Bell

Title: Vice-President

By /s/ Micheal J. Fox

Title: Vice-President & Manager