

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): June 12, 1996

Penn National Gaming, Inc.

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

Pennsylvania 23-2234473

Penn National Gaming, Inc.
825 Berkshire Blvd.
Wyomissing, PA 19610
610-373-2400

Item 5. Other Events

General

Effective June 4, 1996, PNGI Charles Town Gaming Limited Liability Company ("Gaming") entered into a Cooperation Agreement between and among Gaming, Charles Town Racing Limited Partnership ("Partnership") and Charles Town Races, Inc. ("Races", and together with Partnership, "Charles Town"). The Cooperation Agreement was originally dated April 30, 1996, and was delivered and became effective on June 4, 1996. Penn National Gaming of West Virginia, Inc., an indirect wholly-owned subsidiary of Penn National Gaming, Inc. is the Managing Member and has an 80% membership interest in Gaming. Races is a wholly-owned subsidiary of Partnership.

Gaming also entered into a Loan and Security Agreement with Races (the "Loan Agreement"), evidenced by a Promissory Note in the original principal amount of \$1,250,000 (the "Note"), a Security Agreement with Partnership (the "Security Agreement"), a Stock Pledge Agreement with Partnership (the "Pledge Agreement"), and a Limited Recourse Guaranty Agreement with Partnership (the "Guaranty Agreement" and together with the Loan Agreement, the Security Agreement and the Pledge Agreement, the "Loan Documents"), all of which were dated May 8, 1996, and were delivered and became effective June 4, 1996.

Races' obligations under the Loan Agreement and Partnership's obligations under the Guaranty Agreement are further secured by a Credit Line Deed of Trust (the "Mortgage") relating to Partnership's fee ownership interest in approximately 250 acres of land at which Races operates a thoroughbred racing track (the "Property"), and by Races' leasehold interest in the Property. One Valley Bank, Inc., Charles Town's primary lender, has a prior mortgage on the Property.

The Cooperation Agreement

The Cooperation Agreement provides for a payment by Gaming of \$250,000, to extend from March 31, 1996 to December 31, 1996, the option held by Gaming to acquire from Charles Town, for a purchase price of \$18,000,000 (the "Purchase Price"), the Property and the other assets related to the operation of the thoroughbred racing and simulcast wagering activities conducted by Races at the Property (the "Option"). The Cooperation Agreement also amends the Option, to reduce the Purchase Price for amounts borrowed by Races under the Loan Agreement.

The Cooperation Agreement, among other things, also provides that Gaming shall, at its own cost, use its best efforts to cause a referendum to permit video lottery games in Jefferson County, West Virginia (the "Referendum") to be placed on the ballot for the election voting to be held on November 5, 1996, and to be passed in such voting, and provides for Gaming to assume certain

liabilities of Charles Town upon the closing of the purchase transaction contemplated by the Option (if it is exercised).

The Loan Documents

The Loan Agreement provides for Gaming to provide Races with a line of credit in the maximum amount of \$1,250,000 (the "Loan"), with interest accruing on the outstanding balance at the Wall Street Journal listed Prime Rate plus 1 1/2%. All amounts borrowed or accrued under the Loan are due November 6, 1996 if the Referendum does not pass, December 31, 1996 if the Referendum passes, or upon the closing of the purchase transaction contemplated by the Option (if it is exercised). Under the Loan Agreement, Races grants to Gaming a security interest in and lien on all assets of Races. One Valley Bank, Inc. has a prior security interest in such assets. The Loan is evidenced by the Note.

Pursuant to the Guaranty Agreement, Partnership guarantees the obligations of Races under the Loan Agreement (the "Limited Guaranty"). As security for the Guaranty, Partnership entered into the Security Agreement, pursuant to which it granted Gaming a lien on and security interest in all of the assets of Partnership. One Valley Bank, Inc. has a prior security interest in such assets. As further security for the Guaranty, Partnership entered into the Stock Pledge Agreement, pursuant to which Partnership pledged all of the stock of Races to Gaming. Partnership and Races further secured their respective obligations under the various Loan Documents by granting to Gaming the Mortgage. Partnership's Guaranty is limited in recourse to its assets, the Races Stock and the Mortgage, and is not recourse to the partners of Partnership.

Item 7. Financial Statements and Exhibits

Exhibit 5.1 Cooperation agreement dated April 30, 1996 between the Company and Charles Town Races, Inc. and Charles Town Racing Limited Partnership

Exhibit 5.2 Loan and Security agreement dated May 8, 1996 between the Company and Charles Town Races, Inc.

Exhibit 5.3 Security agreement dated May 8, 1996 between the Company and Charles Town Racing Limited Partnership.

Exhibit 5.4 Stock Pledge agreement dated May 8, 1996 between the Company and Charles Town Racing Limited Partnership.

Exhibit 5.5 Limited Recourse Guaranty agreement dated May 8, 1996 between the Company and Charles Town Racing Limited Partnership.

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: _____
Robert S. Ippolito Secretary

Date: June 12, 1996

COOPERATION AGREEMENT

This Cooperation Agreement (this "Agreement") is dated this 30th day of April, 1996, by and among Charles Town Races, Inc., a West Virginia corporation (the "Corporation"), Charles Town Racing Limited Partnership, a West Virginia limited partnership (the "Partnership"), and PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company ("PNGI").

BACKGROUND

The Partnership owns that certain parcel of land including Charles Town Race Track and Shenandoah Downs and approximately 250 acres thereat (the "Premises"), and a right of first refusal with respect to an additional approximately 250 acres of land adjoining or adjacent to the Premises (the "Additional Property").

The Partnership leases the Premises to the Corporation and the Corporation conducts thoroughbred racing and simulcast wagering and related activities at the Premises (the "Business").

On or about February 17, 1995, the Corporation and the Partnership (which are sometimes hereinafter collectively referred to as the "Optionors") granted to a third party an option (the "Option") to acquire: the Premises, the right of first refusal to purchase the Additional Property, and all of the other assets, rights and privileges of the Optionors in connection with the operation of the Business. The Option was subsequently assigned to Bryant Development Company ("BDC"), and BDC has assigned the Option to PNGI. PNGI is the registered holder of the Option.

The Business has not been operating at a profit, a referendum to permit video lottery games to be operated at the Premises was previously defeated, and the Business is in danger of failing. Optionors desire that PNGI extend credit to the Corporation, and incur certain costs relating to a new video lottery games referendum.

PNGI has substantial experience and expertise in operating and managing thoroughbred racing and simulcast wagering activities and the facilities at which such activities are conducted.

PNGI has agreed to establish a line of credit in the amount of up to \$1,250,000 for working capital for the Corporation pursuant to a certain Loan and Security Agreement of even date herewith (the "Line of Credit"). PNGI has further

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agreed to assist the Corporation in supporting, and to incur costs related to, a new referendum to permit video lottery games to be operated at the Premises.

The Corporation, the Partnership and PNGI desire to amend certain provisions of the Option and to make certain other arrangements regarding their relationships, all as set forth in and subject to the terms and provisions of this Agreement.

NOW, THEREFORE, in consideration of the above premises, and for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound hereby, the parties hereto agree as follows:

1. Extension of the Option. Optionors acknowledge and agree that (a) PNGI is the registered holder of the Option; and (b) that PNGI has on or before the date hereof made a payment to Optionors aggregating \$250,000, to extend the Option from March 31, 1996 until December 31, 1996 (the "Extension Date").

2. Amendments to the Option. Optionors agree that the Option shall be and hereby is amended as follows:

(a) the purchase price set forth in Section 1 of the Option shall be reduced as follows:

(i) by \$1.60 for each \$1 which Corporation borrows under the Line of Credit (it being understood that only the receipt of funds by Corporation upon its request under the Line of Credit, and not the mere

execution of the Line of Credit, will reduce the purchase price, and it being further understood that the reduction in the purchase price shall not in any manner affect Corporation's obligation to repay all such indebtedness); and

(ii) by \$1 for each \$1 of the net amount of the purchase price (i.e. gross amount less a 10% real estate commission and other reasonable and customary closing costs) for that certain parcel of land constituting a portion of the Premises and currently under an Agreement of Sale between Corporation and Sheetz, Inc., but only if such sale is consummated prior to the closing of the sale transaction contemplated by the Option (the "Closing").

(b) if 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), the Option shall remain outstanding and exercisable at any time during which the Line of Credit is outstanding, whether by extension, default or otherwise, notwithstanding anything to the contrary contained or implied in this Agreement or the Option or in any other agreement between or among the parties hereto;

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(c) Corporation (and not PNGI) shall be and remain liable for the full repayment of the \$750,000 loan made by AmTote International, Inc. to Corporation as provided in paragraph 7 of that certain "Agreement" dated October 20, 1994 between Corporation and AmTote International, Inc., and Corporation shall repay such loan upon the Closing.;

(d) that upon the Closing, PNGI shall assume that certain indebtedness of Corporation to One Valley Bank, Inc. in the original principal amount of \$350,000 and which has an approximate current outstanding principal balance of \$167,000, incurred by Optionors for capital improvements to the Premises, and which indebtedness is secured by a Credit Line Deed of Trust made by Optionors dated November 28, 1990 and recorded in the office of the Clerk of the County Commission of Jefferson County, West Virginia in deed book 671 at page 545. It is understood that this loan is being repaid through refunds from a portion of the handle of the Business, as provided by West Virginia Law, and Optionors agree to continue making such repayments until the Closing, after which time PNGI shall assume responsibility for repayment of such indebtedness (whether or not the refunds from a portion of the handle are sufficient to fully repay the indebtedness);

(e) Optionors acknowledge and agree that Optionors shall be liable for all (and PNGI shall not be liable for any) costs incurred by any party in connection with the settlement of that certain litigation between the Optionors and WVA 340 Limited Partnership, Civil Action No. 95-C-121 in the circuit court of Jefferson County, West Virginia, relating to the use of certain pipes for storm water run-off, as previously disclosed to PNGI;

(f) PNGI agrees that if 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), PNGI shall release its collateral granted to secure repayment of the Line of Credit and waive or release its rights under the Option with respect to such collateral as necessary to permit sales of such collateral to bona fide purchasers, where the proceeds of such sale are paid to One Valley Bank, Inc.

3. Referendum; Costs of Referendum.

(a) The parties acknowledge that to permit video lottery games to be operated at the Premises, a referendum on the question of permitting video lottery games in Jefferson County, West Virginia (the "Referendum") must be placed on the ballot in

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connection with the general election voting to be held in Jefferson County on November 5, 1996, and approved by such voters in connection with such election voting.

(b) PNGI hereby agrees to use its best efforts to cause the Referendum to be included on the ballot in connection with the November 5, 1996 election voting, and to use its best efforts to support the Referendum and to cause the Referendum to be approved by the voters of Jefferson County in such voting. All costs associated with the foregoing shall be borne by PNGI (the "Referendum Costs").

4. Video Lottery Legislation. The parties agree that from the date hereof until June 30, 1997, each shall cooperate with each other and with the other participants in the West Virginia thoroughbred racing and simulcast wagering industry to cause Chapter 29, Article 22 of the West Virginia Code (relating to video lottery gaming) to be extended for a period of not less than five years, it being understood that Optionors shall not be required to incur any costs in connection with the foregoing, and it being further understood that this provision shall not in any manner be deemed to extend the Option until June 30, 1997 or any other time, or otherwise affect the Option or the Line of Credit.

5. Limited Partnership Agreement. The Partnership and the Corporation hereby represent and warrant to PNGI that the copy of the limited partnership agreement of the Partnership previously delivered to PNGI (the "Partnership Agreement") is true, correct and complete.

6. Partnership Actions. The Partnership shall not take any action or fail to take any action the result of which may be to impede the Corporation from performing all of the Corporation's obligations under this Agreement; provided however, the foregoing shall not in any manner obligate any partner of the Partnership individually, it being the intent of the parties hereto that all obligations of the Partnership be subject only to Partnership assets and not the assets of the individual partners of the Partnership.

7. Representations and Warranties. (a) Optionors represent and warrant to PNGI that each Optionor is properly organized and in good standing in the State of West Virginia, and that each 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. (b) PNGI represents and warrants to each Optionor that PNGI is properly organized and in good standing in the State of West Virginia, and has the full authority to enter into and perform this Agreement and the transactions contemplated hereby.

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8. Miscellaneous.

(a) 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.

(b) Entire Agreement. This Agreement constitutes the entire agreement among the parties hereto and supersedes any prior understandings, agreements, or representations by or among such parties, written or oral, that may have related in any way to the subject matter hereof, but shall only amend the Option in the manner set forth in Section 2 hereof.

(c) Succession and Assignment. This Agreement shall be binding upon and inure to the benefit of the parties named herein and their respective successors and permitted assigns. No party may assign either this Agreement or any of its rights, interests, or obligations hereunder without the prior written approval of the other parties hereto, except that PNGI may assign its rights hereunder to an affiliate of PNGI.

(d) Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original but all of which together will constitute one and the same instrument.

(e) Headings. The paragraph and section headings contained in this Agreement are inserted for convenience only and shall not affect in any way the meaning or interpretation of this Agreement or give full notice thereof.

(f) Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given if (and then three business days after) it is sent by registered or certified mail, return receipt requested, postage prepaid, or (and then one day after) it is sent by overnight courier, and addressed to the intended recipient as set forth below:

If to Partnership or Corporation:

D. Keith Wagner, President
Charles Town Races, Inc.
Charles Town Racetrack
U.S. Route 340
Charles Town, West Virginia 25414

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Copy to:

Michael B. Keller, Esq.
Bowles Rice McDavid Graff & Love
105 West Burke Street
Post Officer Drawer 1419
Martinsburg, West Virginia 25401-1419

If to PNGI:

c/o Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 203
Wyomissing, PA 19610
attention: Peter M. Carlino, Chairman

Copies to:

Robert P. Krauss, Esq.
Mesirov Gelman Jaffe & Cramer
1735 Market Street
Philadelphia, PA 19103-7598

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

Any party hereto may give any notice, request, demand, claim, or other communication hereunder using any other means (including personal delivery, expedited courier, messenger service, telecopy, telex, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the party for whom it is intended. Any party hereto may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other parties hereto notice in the manner herein set forth.

(g) Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the State of West Virginia.

(h) Amendments and Waivers. No amendment of any provision of this Agreement shall be valid unless the same shall be in writing and signed by the party sought to be bound thereby. No waiver by any party of any default, misrepresentation, or breach of warranty or covenant hereunder, whether intentional or not, shall be deemed to extend to any prior or subsequent default, misrepresentation, or breach of warranty or covenant

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hereunder or affect in any way any rights arising by virtue of any prior or subsequent such occurrence.

IN WITNESS WHEREOF, this Agreement has been executed by the parties on the date first written above.

CHARLES TOWN RACES, INC.

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

CHARLES TOWN RACING
LIMITED PARTNERSHIP

By: D.K.W. Inc., general partner
and attorney-in-fact for all
general partners of the Partnership

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

PNGI CHARLES TOWN GAMING LIMITED
LIABILITY COMPANY, by Penn National
Gaming of West Virginia, Inc., its
Managing Member

BY: /s/ William Bork 6/4/96
William Bork, President

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LOAN AND SECURITY AGREEMENT

BETWEEN

CHARLES TOWN RACES, INC.

AND

PNGI CHARLES TOWN GAMING
LIMITED LIABILITY COMPANY

DATED MAY 8, 1996

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LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this "Loan Agreement") is made and effective as of the day of May, 1996, between Charles Town Races, Inc., a West Virginia corporation ("Borrower"), and PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company ("Lender").

BACKGROUND

Borrower is engaged in the business of conducting thoroughbred racing and simulcast wagering and related activities at the Premises (the "Business"). Borrower is a wholly-owned subsidiary of the Partnership.

Lender has agreed to make available to Borrower a working capital line of credit of up to \$1,250,000 (i.e., the "Line"), upon and subject to the terms and provisions hereof. Borrower has secured its obligations hereunder by granting to Lender a security interest in and lien on All Assets of Borrower, and granting to Lender the Mortgage.

To induce Lender to enter into this Loan and Security Agreement and to make Advances to Borrower under the Line, the Partnership has agreed to guaranty Borrower's obligations hereunder pursuant to the Guaranty, and to secure the Partnership's obligations under the Guaranty pursuant to the Security Agreement, the Pledge, and the Mortgage, all of even date herewith.

Borrower, Lender and Partnership have also agreed to enter into certain other agreements and make certain other arrangements, relating among other things to an option of Lender to acquire the Premises and the Business, as set forth in a separate agreement also of even date herewith (the "Cooperation Agreement").

NOW, THEREFORE, in consideration of the mutual covenants set forth herein, the parties hereto, intending to be legally bound hereby, agree as follows:

SECTION 1. DEFINITIONS, CERTAIN RULES OF CONSTRUCTION

1.1 Defined Terms. Each initially capitalized term used herein shall have the meaning set forth below in this Paragraph 1.1 or as otherwise set forth herein for the purposes hereof and for each of the Loan Documents:

"Advance" means any extension of credit by Lender to Borrower under the Line.

"Affiliate" means and refers to, as applied to any Person, any other Person directly or indirectly controlling, or through one or more Persons controlled by, controlling or under common control with that Person. "Control" (including with correlative meanings, the terms "controlling," "controlled by" and "under common control with"), as applied to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of that Person, whether through the ownership of voting securities, by contract, or otherwise.

"All Assets" means all assets, rights, interests, properties, and privileges of a Person including, but not limited to, leasehold interests, real property, accounts, accounts and notes receivable, inventory, furniture, fixtures, chattel paper, letters of credit, instruments, documents, supplies, machinery, equipment, customer lists, licenses, general intangibles, money, securities, contract rights and rights under other agreements and any other tangible or intangible personal property of such Person. All Assets of Borrower shall not include, however, any Licenses issued to Borrower by the West Virginia Racing Commission if the hypothecation of such licenses is prohibited by such Commission or would void such License.

"Bankruptcy Code" means Title 11 of the United States Code as now or hereafter in effect, or any successor statute.

"Business Day" means any day other than a Saturday, Sunday or day on which banking institutions in West Virginia are authorized by law or regulation to close.

"CERCLA" means the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended from time to time.

"Closing" and "Closing Date" mean the date on which this Loan Agreement is fully executed.

"Code" means the Internal Revenue Code of 1986, as amended from time to time, and any successor code or statute.

"Collateral" means the collateral of Borrower as defined in Section 3 of this Loan Agreement.

"Designated Officer" means Peter M. Carlino, Chairman of PNGI/West Virginia, or any other person designated in writing by such Designated Officer as Lender's representative for the purpose of receiving notice under this Loan Agreement.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"Financing Statements" means any and all financing statements, amendments or continuation statements required or appropriate to perfect and keep perfected any security interest created hereby or under any Loan Document pursuant to the Uniform Commercial Code as adopted in any state having jurisdiction over the Collateral.

"Fiscal Year" means the fiscal year of Borrower, which ends on December 31 of each year.

"Funding Date" means the Business Day on which an Advance is funded.

"GAAP" means generally accepted accounting principles as set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board as in effect on the date hereof or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination and which are applied on a consistent basis.

"Guaranty" means that certain Limited Recourse Guaranty Agreement dated the date of this Loan Agreement between Lender and Partnership.

"Indebtedness" means all amounts due from Borrower to Lender pursuant to Paragraph 1.4, Section 2 and Paragraph 3.1.4 hereof or otherwise arising out of or in connection with this Loan Agreement, or any other Loan Document, and all other indebtedness of Borrower to Lender whether now existing or hereafter incurred.

"Interest Expense" means all payments by Borrower with respect to interest on the Indebtedness or any other obligation of Borrower on which interest is paid.

"Lender's Costs" means all reasonable costs and expenses of any kind (including attorney's and other professionals' fees) paid or incurred by Lender in connection with the preservation, enforcement, defense and protection of Lender's rights, remedies, obligations and liabilities in any manner concerning this Loan Agreement, the Collateral or any other Loan Document, any transaction contemplated herein or any existing or future related agreements.

"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.

"Line" means the aggregate credit facility under which Borrower may request Advances, subject to the provisions of this Loan Agreement, up to the Maximum Available Credit.

"Loan Agreement" means this Loan and Security Agreement, and any schedules, exhibits, riders, extensions, supplements, amendments and modifications to or restatements of this Loan and Security Agreement.

"Loan Documents" means this Loan Agreement, the Note, the Guaranty, the Security Agreement, the Pledge, the Mortgage, and any other instrument or document executed in connection herewith or therewith, or which evidences or secures any extension of credit to Borrower.

"Materially Adverse Change or Effect" means, the loss by any obligor of any right, privilege, license or agreement necessary for or the occurrence of any other event which would make impractical, the continued operation of the Business substantially as currently conducted, the loss of which is material and adverse, as determined by Lender in its reasonable discretion.

"Maximum Available Credit" means One Million Two Hundred and Fifty Thousand (\$1,250,000) Dollars of principal outstanding at any time. Capitalized interest shall not be considered as principal for purposes of determining the Maximum Available Credit.

"Mortgage" means that certain Mortgage dated the date of this Loan Agreement granted by the Partnership and Borrower to Lender with respect to the Partnership's fee interest in the Premises and with respect to Borrower's leasehold interest in the Premises.

"Note" means the promissory note of Borrower in favor of Lender to evidence Borrower's repayment obligations under this Loan Agreement with respect to the Line.

"Obligors" means Borrower and Partnership.

"Obligations" means the Indebtedness and all covenants and agreements of Borrower contained herein or entered into in connection herewith.

"Partnership" means Charles Town Racing Limited Partnership, a West Virginia limited partnership of which Borrower is a wholly-owned subsidiary.

"Permitted Liens" means the items set forth on Schedule B - Section 2 of that certain Commitment for Title Insurance of Lawyers Title Insurance Company dated effective March 22, 1996.

"Person" means an individual, corporation, partnership, joint venture, trust or unincorporated organization, or a government or any agency or political subdivision thereof.

"Pledge" means that certain Pledge Agreement dated the date of this Loan Agreement between Lender and Partnership.

"PNGI/West Virginia" means Penn National Gaming of West Virginia, Inc., a West Virginia corporation, and the Managing

Member of Lender.

"Premises" means the approximately 250 acre property on which the Charles Town Racetrack and Shenandoah Downs are located and on which the Business is conducted, and which is owned by Partnership and leased to Borrower.

"Prime Rate" means the prime rate of interest set forth in the Money Rates section of the New York edition of the Wall Street Journal, rounded up to the nearest one-eighth, or if not published, then the prime rate of interest of One Valley Bank, Inc.

"Restricted Payment" means any distribution or payment to any shareholder or Affiliate of Borrower and any redemption of any securities issued by Borrower, but not including arms-length transactions between Borrower and an Affiliate or any distributions to shareholders for the purpose of paying taxes on the income of Borrower.

"Security Agreement" means that certain Security Agreement dated the date of this Loan Agreement between Lender and Partnership.

"Termination Date" means, (a) if the Referendum (as defined in the Cooperation Agreement) passes (i) December 31, 1996 if Lender has not exercised the Option (as defined in the Cooperation Agreement) or (ii) the closing date with respect to the purchase and sale transaction contemplated by the Option if Lender has exercised the Option, or, (b) November 6, 1996 if the Referendum does not pass, or (c) as Borrower and Lender may mutually determine in writing, from time to time.

"Unmatured Event of Default" means and refers to any event, act or occurrence which with the passage of time or giving of notice or both would become an Event of Default.

1.2 Accounting Reports and Principles. The character or amount of any asset, liability, account or reserve and of any item of income or expense to be determined, and any consolidation or other accounting computation to be made, and the construction of any definition containing a financial term, including but not limited to capitalized terms not otherwise defined herein, pursuant to this Loan Agreement or any other Loan Document, shall be construed, determined or made, as the case may be, in accordance with GAAP, consistently applied, unless such principles are inconsistent with any express provision of this Loan Agreement.

1.3 Business Day. Whenever any payment or other obligation hereunder, whether under the Note or under another Loan Document, is due on a day other than a Business Day, such shall be paid or performed on the Business Day next following the prescribed due date, except as otherwise specifically provided for herein to the contrary, and such extension of time shall be included in the computation of interest and charges. Any reference made herein or in any other Loan Document to an hour of day shall refer to the then prevailing time in Charles Town, West Virginia, unless specifically provided herein to the contrary.

1.4 Lender's Costs. Borrower shall, upon the request of Lender, pay Lender the amount of all unpaid Lender's Costs within thirty days after such notice. Until paid, all past due and owing interest payments, fees and all past due Lender's Costs shall be deemed to be part of the principal balance of the Line, shall bear interest at the rate applicable to a then outstanding Advance, and shall be secured by the Collateral.

SECTION 2. COMMERCIAL LINE OF CREDIT

2.1 Commercial Line of Credit Facility Established. Provided that no Event of Default or Unmatured Event of Default has occurred and is continuing, and subject to the terms and conditions set forth herein, commencing on the Closing Date and expiring on the Termination Date, Lender shall, upon Lender's approval of Borrower's Funding Request from time to time, extend one or more Advances, the aggregate of which outstanding at any time shall not exceed the Maximum Available Credit, to Borrower for Borrower's working capital needs.

2.2 Line Interest Rate. Advances shall bear interest on the unpaid principal balance outstanding at any time from the Funding Date of each such advance to maturity (or repayment) at the floating interest rate of one and one-half percent (1.5%) per annum in excess of the Prime Rate (the "Line Interest Rate"). The Line Interest Rate shall be changed automatically on and as of the effective date of each change in the Prime Rate. Interest shall be calculated on the basis of a 360-day year, but charged for the actual number of days elapsed.

2.3 Funding Requests.

2.3.1 Form of Funding Requests. Borrower may request one or more Advances by submitting to Lender a completed and executed Funding Request ("Funding Request") in the form attached hereto as Schedule 2.3 no later than 11:00 A.M. five (5) days prior to the proposed Funding Date. Each Funding Request shall specify (i) the proposed Funding Date (which shall be a Business Day), (ii) the amount of the proposed Advance, (iii) a detailed description of Borrower's proposed use of the Advance, and (iv) such other matters as Lender may request. The minimum amount of any such Advance shall be \$10,000 with the amount of all such Advances to be in integral multiples of \$10,000. Subject to the provisions of Section 2 hereof and Lender's approval of the Funding Request, Lender shall extend the Advance requested on the proposed Funding Date in accordance with such Borrower's Funding Requests.

2.3.2 Approval of Funding Requests. Lender agrees that it shall approve the Advance set forth in a Funding Request if the Advance requested thereby is to be used to pay necessary and reasonable operating expenses of the Business. Lender shall not be required to, but in its sole and absolute discretion may, advance funds to be used by Borrower to pay taxes (whether or not delinquent) or to pay indebtedness or obligations guaranteed by any Obligor (or shareholder or partner of any Obligor) or as to which any Obligor (or shareholder or partner of any Obligor) has provided the creditor with security, and each Funding Request shall state whether the requested Advance will be used in whole or in part for any such purposes. No third party is intended to be a beneficiary of this provision (or of any other provision of this Loan Agreement).

2.4 Maximum Available Credit. The aggregate amount of principal which Borrower may have outstanding under the Line at any time shall not exceed the Maximum Available Credit. Borrower agrees to immediately repay, without notice or demand, any principal balance of the Line in excess of the Maximum Available Credit.

2.5 Principal and Interest Payments.

2.5.1 Payment Terms. Until the Indebtedness is due, on the Termination Date or earlier as provided herein or in the Note, interest shall accrue on the principal balance outstanding under the Line from time to time. Anything to the contrary herein notwithstanding, all unpaid principal of the Line and all interest accrued thereon shall be paid in full by Borrower not later than the Termination Date (or earlier as provided herein or in the Note). Prior to the Termination Date, accrued interest shall be calculated monthly and capitalized, and constitute additional outstanding principal, provided however, such capitalized interest shall not be considered as principal for purposes of determining the Maximum Available Credit.

2.5.2 Late Charges. Borrower shall pay Lender a late charge of five percent (5%) of any payment of principal or interest which is more than fifteen (15) days overdue, provided however, late charges shall apply only as to payments of principal or interest due on or after November 6, 1996, and then only if the Referendum does not pass.

2.6 Default Rate of Interest. Any principal payments on the Line not paid when due and, to the extent permitted by applicable law, any interest payment on the Line not paid when due, and any other amount due to Lender under this Loan Agreement or any other Loan Document not paid when due, in any case whether at stated maturity, by notice of prepayment, by acceleration or otherwise, shall thereafter bear interest payable upon demand at a rate which is three percent (3%) per annum in excess of the applicable Line Interest Rate, provided however, the default rate of interest shall apply only as to payments of principal or interest due on or after November 6, 1996, and then only if the Referendum does not pass.

2.7 Renewal. Lender may, in its sole discretion, renew the Line for such periods as shall be agreed upon by Borrower and Lender. Neither Lender nor Borrower is obligated to renew the Line.

2.8 Prepayment. Borrower may prepay the Indebtedness, in whole at any time or in part from time to time, without penalty.

2.9 Release of Collateral.

2.9.1 Upon Repayment and Termination. Upon the repayment in full of all Obligations hereunder (or if Borrower has not at any time borrowed any funds hereunder), Borrower may terminate the Line by providing notice thereof to Lender. Upon such termination, Lender shall take (at Borrower's cost) any and

all actions reasonably requested by Borrower which may be required to release the Collateral. In addition, Lender agrees that if the 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), Lender shall release the Collateral with respect to such Collateral as necessary to permit sales (up to the amount currently owed to One Valley Bank, Inc.) of such Collateral to bona fide purchasers, where the proceeds of such sales are paid to One Valley Bank, Inc. or to Lender.

2.9.2 Upon Liquidation. If, during the term of this Loan Agreement, Borrower shall propose to liquidate any portion of the Collateral, and provided that all of the proceeds of such liquidation are used towards repayment of the existing indebtedness of Borrower to One Valley Bank, Inc., Lender shall release such portion of the Collateral to be so liquidated, with the cash proceeds thereof to be repaid to One Valley Bank Inc. Lender shall also release any such portion of the Collateral to be so liquidated, if the cash proceeds thereof are to be repaid to Lender.

SECTION 3. SECURITY

3.1 Collateral Generally.

3.1.1 Security Interest in All Assets. As security for the prompt payment, performance and discharge of all of the Indebtedness and the Obligations, Borrower hereby grants to Lender a security interest in and lien on All Assets of Borrower now owned or hereafter acquired, whether or not earned by performance, all books and records pertaining thereto (including without limitation all manual and computer records, runs, printouts, disks, software and other computer-prepared information of every kind), including all policies of insurance thereon and all insurance proceeds in connection therewith, together with all cash and non-cash proceeds and products thereof, and a mortgage on Borrower's leasehold interest in the Premises (pursuant to the Mortgage) (the foregoing, collectively the "Collateral").

3.1.2 Financing Statements and Other Documents. Borrower agrees to execute and deliver to Lender any and all Financing Statements and other documents and instruments reasonably requested by Lender to perfect or keep perfected any security interest created under this Loan Agreement or under any Loan Document under the Uniform Commercial Code as adopted in any state having jurisdiction over the Collateral, and any such additional security agreements, financing statements, continuation statements or termination statements and other security instruments creating a lien upon All Assets of Borrower as Lender may reasonably require in connection with the security interests created by this Loan Agreement. Borrower hereby appoints Lender as Borrower's attorney-in-fact to execute and file in Borrower's name all documents and instruments which Lender may deem necessary or appropriate to perfect and continue perfected the security interest in the Collateral created by this Loan Agreement including the Borrower Mortgage.

3.1.3 Mortgage. Borrower agrees to execute and convey and deliver to Lender a mortgage on Borrower's leasehold interest in the Premises (i.e., the Mortgage). The Mortgage shall be a continuing lien on Borrower's leasehold interest in the Premises, free and clear of all prior liens except for Permitted Liens and title exceptions approved in writing by Lender, and shall be insured at Borrower's expense by Lawyer's Title Insurance Company or another title insurance company satisfactory to Lender.

3.1.4 Maintenance of Collateral. If Borrower fails to do so, Lender may, at its option, pay and discharge taxes, liens, security interests and other encumbrances pertaining to the Collateral (except Permitted Liens), and may pay for the maintenance and preservation of the Collateral to prevent a material deterioration from its present condition and for insurance thereon in order to keep the Collateral in salable condition. Borrower agrees to reimburse Lender, within three Business Days after notice thereof from Lender to Borrower, for any payment so made.

3.2 Security Agreement. Borrower and Lender hereby acknowledge and agree that the provisions of this Loan Agreement are intended to constitute a security agreement under the Uniform Commercial Code as enacted in each jurisdiction in which Collateral is located.

SECTION 4. CONDITIONS PRECEDENT

The performance by Lender of its obligations hereunder are subject to the following conditions precedent:

4.1 Initial Advance. Borrower shall deliver or cause to be delivered to Lender (except as otherwise indicated herein), in form and substance satisfactory to Lender and its counsel, in addition to this Loan Agreement, the following documents and instruments and the following conditions shall have been satisfied:

4.1.1 The Note and the Mortgage, duly executed by Borrower;

4.1.2 The Guaranty, the Security Agreement, the Pledge, and the Mortgage each duly executed by Partnership;

4.1.3 The execution and delivery by Borrower and Partnership of the Cooperation Agreement;

4.1.4 Receipt of a Certified Written Lien Search from the Secretary of State of the State of West Virginia, the cost of which is borne by Borrower, evidencing that the UCC-1 Financing Statements executed and delivered in accordance with this Loan Agreement will evidence a security interest in and lien on the Collateral superior in right of preference to all other encumbrances of any nature other than Permitted Liens in favor of One Valley Bank, Inc.;

4.1.5 Such Financing Statements and other evidence of Lender's security interest in the Collateral as may be reasonably requested by Lender;

4.1.6 The opinion of Borrower's and the Partnership's counsel in form and substance satisfactory to Lender, related to the authority of Obligor to enter into and perform the Loan Documents, the valid, binding and enforceable nature of the Loan Documents as to Obligor, the non-contravention of the Loan Documents with other agreements of the Obligor, and the receipt of all necessary consents and approvals by Obligor in connection with the execution, delivery and performance of the Loan Documents;

4.1.7 A corporate and partnership status search of Borrower and Partnership performed by a company designated by Lender, evidencing that Borrower and Partnership are each in good standing in their state of incorporation or partnership and qualified to do business in each jurisdiction in which such qualification is required;

4.1.8 Incumbency Certificate of the officers of Borrower authorized to execute and deliver the Loan Documents to which Borrower is a party;

4.1.9 Such landlord's or other waivers as Lender shall reasonably require; and

4.1.10 Such additional documents or instruments as may be required by this Loan Agreement or as Lender may reasonably require.

4.2 All Advances After the Closing Date. On each Funding Date after the Closing Date: (a) Lender shall have timely received a Funding Request as required by Section 2.3 hereof; (b) the representations and warranties set forth in Section 5 hereof shall be true and correct on and as of such date, with the same effect as though made on and as of such date, except to the extent such representations and warranties specifically and exclusively relate to an earlier date; (c) no Event of Default or Unmatured Event of Default shall have occurred and be continuing hereunder or under any other Loan Document; (d) no Material Adverse Change shall have occurred after the date hereof; and (e) Borrower and the Partnership shall be in compliance with all of the terms and conditions hereof, of the Note, and of all other Loan Documents to which it is a party, in each case on and as of the date of the performance of such obligations by Lender. Each Advance shall be deemed to constitute a representation and warranty by Borrower on the respective Funding Dates as to the matters specified in this Section 4.2.

SECTION 5. REPRESENTATIONS AND WARRANTIES.

5.1 Representations and Warranties. Borrower hereby represents and warrants to Lender as follows:

5.1.1 Good Standing. Borrower is a corporation duly organized, validly existing and in good standing under the laws of the State of West Virginia; Borrower has the power and authority to own and operate its properties and to carry on its business where and as conducted and as contemplated; Borrower is duly qualified as a foreign corporation to do business in, and is in good standing in, every jurisdiction where the nature of Borrower's business requires such qualification.

5.1.2 Power and Authority. The making, execution, delivery, issuance and performance by Borrower of this Loan Agreement, the Note and the other Loan Documents to which it is a party, have been duly authorized by all necessary corporate action and will not violate any provision of law or regulation or of the Articles of Incorporation or Bylaws of Borrower; and will not violate any agreement, trust or other indenture or instrument to which Borrower is a party

or by which Borrower or any of its property is bound.

5.1.3 Priority of Liens; Location and Condition of Collateral. With the exception of Permitted Liens, Borrower owns the Collateral free and clear of all liens, encumbrances, security interests or other rights of third parties, excepting only the rights and interests granted Lender herein and in the Loan Documents, and upon perfection of Lender's security interest in the Collateral, Lender will have a security interest in and lien on the Collateral superior in right of preference to all other liens other than those Permitted Liens in favor of One Valley Bank, Inc. Borrower's principal executive office and any name other than its corporate name under which it does business is set forth on Schedule 5.1.3 hereto.

5.1.4 Financial Condition. The Financial Statements of Borrower set forth on Schedule 5.1.4 hereto are true, complete and correct in all material respects, have been prepared in accordance with GAAP, consistently applied, and present fairly the financial condition of Borrower as of said dates and the results of Borrower's operations for the periods then ended. Borrower has filed all federal, state and local tax returns required to be filed by it with any taxing authority.

5.1.5 No Litigation, Employee Relations. Except as set forth on Schedule 5.1.5 attached hereto, there are no suits or proceedings pending, or, to the knowledge of Borrower, threatened against or affecting Borrower or any of its assets, and Borrower is not in default in the performance of any agreement to which Borrower is a party or by which Borrower is bound, or with respect to any order, writ, injunction, or any decree of any court, or any federal, state, municipal or other government agency or instrumentality, domestic or foreign, which could have a Material Adverse Effect on Borrower. Except as set forth on Schedule 5.1.5 attached hereto, Borrower has not violated any material provision of any union contracts or any law, rule or regulation pertaining to its employees.

5.1.6 Compliance. Borrower has all authorizations, consents, approvals, licenses, and exceptions from, and has made all registrations and filings with, and all reports to, all Federal, state and local governmental bodies and agencies (collectively referred to as "Governmental Approvals") necessary for the conduct of Borrower and the Business, and the conduct of Borrower's business is not and has not been in violation of any such Governmental Approvals or any applicable federal, state or local law, rule or regulation, including ERISA, the failure of which to obtain or to comply with would, in any such case, have a Material Adverse Effect on Borrower. Borrower does not require any Governmental Approvals to enter into, or perform under, this Loan Agreement, the Note or any other Loan Document, except approvals which have been obtained by Borrower and evidence of which has been delivered to Lender. There are no actions or investigations pending or threatened against or affecting Borrower before any governmental authority, or which could result in a Material Adverse Change in Borrower's business, prospects or the ability of Borrower to conduct its business in a manner consistent with past operations and financial results.

5.1.7 Taxes. Borrower has paid all taxes, governmental charges and assessments levied against Borrower or any of its assets for the periods ending December 31, 1994 and all local, state and federal withholding taxes due and payable through the date of this Loan Agreement.

5.1.8 Environmental. Borrower has in the conduct of its business, and the ownership and use of all real property, complied, in all material respects, with all federal, state and local, laws, rules, regulations, judicial decisions and decrees pertaining to the use, storage, transportation or disposal of hazardous waste or toxic materials, including but not limited to CERCLA.

5.1.9 Certain Licenses. Borrower and if required by applicable law each of its officers, directors and shareholders, has each and every license, permit or approval of any regulatory or other government entity necessary or desirable to conduct the Business as it is currently conducted or as contemplated to be conducted (the "Licenses"). Neither Borrower nor any such officer, director or shareholder has received notice of any restriction or limitations on any of such licenses, or any warnings in connection with such Licenses, and to Borrower's knowledge no such notices, warnings, restrictions or limitations have been threatened or are pending. Borrower and each of its officers, directors and shareholders, is in full compliance with all requirements of each such License.

5.1.10 Other Contractual Obligations. The execution, delivery and performance by Borrower of its obligations under the Loan Documents does not violate any other contractual obligations of Borrower.

5.2 Accuracy of Representations; No Default. The information set forth herein and on each of the Schedules hereto, in the Note and the other Loan Documents and each document delivered to Lender in connection herewith is complete and accurate and contains full and true disclosure of pertinent financial and other information as requested or required thereby. None of the foregoing contains any untrue statement of a material fact or omits to state a material fact necessary to make the information contained herein or therein not misleading or incomplete. No Event of Default or Unmatured Event of Default hereunder, under the Note or the other Loan Documents, has occurred.

SECTION 6. AFFIRMATIVE COVENANTS

6.1 Borrower's Covenants. As long as any portion of the Indebtedness remains outstanding and unpaid or Lender has any ability to extend Advances hereunder, Borrower covenants and agrees that, in the absence of prior written consent of Lender, Borrower will:

6.1.1 Financial Statements and Other Reports. Furnish not later than ninety days after the close of each Fiscal Year, and quarterly to the Lender within twenty days after the close of each fiscal quarter, but in each case immediately upon and subject to receipt from its accountants (or its internal preparation if no outside accountants are providing such information), and only to the extent available to or prepared by or for Borrower, a statement of income and expenses together with a balance sheet and source and use of funds statement and notes pertaining thereto, and any other information readily available to Borrower and reasonably requested by the Lender. The annual financial statements shall be reviewed or audited with respect to the year ended December 31, 1995 by an accounting firm acceptable to Lender. Concurrently with such annual financial statements, Borrower shall furnish to Lender a written statement by such accountant, and with each quarterly financial statement a written statement signed by the President of Borrower, stating that the signatory thereto has no reason to believe that Borrower has committed or there exists an Event of Default or Unmatured Event of Default hereunder or under any other Loan Document. All financial statements shall set forth in reasonable detail the results of operations and financial condition of Borrower certified as true and correct by Borrower and the Partnership and shall be in a form satisfactory to Lender. Borrower shall also furnish Lender, as soon as available, a signed copy of Borrower's federal income tax return;

6.1.2 Additional Financial Data. With reasonable promptness furnish to Lender information related to daily handle and other customary racing and wagering reports produced by or for Borrower, and such additional information and data concerning the business and financial condition of Borrower as may be reasonably requested by Lender; upon reasonable prior notice afford Lender or its agents reasonable access to the financial books and records, computer records and properties of Borrower at all reasonable times and permit Lender or its agents to make copies and abstracts of same and to remove such copies and abstracts from Borrower's premises and permit Lender or its agents the right to converse directly with the independent accounting firm then engaged by Borrower to prepare its audited Financial Statements;

6.1.3 Taxes. Borrower shall pay timely when due all local, state and federal withholding taxes and, if necessary to prevent a Material Adverse Effect, cause the prompt payment and discharge of all taxes, governmental charges and assessments levied and assessed or imposed upon Borrower or any of its assets except as may be contested in good faith with adequate reserves having been set aside therefor;

6.1.4 Existence; Compliance with Laws. Maintain the existence of Borrower and all necessary foreign qualifications in good standing; continue to comply with all applicable statutes, rules and regulations with respect to Borrower or the conduct of Borrower's business, including but not limited to ERISA and CERCLA; and maintain such necessary licenses and permits (including the Licenses and Governmental Approval) required for the conduct of Borrower's business and otherwise comply in all respects with any requirements or conditions of such Licenses and Governmental Approvals, and any other licenses and permits necessary or desirable to Borrower or the conduct of the Business;

6.1.5 Insurance. Maintain in full force and effect: (i) casualty and other insurance on Borrower and its assets, in amounts usual and customary in Borrower's business and to contain, as appropriate, Lender loss payee and breach of warranty clauses and thirty day notice of cancellation or material change endorsements in favor of Lender;

6.1.6 Litigation. Promptly defend all actions, proceedings or claims which could have a Material Adverse Effect on Borrower or Borrower's business (provided however, a claim the result of which would be a lien on the assets of

Borrower inferior in right of preference to Lender's lien on Borrower's assets, and which otherwise would not cause a Material Adverse Effect, shall not be deemed to have a Material Adverse Effect), and promptly notify Lender of the institution of, or any change in, any such action, proceeding or claim, or any claim if the

same is in excess of \$50,000 for any single action, proceeding or claim and \$100,000 (other than claims covered by insurance in the ordinary course of business and booked on Borrower's balance sheet) in the aggregate, or would have a Material Adverse Effect if adversely determined;

6.1.7 Additional Security Documents. Provide Lender at any time or from time to time on request with such mortgages, assignments, certificates of title or Financing Statements and such additional instruments or documents as Lender may, in Lender's sole discretion, deem necessary in order to perfect, protect and maintain the security interest in the Collateral granted to Lender pursuant to the terms hereof;

6.1.8 Notice of Events. Promptly give written notice to Lender of the occurrence or imminent occurrence of any event which causes or would cause any representation or warranty made in Section 5 hereof to be untrue in any material respect at any time or which would cause Borrower to be in default hereunder, under the Note or any other Loan Document for any other reason, or the occurrence of an Event of Default or Unmatured Event of Default, or of any material casualty to any of the Collateral or other property of Borrower; and within ten (10) days thereafter, notify Lender in writing of the occurrence of any default or event of default under any other obligation to repay borrowed money;

6.1.9 Principal Executive Office. Promptly notify Lender of a change in Borrower's Fiscal Year; and, notify Lender at least sixty days prior to a change of Borrower's principal executive office or in the location of any Collateral;

6.1.10 Use of Advances. Use each Advance only for the specific purposes and in the particular amounts set forth in the Funding Request as to each such Advance, and to permit Lender or its representatives from time to time as Lender may request with access to the properties, books, records, personnel and agents or Borrower to audit and confirm such use of the Advances;

6.1.11 Compliance with Laws, Agreements. Comply in all material respects with (A) all laws, rules and regulations to which Borrower, its property or the Business is subject, and (B) all material agreements (including, but not limited to, collective bargaining agreements with all labor unions) to which Borrower is or may become a party or by which Borrower, its property or the Business may be bound, if the failure to be in compliance with such agreements could have a Material Adverse Effect;

6.1.12 Performance of Obligations. Perform, pay and discharge, as and when due, all of Borrower's obligations (both monetary and non-monetary) (A) under the Loan Documents; and (B) under any agreement that encumbers any part of the Premises or the Collateral if (as to B) the failure to so do could result in a Material Adverse Effect;

6.1.13 Material Adverse Changes. Immediately notify Lender of: (i) the occurrence or likely occurrence of any event which causes or could cause: (A) any Material Adverse Effect; (B) any representation or warranty made by Borrower hereunder to be untrue, incomplete or misleading in any material respect; or (C) the occurrence of any other Event of Default or Unmatured Event of Default hereunder; (ii) the institution of, or the issuance of any order, judgment, decree or other process in, any litigation, investigation, prosecution, proceeding or other action by any governmental authority or other Person against Borrower or related to the Business and that does, or could, have a Material Adverse Effect, or that relates in any manner to the Premises or any License or Government Approval; (iii) any material casualty to any property of Borrower, whether or not insured; and (iv) any change of Borrower's shareholders, directors or officers;

6.1.14 Business. Maintain the general character of Borrower's business in which it is currently engaged;

6.2 Indemnification. Borrower hereby indemnifies and agrees to protect, defend, and hold harmless Lender and Lender's directors, officers, employees, agents, attorneys and shareholders from and against any and all losses, damages, expenses or liabilities of any kind or nature and from any suits, claims, or demands, including all reasonable counsel fees incurred in investigating, evaluating or defending any such claim, suffered by any of them and caused by, relating to, arising out of, resulting from, or in any way connected with this Agreement, the Note, or the other Loan Documents and any transaction contemplated herein or therein including, but not limited to, claims based upon any act or failure to act by Lender in connection with this Loan Agreement, or the other Loan Documents and any transaction contemplated herein or therein. If

Borrower shall have knowledge of any claim or liability hereby indemnified against, it shall promptly give written notice thereof to Lender. THIS COVENANT SHALL SURVIVE PAYMENT OF THE INDEBTEDNESS AND THE TERMINATION OR SATISFACTION OF THIS LOAN AGREEMENT.

6.2.1 Lender shall promptly give Borrower written notice of all suits or actions instituted against Lender with respect to which Borrower has indemnified Lender, and Borrower shall timely proceed to defend any such suit or action. Lender shall also have the right, at the expense of Borrower, to participate in or, at Lender's election, assume the defense or prosecution of such suit, action, or proceeding, and in the latter event Borrower may employ counsel and participate therein. Lender shall have the right to adjust, settle, or compromise any claim, suit, or judgment after notice to Borrower, unless Borrower desires to litigate such claim, defend such suit, or appeal such judgment and simultaneously therewith deposits with Lender additional collateral security sufficient to pay any judgment rendered, with interest, costs, legal fees and expenses. The right of Lender to indemnification under this Loan Agreement shall extend to any money paid by Lender in settlement or compromise of any such claims, suits, and judgments in good faith, after notice to Borrower.

6.2.2 If any suit, action, or other proceeding is brought by Lender against Borrower for breach of Borrower's covenant of indemnity herein contained, separate suits may be brought as causes of action accrue, without prejudice or bar to the bringing of subsequent suits on any other cause or causes of action, whether theretofore or thereafter accruing.

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SECTION 7. NEGATIVE COVENANTS

As long as any portion of the Indebtedness shall remain outstanding and unpaid, or Lender has any obligation or ability to make Advances to Borrower hereunder, Borrower covenants and agrees that, in the absence of prior written consent of Lender, which consent may be withheld in the sole discretion of Lender, Borrower will not:

7.1 Debt, Liens and Encumbrances. Create, incur, assume or permit to exist any mortgage, lien, pledge, charge, security interest or other encumbrance upon any of the Collateral, or any of its other properties or assets, whether now owned or hereafter acquired, except: (i) security interests with respect to money borrowed from Lender; and (ii) Permitted Liens; and (iii) as otherwise approved in writing by Lender, such approval not to be unreasonably withheld;

7.2 Transfer of Collateral. Except for Permitted Liens, sales of assets in the ordinary course of business or for deterioration or obsolescence, sell, enter into an agreement of sale for, convey, lease, assign, transfer, pledge, grant a security interest, mortgage or lien in, or otherwise dispose of the Collateral or its other assets;

7.3 Combination, Merger. Enter into proceedings in total or partial liquidation; merge, combine or consolidate with or into any other Person, or, acquire all or substantially all of the assets or securities of any other Person; or take any action or omit to take any action the result or which could have a Materially Adverse Effect;

7.4 Management. Change Borrower's corporate structure, including but not limited to, a change in the principal stockholders, or their respective interest in, Borrower or the Directors or Executive Officers of Borrower;

7.5 Transactions with Affiliates. Enter into any transaction or transactions with any Affiliate for less than full value or on terms or conditions less favorable than could be obtained in an arm's length transaction with a third party;

7.6 Environmental Matters. Use, generate, treat, transport, store, dispose of, or otherwise introduce fuel or any other hazardous substances, pollutants, contaminants, hazardous waste, residual waste or solid waste into or on any real property owned, leased or occupied by Borrower, or cause, suffer, allow, or permit anyone else to do so, in violation of any applicable statute, law, ordinance rule or regulation;

7.7 Licenses and Government Approvals. Fail to maintain in full force and effect or fail to be in compliance with (or permit its officers, directors or shareholders to fail to maintain or fail to be in compliance with) all requirements of Licenses and Governmental Approvals, or any other permit or license necessary or desirable in connection with Borrower or the Business;

7.8 Ordinary Course. Alter or amend any material provision of a terminate or permit termination of any agreement integral or necessary to the Business, or in any manner conduct the Business other than in the ordinary course;

7.9 Restricted Payments. Make any Restricted Payments; and

7.10 Non-Assignability of Loan Agreement. Assign this Loan Agreement or any other Loan Document or any interest herein or therein.

SECTION 8. DEFAULT

8.1 Events of Default. The occurrence of any one or more of the following events, conditions or states of affairs, shall constitute an "Event of Default" hereunder, under the Note and under each of the other Loan Documents, provided however, that nothing contained in this Section 8 shall be deemed to enlarge or extend any grace period provided for in the Note or any other Loan Document:

8.1.1 Failure by Borrower to pay the Indebtedness or any portion thereof as the same becomes due, or if any Advance is not applied specifically in the manner and in the amount(s) as stated in the relevant Funding Request;

8.1.2 Failure by Borrower to observe or perform any agreement, condition, undertaking or covenant in: (i) this Loan Agreement or any other Loan

Document, or in any other agreement between Borrower and Lender; or (ii) any other material agreement, lease, mortgage, note or other obligation to which Borrower is a party or by which Borrower or any of its assets is or may be bound, where the failure to be in compliance could have a Material Adverse Effect;

8.1.3 Any representation or warranty of the Borrower made, or deemed made, in this Loan Agreement or any other Loan Document or any statement or information in any report, certificate, financial statement or other instrument furnished by Borrower in connection with making this Loan Agreement, the establishment of the Line hereunder or in compliance with the provisions hereof or any other Loan Document shall have been false or misleading in any material respect when so made, deemed made or furnished;

8.1.4 Borrower shall file a voluntary petition or proceeding seeking liquidation, reorganization or other relief with respect to itself under any provision of the Bankruptcy Code or any state bankruptcy or insolvency statute, or make an assignment or any other transfer of assets for the benefit of its creditors, or apply for or consent to the appointment of a receiver for its assets, or suffer the filing against its property of any attachment or garnishment or take any action to authorize any of the foregoing; or an involuntary case or other proceeding shall be commenced against Borrower seeking liquidation, reorganization or other relief with respect to its debts under the Bankruptcy Code or any other bankruptcy, insolvency or similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of sixty (60) days (it being understood that no delay period applies with respect to any default arising under this Section by reason of the filing of a voluntary petition by Borrower under the Bankruptcy Code or any state bankruptcy or insolvency statute or the making of an assignment or other transfer of assets for the benefit of Borrower's creditors or by reason of Borrower applying for or consenting to the appointment of a receiver for Borrower's assets); or an order for relief shall be entered against Borrower under any provision of the Bankruptcy Code or any state bankruptcy or insolvency statute as now or hereafter in effect;

8.1.5 Borrower shall cease to conduct its Business substantially as it is now conducted; or Borrower shall change the nature of its Business;

8.1.6 Entry of a final judgment or judgments against Borrower by a court of law in an amount exceeding \$50,000 or an aggregate of \$150,000 outstanding at any one time, enforcement of which judgment or judgments has not been stayed or satisfied within thirty days after entry, except where the result of such judgement does not cause a Material Adverse Effect (it being understood that the creation of a lien inferior in right of preference to Lender's lien in All Assets of Borrower and which does not otherwise cause a Material Adverse Effect, shall not be deemed to cause a Material Adverse Effect);

8.1.7 Except for Permitted Liens or Liens in favor of Lender or liens otherwise consented to in writing by Lender, imposition of any Lien or series of Liens against Borrower or any of the Collateral whether by operation of law or by consent which is not removed within thirty days, except where the result of such lien does not cause a Material Adverse Effect (it being understood that the creation of a lien inferior in right of preference to Lender's lien in All Assets of Borrower and which does not otherwise cause a Material Adverse Effect, shall not be deemed to cause a Material Adverse Effect);

8.1.8 Loss or partial invalidity of Borrower's corporate or Partnership's partnership existence; or

8.1.9 The occurrence of any breach of or default under this Loan Agreement or the Guaranty, the Security Agreement, the Pledge, the Mortgage, or any other Loan Document or any other instrument or document entered into in connection with the foregoing.

8.2 Remedies on Default.

8.2.1 Upon the occurrence and continuation of any Event of Default:

8.2.1.Lender may at its election forthwith declare all Indebtedness to be immediately due and payable, without protest, demand or other notice (which are hereby expressly waived by Borrower) and, in addition to the rights specifically granted hereunder or now or hereafter existing in equity, at law, by virtue of statute or otherwise (each of which rights may be exercised at any time and from time to time), Lender may exercise the rights and remedies available to Lender at law or in equity or under this Loan Agreement, the Note, the Mortgages and any of the other Loan Documents or any other agreement by, between or among Borrower and Lender in accordance with the respective

provisions thereof.

8.2.1. Lender shall have all the rights of a secured creditor under the Uniform Commercial Code as enacted in West Virginia and any other jurisdiction in which any Collateral is located, and as a Mortgagee under the laws of West Virginia.

8.2.1. Borrower will pay, as part of the Indebtedness and obligations hereby secured, Lender's administrative fees and all other amounts (including but not limited to Lender's reasonable attorneys' and other professional fees) paid by Lender: (i) for taxes, levies, and insurance on, or maintenance of, such Collateral; and (ii) in taking possession of, disposing of, or preserving such Collateral, with interest on all of same at the Line Interest Rate plus 3% from and after demand for the payment thereof until paid.

8.2.2 Borrower hereby designates and appoints

Lender and its designees or agents as attorney-in-fact of Borrower upon the occurrence and continuation of an Event of Default, irrevocably and with power of substitution, with authority to sign Borrower's name on any Financing Statements relating to the Collateral; to endorse the name of Borrower on any notes, acceptances, checks, drafts, money orders or other evidences of payment or proceeds of the Collateral that may come into Lender's possession, to sign the name of Borrower on any invoices, documents, drafts against and notices to account debtors of Borrower, assignments and request for verification of accounts; to execute proofs of claim and loss; to execute any endorsements, assignments or other instruments of conveyance or transfer; to adjust and compromise any claims under insurance policies; to execute releases; and to do all other acts and things necessary and advisable in the sole discretion of Lender to carry out and enforce this Loan Agreement. All acts of said attorney or designee are hereby ratified and approved and said attorney or designee shall not be liable for any acts of commission or omission, nor for any error of judgment or mistake of fact or law. This power of attorney being coupled with an interest is irrevocable while any of the Indebtedness shall remain unpaid or Lender has any obligations or ability to make Advances hereunder.

8.3 Application of Proceeds. Any cash proceeds of sale, lease or other disposition of the Collateral upon an Event of Default shall be applied in the following order:

8.3.1 To Lender's Costs;

8.3.2 To the payment of interest due pursuant to the Loan Documents;

8.3.3 To the payment of principal due pursuant to the Loan Documents;

8.3.4 Any surplus then remaining to Borrower or whomever may be lawfully entitled thereto.

8.4 Set-Off Rights Upon Default. Upon and during the continuance of any Event of Default, Lender, in addition to any remedies set forth above, shall have the right at any time and from time to time without notice to Borrower (to the extent permitted by law) (any such notice being expressly waived by Borrower), to set off, to exercise any lender's lien or any right of attachment or garnishment and apply any and all monies at any time held by Lender and other indebtedness at any time owing by Lender to or for the account of Borrower against any and all Indebtedness or other obligations of Borrower now or hereafter existing under this Loan Agreement, the Note or any other Loan Document, regardless of whether Lender shall have made any demand hereunder or thereunder.

8.5 Singular or Multiple Exercise; Non-Waiver. The remedies provided herein, in the Note and in the other Loan Documents or otherwise available to Lender at law or in equity and any warrants of attorney herein or therein contained, shall be cumulative and concurrent, and may be pursued singly, successively or together at the sole discretion of Lender, and may be exercised as often as occasion therefor shall occur; and the failure to exercise any such right or remedy shall in no event be construed as a waiver or release of the same.

SECTION 9. MISCELLANEOUS

9.1 Integration. This Loan Agreement, the Note and the other Loan Documents shall be construed as one agreement, and in the event of any inconsistency, the provisions of this Loan Agreement shall control over the provisions of any other Loan Document. This Loan Agreement, the Note and the other Loan Documents contain all the agreements of the parties hereto with respect to the subject matter of each thereof and supersede all prior or

contemporaneous discussions and agreements with respect to such subject matter.

9.2 Modification. Modifications or amendments of or to the provisions of this Loan Agreement, the Note or any other Loan Document to which Borrower is a party shall be effective only if set forth in a written instrument signed by Lender and Borrower.

9.3 Notices. Any notice or other communication by one party hereto to the other shall be in writing and shall be deemed to have been validly given upon receipt if by hand delivery, or by overnight delivery service or by telecopier, or two days after mailing if mailed, first class mail, postage prepaid, return receipt requested as follows:

If to Borrower:

D. Keith Wagner, President
Charles Town Races, Inc.
U.S. Route 340
Charles Town Racetrack
Charles Town, West Virginia 25414
Telecopier:304-725-6979

With a copy to:

Michael B. Keller, Esquire
Bowles Rice McDavid Graff & Love
105 West Burke Street
Martinsburg, West Virginia 25401
Telecopier: 304-267-3822

If to Lender:

Peter M. Carlino, Chairman
Penn National Gaming of West Virginia, Inc.
c/o Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 203
Wyomissing, PA 19610
Telecopier: 610-376-2842

With a copy to:

Robert P. Krauss, Esquire
Mesirov Gelman Jaffe Cramer & Jamieson
1735 Market Street
Philadelphia, Pennsylvania 19103-7598
Telecopier: (215) 994-1111

9.4 Survival. The terms of this Loan Agreement and all agreements, representations, warranties and covenants made by Borrower in any other Loan Document shall survive the issuance and payment of the Note and shall continue as long as any portion of the Indebtedness shall remain outstanding and unpaid or Lender shall have any obligation or ability to make Advances hereunder; provided, however, that the covenants set forth in Sections 6.2, 9.7 and 9.8 hereof shall survive the payment of the Indebtedness and the termination or settlement of this Loan Agreement. Borrower hereby acknowledge that Lender has relied upon the foregoing in making available the Line.

9.5 Closing. Closing hereunder shall occur on May , 1996 at the offices of Borrower, or at such other time and place as the parties hereto may determine.

9.6 Successors and Assigns; Governing Law. This Loan Agreement shall be binding upon and inure to the benefit of the respective successors and assigns of the parties hereto; provided, however, that Borrower shall not assign this Loan Agreement, or any rights or duties arising hereunder, without the express prior written consent of Lender (which consent may be withheld in the sole discretion of Lender), and Lender may assign all or any part of its rights or duties hereunder without the consent of Borrower. This Agreement shall be construed and enforced in accordance with the internal laws of the State of West Virginia for contracts made and to be performed in West Virginia.

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9.7 CONSENT TO JURISDICTION AND VENUE. IN ANY LEGAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER ARISING OUT OF OR RELATED TO THIS LOAN AGREEMENT OR THE RELATIONSHIP EVIDENCED HEREBY, EACH UNDERSIGNED PARTY HEREBY IRREVOCABLY SUBMITS TO THE NONEXCLUSIVE JURISDICTION OF ANY STATE OR FEDERAL COURT LOCATED IN JEFFERSON COUNTY, WEST VIRGINIA AND AGREES NOT TO RAISE ANY OBJECTION TO SUCH JURISDICTION OR TO THE LAYING OR MAINTAINING OF THE VENUE OF ANY SUCH PROCEEDING IN SUCH COUNTY. EACH PARTY HERETO AGREES THAT SERVICE OF PROCESS IN ANY SUCH PROCEEDING MAY BE DULY EFFECTED UPON HIM BY MAILING A COPY THEREOF, BY REGISTERED MAIL, POSTAGE PREPAID, TO IT AT ITS ADDRESS SET FORTH HEREIN.

9.8 WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES TRIAL BY JURY IN ANY LEGAL PROCEEDING INVOLVING, DIRECTLY OR INDIRECTLY, ANY MATTER (WHETHER SOUNDING IN TORT, CONTRACT OR OTHERWISE) IN ANY WAY ARISING OUT OF OR RELATED TO THIS LOAN AGREEMENT OR THE RELATIONSHIP EVIDENCED HEREBY. THIS PROVISION IS A MATERIAL INDUCEMENT FOR LENDER TO MAKE THE LINE AVAILABLE TO BORROWER.

9.9 Public Announcement. Lender may, at its option, announce and publicize the existence of this Loan Agreement and the extension of credit by Lender to Borrower pursuant to the terms and conditions hereof, in such media as Lender may, in its sole discretion, from time to time determine.

9.10 Relationship of Parties. The relationship of Lender and Borrower will at all times be that of creditor and obligor. Nothing herein shall be deemed or construed to confer upon the parties any other relationship including, but not limited to, any relationship of a partnership or joint venture.

9.11 Participation and Information. Lender may in its sole discretion enter into participation arrangements with respect to this Loan Agreement and loans made hereunder and may provide all information in its possession relating to Borrower or this Loan Agreement: (i) to any current or prospective participating lender; (ii) to its Affiliates, employees, directors, agents, attorneys, accountants and other professional advisors; (iii) upon the request or demand of any governmental authority; (iv) in response to any order of court or as may be otherwise be required pursuant to any requirement of applicable law; (v) which has been publicly disclosed other than in breach of this Loan Agreement; or (vi) in connection with the exercise of any remedy or other enforcement of the rights of Lender hereunder or under any of the Loan Documents.

9.12 No Third Party Beneficiary. This Loan 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, Borrower and Lender have executed this Loan Agreement under seal, intending to be legally bound hereby, as of the day and year first above written.

Borrower:

CHARLES TOWN RACES, INC.

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

Lender:

PNGI CHARLES TOWN GAMING LIMITED
LIABILITY COMPANY, by Penn National
Gaming of West Virginia, Inc., its
Managing Member

By: /s/ William Bork 6/4/96
William Bork, President

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Schedule 2.3

Form of Funding Request

By

Charles Town Races, Inc.

_____, 1996

Peter M. Carlino
PNGI Charles Town Gaming Limited Liability Company
c/o Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 203
Wyomissing, PA 19610

This Funding Request ("Request") is provided to PNGI Charles Town Gaming Limited Liability Company ("Lender") to evidence the desire of the above Borrower to borrow funds under the Loan and Security Agreement, dated as of May , 1996 by and between Borrower and Lender (the "Loan Agreement"). All capitalized terms not defined herein shall have the same meaning as provided in the Loan Agreement unless the context clearly requires to the contrary.

Please transfer the amount of \$_____ (the "Advance") to [account] on (date) (the "Funding Date").

The Advance shall be used only for the specific purposes and in the particular amounts as set forth on Exhibit A to this Funding Request.

The Borrower hereby certifies that no Event of Default or Unmatured Event of Default under the Loan Agreement or any other Loan Document has occurred or is continuing.

CHARLES TOWN RACES, INC.

By: _____
D. Keith Wagner, President

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Schedule 5.1.3

Borrower's Principal Executive Offices and Trade Names

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Schedule 5.1.4
Financial Statements

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Schedule 5.1.5

Litigation

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THIS LIMITED RECOURSE GUARANTY AGREEMENT (this "Guaranty") is made this 8th day of May, 1996, by Charles Town Racing Limited Partnership, a West Virginia limited partnership ("Guarantor"), to and for the benefit of PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company, its successors and assigns ("Lender").

B A C K G R O U N D

Lender is about to provide a line of credit to Charles Town Races, Inc., a West Virginia corporation and wholly-owned subsidiary of Guarantor ("Borrower"), in the principal amount of up to One Million Two Hundred and Fifty Thousand (\$1,250,000) Dollars (the "Loan") pursuant to the provisions of that certain Loan and Security Agreement between Borrower and Lender of even date herewith (the "Loan Agreement"), and evidenced by Borrower's Note of even date herewith (the "Note"). The obligations of Borrower under the Loan Documents is secured by a lien on and security interest in All Assets of Borrower and the Mortgage on Borrower's leasehold interest in the Premises (the foregoing, collectively, the "Collateral").

Lender is unwilling to make the Loan unless Guarantor guarantees payment of the Note and performance by Borrower of each and every term, covenant, condition and agreement contained therein and in the Loan Agreement and any other Loan Document and under any and all other agreements executed by Borrower to or for the benefit of Lender in connection with the Loan on the part of Borrower to be kept, observed or performed. Guarantor desires to give such guaranty (i.e. this Guaranty) in order to induce Lender to make the Loan.

The obligations of Guarantor under this Guaranty are secured by: a lien on and security interest in All Assets of Guarantor pursuant to the Security Agreement, by all of the issued and outstanding capital stock of Borrower pursuant to the Pledge, and by a lien on and security interest in the Premises pursuant to the Mortgage, all as set forth in such documents and agreements (the foregoing, the "Guarantor Collateral"). The obligations of Guarantor under this Guaranty are non-recourse as to the general partners of Guarantor, and enforcement of Guarantor's obligations hereunder are limited solely to the Guarantor Collateral or other assets of Guarantor.

Each initially-capitalized term used herein shall have the meaning ascribed to it in the Loan Agreement unless the context clearly requires to the contrary.

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NOW THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Guarantor, and intending to be legally bound hereby, Guarantor agrees as follows, for the benefit of Lender:

1. GUARANTY:

A. Guaranty - Guarantor unconditionally and absolutely guarantees the due and punctual payment within applicable grace periods of the principal of the Note, the interest thereon and any other monies due or which may become due under the Loan Documents, and the due and punctual performance and observance by Borrower of any other terms, covenants and conditions of the Loan Documents on the part of Borrower to be kept, observed or performed whether according to the present terms thereof, at any earlier or accelerated date or dates as provided therein, or pursuant to any extension of time or to any change or changes in the terms, covenants and conditions thereof now or at any time hereafter made or granted. All liabilities and obligations hereinabove described and covered by this Guaranty are hereinafter collectively referred to as the "Obligations".

B. Enforcement of Guaranty - Lender may, in its sole discretion, exercise any right or remedy which Lender has under, or in connection with this Guaranty or by law (such rights and remedies being cumulative and not alternative or exclusive) without pursuing or exhausting any right or remedy Lender has against Borrower or any other person or entity, or which Lender has with respect to any Collateral for any or all of the Obligations of Borrower or any other guaranty of any or all of the Obligations. Lender need not join Borrower or any other person as a party in any action brought to enforce the provisions hereof; and Lender may exercise any right or remedy which it has

under this Guaranty without regard to any actions or omissions of Borrower or any other person. In the event of a default under or breach of any of the Loan Documents, after expiration of any applicable grace period therein provided, Lender shall be entitled to immediately enforce the obligations of Guarantor hereunder.

C. Guaranty Absolute - The obligations of Guarantor hereunder shall be absolute, primary and unconditional and shall continue in full force and effect irrespective of the validity, legality or enforceability of any of the Loan Documents pursuant to which any of the Obligations arise, or the existence, value or condition of any collateral for any of the Obligations, or of any other guaranty of the Obligations or any other circumstances which might otherwise constitute a legal or equitable discharge of a surety or guarantor. This Guaranty and the obligations of

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Guarantor hereunder shall be irrevocable and shall not be discharged until (i) the Obligations are fully paid and satisfied, and (ii) any obligation or ability of Lender to make loans, advances or extensions of credit to Borrower under the Line are terminated.

D. Guaranty Not Affected - Without limiting the generality of Section C above, Guarantor hereby consents and agrees that, at any time, and from time to time, without notice to Guarantor:

(i) the time, manner, place or terms of payment of any of the Obligations may be extended or modified;

(ii) any Collateral, or any other guaranty, for any of the Obligations may be exchanged, released, surrendered, or otherwise disposed of;

(iii) any action may be taken under or in respect of any agreements, notes or documents pursuant to which any of the Obligations arise, in the exercise of any remedy, power or privilege therein contained or otherwise with respect thereto, or such remedy, power or privilege may be waived, omitted, or not enforced;

(iv) the time for Borrower's performance of or compliance with any term, covenant or agreement on its part to be performed or observed under any agreements, notes or documents pursuant to which any of the Obligations arise may be extended, or such performance or compliance waived, or failure in or departure from such performance or compliance consented to;

(v) any of the Loan Documents, or any term thereof may be amended or modified in any respect (including, without limitation the interest rate or date of maturity);

(vi) the liability of Borrower under the Loan Documents or of Guarantor hereunder may be released, settled or compromised; and

(vii) monies received from Borrower or others, or from Collateral held for the Obligations, may be applied by Lender against other indebtedness owed by Borrower to Lender, as Lender in its sole discretion determines; all in such manner and upon such terms as Lender deems proper, without notice to or further assents from Guarantor, and all without affecting this Guaranty or the obligations of Guarantor hereunder, which shall continue in full force and effect until the Obligations and all obligations of Guarantor hereunder shall have been fully paid and performed.

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E. Non-recourse - Notwithstanding any other provision of this Guaranty, enforcement of Guarantor's obligations hereunder is limited solely to the Guarantor Collateral and any other assets of Guarantor. Lender specifically acknowledges and agrees that no partner of Guarantor, or his or its individually owned assets, shall be liable for any of Guarantor's obligations hereunder, such obligations being non-recourse as to Guarantor's general partners.

2. WAIVERS:

A. Notice of Acceptance - Guarantor hereby waives notice of acceptance of this Guaranty, presentment and demand for payment, notice of dishonor, protest and notice of protest or noncompliance with the terms and provisions of the Loan Agreement, the Note, the Mortgage, and any other Loan Document. No act or omission of any kind in the premises shall in any way affect or impair this Guaranty.

B. Marshalling of Assets - Guarantor hereby waives any right or claim of right to cause a marshalling of Borrower's assets or to cause Lender to proceed against any of the security held by Lender before proceeding against Guarantor or the Guarantor Collateral, or to proceed against Guarantor or the Guarantor Collateral in any particular order, and Guarantor hereby waives any requirement that Lender shall institute any action or proceedings at law or in equity against Borrower, or anyone else, with respect to the Loan Agreement, the Note, the Mortgage, or any other Loan Document or with respect to any other security held by Lender, as a condition precedent to bringing an action against Guarantor or the Guarantor Collateral upon this Guaranty.

C. Other Agreements by Guarantor - Guarantor agrees that there shall be no requirement that Lender document its acceptance of this Guaranty, evidence its reliance thereon, or that Lender take any action against any person or any property prior to taking action against Guarantor or the Guarantor Collateral. Guarantor further agrees that Lender's rights and remedies hereunder shall not be impaired or subject to any stay, suspension or other delay as a result of Borrower's or Guarantor's insolvency or as a result of any proceeding applicable to Borrower or Guarantor or any property of Borrower or Guarantor under any bankruptcy or insolvency law. Guarantor also agrees that payments and other reductions on the Obligations may be applied to such of the Obligations and in such order as Lender may elect.

D. Security Interest - As security for the obligations of Guarantor hereunder, Guarantor has executed and

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delivered that certain Pledge, that certain Security Agreement, and that certain Mortgage, each in favor of Lender and of even date herewith, pursuant to which Guarantor has pledged all of the issued and outstanding capital stock of Borrower to Lender, has granted to Lender a security interest in and lien on All Assets of Guarantor and a mortgage on the Premises, as provided in such agreements (i.e. the Guarantor Collateral).

E. Subordination and Subrogation - In the event Borrower or any subsequent owner of the Collateral are now or shall hereafter become indebted to Guarantor, the amount of each sum and of such indebtedness shall at all times be subordinate as to lien, time of payment, and in all other respects, to the amounts owing to Lender under the Note or the other Loan Documents, and Guarantor shall not be entitled to enforce or receive payment thereof until all sums owing to Lender have been paid. Nothing herein contained is intended or shall be construed to give to Guarantor any right of subrogation in or under the Note or the other Loan Documents or any right to participate in any way therein, or in the right, title or interest of Lender in the Premises, notwithstanding any payments made by Guarantor under this Guaranty, all rights of subrogation and participation being hereby expressly waived and released. If any amount shall be paid to Guarantor on account of such subrogation, indemnification or contribution at any time when all of the Obligations and all other expenses guaranteed pursuant hereto shall not have been paid and satisfied in full, such amount shall be held in trust for the benefit of Lender, shall be segregated from the other funds of Guarantor and shall forthwith be paid over to Lender to be applied in whole or in part by Lender against the Obligations, whether matured or unmatured, in such order as Lender shall determine in its sole discretion. If Guarantor shall make payment to Lender of all or any portion of the Obligations and all of the Obligations shall be paid in full, Guarantor's right of subrogation shall be without recourse to and without any implied warranties by Lender and shall remain fully subject and subordinate to Lender's right to collect any other amounts which may thereafter become due to Lender by Borrower in connection with the Obligations.

F. No Waiver; Delay - No delay on the part of Lender in exercising any of its rights, powers or privileges or partial or single exercise thereof under this Guaranty of the Loan Documents shall operate as a waiver of any such privilege, powers or rights. No waiver of any of its rights hereunder and no modification or amendment of this Guaranty, shall be deemed to be made by Lender unless the same shall be in writing, duly signed on behalf of Lender by a duly authorized officer, and each such waiver, if any, shall apply only with respect to the specific instance involved, and shall in no way impair the rights of

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Lender or the obligations of Guarantor to Lender in any other respect at any other time.

3. REPRESENTATIONS AND WARRANTIES: Guarantor hereby represents and warrants to Lender as follows:

A. All financial statements heretofore delivered by Guarantor to Lender, if any, (i) are true, correct and complete in all material respects, fairly represent Guarantor's financial condition as of the date thereof, and no material adverse change has occurred in Guarantor's financial condition reflected therein since the dates thereof, and (ii) no information has been omitted which would make the information previously furnished in such reports and financial statements misleading or incorrect in any material respect. Guarantor shall promptly notify Lender in writing of the occurrence of any Material Adverse Change in Guarantor's financial condition.

B. This Guaranty has been duly executed and delivered and constitutes the valid and legally binding obligation of Guarantor, enforceable in accordance with its terms.

C. The execution, delivery and the performance of and compliance with this Guaranty on the part of Guarantor will not (with or without the giving of notice or lapse of time, or both) result in any violation of, or be in conflict with, or constitute a default under, the terms of any contract, note, indenture or other agreement to which Guarantor is a party, or of any judgment, decree, order, statute, rule or regulation to which Guarantor is subject; and will not violate any provisions of Guarantor's Partnership Agreement or other governing documents.

D. There are no outstanding judgments, actions, proceedings, claims or investigations pending or threatened before any court or governmental body which may materially and adversely affect the operations, business, properties, or financial condition of Guarantor.

4. COVENANTS: Guarantor covenants and agrees as follows:

A. Guarantor shall, upon reasonable request of Lender and as soon as reasonably possible, furnish, or cause to be furnished, to Lender such financial and business information pertaining to Guarantor as Lender may reasonably request.

B. Guarantor shall, upon reasonable notice by Lender, give Lender or representative or agents of Lender access during normal business hours to and permit such persons to examine, copy or make excerpts from any and all books, records and documents in the possession or control of Guarantor relating to the business

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affairs or financial condition of Guarantor or Borrower, and to inspect any of the properties of Guarantor or Borrower.

C. Guarantor shall promptly notify Lender of any litigation actions, proceedings, claims or investigations pending or threatened against it which may materially and adversely affect the financial condition of Guarantor.

D. Guarantor shall observe, perform and comply with all of the covenants, terms and conditions of this Guaranty until (i) the Obligations are fully paid and satisfied, and (ii) any obligation or ability of Lender to make loans, Advances, or extensions of credit to Borrower under the Line have terminated.

E. Guarantor shall provide Lender with such information on the business affairs and financial condition of Guarantor as Lender from time to time may reasonably request, including, but not limited to, a true and correct copy of Federal or State Partnership Tax Returns and hereby agrees to promptly notify Lender of any change in the address of Guarantor or in the location of any of its assets.

5. MISCELLANEOUS:

A. Integration - This Guaranty contains all the agreements of the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous discussions and agreements with respect to such subject matter.

B. Amendments - No amendment of any provision of this Guaranty shall be effective unless it is in writing and signed by Lender and Guarantor, and no waiver of any provisions of this Guaranty, and no waiver or consent to any departure by Guarantor therefrom, shall be effective unless it is in writing and signed by Lender, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given.

C. Expense of Enforcement - In the event this Guaranty is placed in the hands of an attorney for enforcement, Guarantor will reimburse Lender for all expenses incurred in connection therewith, including reasonable attorney's fees.

D. Reinstatement - This Guaranty shall continue to be effective or be reinstated, as the case may be, if at any time payment of any of the Obligations, or any part thereof, is rescinded or must otherwise be returned by Lender upon the insolvency or bankruptcy of Borrower, or otherwise, all as though such payment had not been made.

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E. Notices - Any notice provided or permitted to be given under this Guaranty must be in writing, and will be effective, (a) if delivered by hand or sent by overnight courier, the day it is delivered, (b) if sent by telecopy, on the day the recipient's telephonic confirmation of receipt is received or (c) if sent by certified or registered mail (return receipt requested), three business days after mailing. Notice served in any other manner shall be deemed to have been given only if and when actually received by the addressee. For purposes of notices, the addresses of the parties shall be as follows:

Guarantor: Charles Town Racing Limited Partnership
Charles Town Racetrack
U.S. Route 340
Charles Town, West Virginia 25414
Telecopier: 304-725-6979

Copy to: Michael B. Keller, Esquire
Bowles Rice McDavid Graff & Love
105 West Burke Street
Martinsburg, West Virginia 25401
Telecopier: 304-267-3822

Lender: Peter M. Carlino, Chairman
c/o Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Blvd., Suite 203
Wyomissing, PA 19610
Telecopier: (610) 376-2842

Copy to: Mesirov Gelman Jaffe Cramer &
Jamieson
1735 Market Street, 38th Floor
Philadelphia, PA 19103-7598
Attn: Robert P. Krauss, Esq.
Telecopier: 215-994-1111

F. Counterparts - This Guaranty may be executed in multiple counterparts, and each counterpart hereof executed by any party shall be deemed an original and shall as to such party constitute one and the same instrument with all other counterparts hereof executed by such party, regardless of whether the same or any other counterpart thereof is executed by any other Guarantor or person intended to be or become a "Guarantor" hereunder.

G. Waiver of Jury Trial - Guarantor hereby waives, and Lender by its acceptance hereof waives, trial by jury in any legal proceeding involving, directly or indirectly, any matter (whether sounding in tort, contract or otherwise) in any way arising out of

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or related to this Guaranty or the Note guaranteed hereby. This provision is a material inducement for Lender to make the Loan.

H. Severability - If any provision of this Guaranty shall contravene or be held invalid under the laws of any jurisdiction, this Guaranty shall be construed as if it did not contain such provision, and the rights, remedies, warranties, representations, covenants and provisions hereof shall be construed and enforced accordingly and in such manner to as nearly as possible reflect the intent of the parties hereto as shall be lawful in such jurisdiction and shall not in any manner affect such provision in any other jurisdiction, or any other provisions of this Guaranty.

I. Governing Law - Guarantor and Lender elect that the internal laws of the State of West Virginia shall govern the construction of this Guaranty and the rights, remedies, warranties, representations, covenants, and provisions hereof without regard to the principles of conflict of laws.

J. Interpretations - If this Guaranty is signed by more than one person, each Guarantor shall be jointly and severally liable hereunder and this Guaranty shall with respect to each Guarantor be interpreted as if each Guarantor has delivered his or her sole and separate guaranty containing the identical provisions contained in this Guaranty. Words importing the singular number mean and include the plural number, and words of the masculine gender mean and include words of the feminine or neuter gender, and vice versa.

K. Headings - Section headings in this Guaranty are included for convenience of reference only and shall not constitute a part hereof for any other purpose.

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L. Transfer of Benefit - This Guaranty shall be binding upon Guarantor, its successors, representatives and assigns, and shall inure to the benefit of, and be enforceable by Lender, its successors and assigns. Notwithstanding the foregoing, none of the rights or obligations of Guarantor may be assigned or otherwise transferred without the prior written consent of Lender which consent may be withheld in the sole discretion of Lender. Lender may assign its rights hereunder.

IN WITNESS WHEREOF, the undersigned has hereunto set its hand and seal the day and year first above written.

GUARANTOR

CHARLES TOWN RACING LIMITED
PARTNERSHIP

By: D.K.W., Inc., general partner and
attorney-in-fact for all general
partners of the Partnership

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

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SECURITY AGREEMENT

THIS SECURITY AGREEMENT made and entered into this 8th day of May, 1996, by and between Charles Town Racing Limited Partnership, a West Virginia limited partnership ("Guarantor") and PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company ("Secured Party").

BACKGROUND:

Secured Party is about to provide a line of credit to Charles Town Races, Inc., a West Virginia corporation and wholly-owned subsidiary of Guarantor ("Borrower"), in the principal amount of up to One Million Two Hundred and Fifty Thousand (\$1,250,000) Dollars (the "Loan") pursuant to the provisions of that certain Loan and Security Agreement between Borrower and Secured Party of even date herewith (the "Loan Agreement"), and evidenced by Borrower's Promissory Note of even date herewith (the "Note"). The obligations of Borrower under the Loan Documents is secured by a lien on and security interest in All Assets of Borrower and the Mortgage on Borrower's leasehold interest in the Premises (the foregoing, collectively, the "Collateral").

Secured Party is unwilling to make the Loan unless Guarantor guarantees payment of the Note and performance by Borrower of each and every term, covenant, condition and agreement contained therein and in the Loan Agreement and any other Loan Document or under any and all other agreements executed by Borrower to or for the benefit of Secured Party in connection with the Loan on the part of Borrower to be kept, observed or performed.

Guarantor desires to give such guaranty in order to induce Secured Party to make the Loan, and has therefore entered into a Guaranty of even date herewith for the benefit of Lender. The obligations of Guarantor under such Guaranty are secured by: a lien on and security interest in All Assets of Guarantor pursuant to this Security Agreement, by all of the issued and outstanding capital stock of Borrower pursuant to the Pledge Agreement, and by a lien on and security interest in the Premises pursuant to the Mortgage, all as set forth in such documents and agreements.

Each initially-capitalized term used herein shall have the meaning ascribed to it in the Guaranty or the Loan Agreement unless the context clearly requires to the contrary.

NOW THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by Guarantor, and intending to be legally bound hereby, Guarantor agrees as follows, for the benefit of Secured Party:

Document No. 304109

1. Security Interest.

(a) As security for Guarantor's obligations under the Guaranty (the "Guarantor Obligations"), including but not limited to for the payment, performance and discharge of any and all of the obligations of Borrower under the Note and any of the other Loan Documents, Guarantor does hereby grant to Secured Party a lien on, and security interest in, All Assets of Guarantor, including but not limited to, all of Guarantor's Accounts, Equipment, Inventory, Machinery, Fixtures, General Intangibles, Documents, Instruments, books and records (including but not limited to manual records, computer runs, printouts, tapes, disks, software programs, source codes and other computer prepared information and equipment of any kind) and any other tangible or intangible personal property of Guarantor, whether now owned or hereafter acquired, including all policies of insurance thereon and all insurance proceeds in connection therewith, together with all cash and noncash proceeds and products thereof (collectively, the "Guarantor Collateral"). This document is intended to be a security agreement under the Uniform Commercial Code of the State of West Virginia and any other state in which any such Guarantor Collateral is located and all capitalized terms used in this Section 1.1(a) shall have the same meaning as ascribed to such terms in the Uniform Commercial Code of the State of West Virginia or such other state as applicable.

(b) Guarantor hereby assigns, conveys and delivers to Secured Party all of Guarantor's rights and interests in and to that certain option agreement, pursuant to which Guarantor has the right of first refusal with respect to

approximately 250 acres of property adjacent to or adjoining the Premises. Guarantor hereby agrees to execute and deliver to Secured Party any and all instruments of assignment to effectuate the foregoing.

(c) Guarantor hereby agrees to execute and deliver to Secured Party any and all UCC-1 Financing Statements and other documents and instruments requested by Secured Party to perfect or keep perfected any security interest created under this Security Agreement or in any other document or agreement made in connection with the Loan, and any such additional security agreements, financing statements, continuation statements or termination statements and other security interests creating a lien upon the Guarantor Collateral. Guarantor hereby appoints Secured Party as Guarantor's attorney-in-fact to execute and file in Guarantor's name all documents and instruments which Secured Party may deem necessary or appropriate to perfect and continue perfecting the security interest in the Guarantor Collateral.

2. Representations and Warranties. Guarantor hereby represents and warrants the following for the benefit of Secured Party with full knowledge that the Secured Party will rely thereon in accepting the Guarantor Collateral granted by this Security Agreement:

Document No. 304109

(a) Guarantor is a limited partnership duly organized, validly existing and in good standing under the laws of the State of West Virginia, and has the power and authority to own and operate its properties and to carry on its business where and as conducted and contemplated, and is in good standing in every jurisdiction where the nature of its business requires such qualification;

(b) The making, execution, issuance and performance by Guarantor of this Security Agreement, as well as any other document or instrument required to implement the objectives hereof, have each been duly authorized by all necessary partnership action and will not violate the provisions of any law or regulation or the Partnership Agreement or other governing documents or agreements of Guarantor and will not violate any agreement, trust or other indenture or instrument to which Guarantor is a party, or by which Guarantor or any of its property is bound, so that this Security Agreement, and each and all of the documents required to be executed in connection herewith or therewith, when executed, issued and delivered by Guarantor, will be the valid and binding obligations of Guarantor, enforceable in accordance with their respective terms;

(c) Except for the lien and security interest granted hereby from Guarantor to Secured Party and the existing recorded liens and security interests of One Valley Bank, Inc., the Guarantor Collateral will be owned by Guarantor free and clear of all liens, encumbrances, security interests or rights of third parties and upon perfection of Secured Party's security interest in the Guarantor Collateral, Secured Party will have a security interest in the Guarantor Collateral superior in right of preference to all other Liens other than Liens in favor of One Valley Bank, Inc.

(d) Guarantor's principal place of business is located at Charles Town Racetrack, U.S. Route 340, Charles Town, West Virginia 25414, and all tangible portions of the Guarantor Collateral will be located at Guarantor's principal place of business. So long as any portion of the Indebtedness remains outstanding and unpaid, Guarantor shall not change its principal place of business, nor the locations of the tangible portions of Guarantor Collateral without giving Secured Party at least ten (10) days prior written notice of such change of address.

3. Covenants. So long as any portion of the Indebtedness shall remain outstanding and unpaid, or Guarantor shall have any obligations under the Guaranty, Guarantor shall:

(a) Pay and discharge all debts in the ordinary course of business and otherwise conduct the business of Guarantor in accordance with sound business judgment consistent with custom and usage in its business;

(b) Not: (i) sell or dispose of any portion of the Guarantor Collateral other than in the ordinary course of business for full and fair consideration; nor (ii) permit any portion of the Guarantor Collateral to become encumbered or levied upon;

(c) Maintain the partnership existence of Guarantor and all necessary foreign qualifications in good standing; continue to comply with all applicable statutes, rules and regulations with respect to the conduct of Guarantor's business to the extent that same are material to the financial condition of Guarantor or the conduct of Guarantor's business; and maintain such licenses and permits required for the conduct of Guarantor's business or in connection with the business or Borrower;

(d) Maintain such personal liability, fire, casualty and property insurance from such insurers in such amounts as Secured Party shall direct, insuring the Guarantor Collateral and the business of Guarantor and to deliver to Secured Party a certificate of insurance evidencing the maintenance of such insurance providing that Secured Party shall have no less than thirty (30) days prior written notice of any amendment, modification or termination of such coverage. To the extent said insurance insures tangible portions of the Guarantor Collateral, Secured Party shall be named a "loss payee" with respect to such coverage;

(e) Promptly defend all actions, proceedings or claims which could have a material adverse effect on Guarantor or Guarantor's business or the Guarantor Collateral (or on Borrower, Borrower's business or the Collateral) and promptly notify Secured Party of the institution of, or change in, any such action, proceeding or claim if the same is in excess of \$100,000 for any single action, proceeding or claim, or \$250,000 in the aggregate; and

(f) Permit access by Secured Party and its representatives to the books and records and properties of Guarantor from time to time during regular business hours.

4. Events of Default. The following shall constitute an Event of Default hereunder:

(a) Any Event of Default under or breach by Borrower or Guarantor of any representation, warranty, covenant or other term of, the Loan Agreement, the Note, the Guaranty, the Pledge, the Mortgage, the Security Agreement, or any other Loan Document, or any document, agreement or instrument entered into or delivered in connection with any of the foregoing;

(b) The dissolution, liquidation or sale of all or substantially all of the assets of the Guarantor or Borrower, or the sale or encumbrance of any of the capital stock of Borrower; or

(c) The occurrence of any substantial deterioration of the Premises from its current condition.

5. Remedies.

(a) Upon any Event of Default hereunder and at the option of the Secured Party, the obligations of Guarantor secured by this Agreement shall become immediately due and payable in full without notice or demand and the Secured Party shall have all the rights, remedies and privileges with respect to repossession, retention and sale of the Guarantor Collateral and disposition of the proceeds thereof as are accorded by the applicable sections of the Uniform Commercial Code respecting "Default". In addition, and not by way of limitation, the Secured Party shall be entitled to enter upon the premises of Guarantor and to take peaceful possession of any or all of the Guarantor Collateral located therein as well as peaceful possession of all of the books and records of Guarantor.

(b) Upon any Event of Default and upon demand: (i) Guarantor shall assemble the Guarantor Collateral and make it available to the Secured Party at the place and at the time designated in the demand and shall furnish the Secured Party with a list of the names and addresses of all account debtors; and (ii) Secured Party may forthwith notify any and all account debtors of Guarantor of the existence of Secured Party's security interest in Guarantor's accounts and instruct any and all such account debtors to make payments with respect thereto to Secured Party or its designee. In the event that Secured Party forecloses on any tangible portion of the Guarantor Collateral, Secured Party may do so at public or private sale and in all such events Guarantor agrees that ten days prior notice to Guarantor shall constitute adequate notice thereof.

(c) Upon any Event of Default, the Secured Party's reasonable attorneys' fees and the legal and other expenses incurred in connection with the pursuing, searching for, receiving, taking, keeping, storing, advertising and selling of the Guarantor Collateral, or any of it, shall be chargeable to Guarantor and shall constitute a portion of the Guarantor Obligations and be secured by the Guarantor Collateral.

(d) Subject to the terms of the Guaranty, Guarantor shall remain liable for any deficiency resulting from a sale of the Guarantor Collateral and shall pay any such deficiency forthwith on demand. Nothing herein shall be constituted as requiring the Secured Party to enforce the within Security Agreement or to impair the Secured Party's rights to collect the Indebtedness without first foreclosing upon assets or enforcing the within Security Agreement.

(e) If Guarantor defaults in the performance of any of the provisions of this Agreement on its part to be performed, Secured Party may perform same for Guarantor's account and any monies expended in so doing shall be chargeable with interest (at 3% in excess of the Line Interest Rate) to Guarantor and added to the Guarantor Obligations secured hereby.

6. Miscellaneous Provisions.

(a) This Security Agreement shall be governed by, and construed in accordance with, the internal laws of the State of West Virginia with respect to contracts to be executed and performed in the State of West Virginia.

(b) This Security Agreement shall be binding upon the parties' respective successors, administrators and assigns, provided, however, that although Secured Party may assign its interest hereunder, Guarantor may not assign any of its obligations hereunder.

(c) All notices required hereunder shall be given in writing and shall be effective upon certified mailing of such notice, return receipt requested, to the following addresses unless either party hereto shall have given the other party hereto written notice of the change of such address in accordance with the provision of this Section 6(c):

If to Secured Party: Peter M. Carlino, Chairman
c/o Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Blvd., Suite 203

Wyomissing, PA 19610
Telecopier: 610-376-2842

If to Guarantor: Charles Town Racing Limited Partnership
Charles Town Race Track
U.S. Route 340
Charles Town, West Virginia 25414
Attention: D. Keith Wagner
Telecopier: 304-725-6979

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

CHARLES TOWN RACING LIMITED PARTNERSHIP
a West Virginia limited partnership

By: D.K.W., Inc., general partner and
attorney-in-fact for all general
partners

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

PNGI CHARLES TOWN GAMING LIMITED LIABILITY
COMPANY, by Penn National Gaming of West Virginia,
Inc., its Managing Member

By: /s/ William Bork 6/4/96
William Bork, President

Document No. 304109

STOCK PLEDGE AGREEMENT

THIS STOCK PLEDGE AGREEMENT (this "Pledge Agreement") is made this 8th day of May, 1996, by and between CHARLES TOWN RACING LIMITED PARTNERSHIP, a West Virginia limited partnership ("Pledgor"), and PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY, a West Virginia limited liability company ("Pledgee").

B A C K G R O U N D:

Pledgee is about to provide a line of credit to Charles Town Races, Inc., a West Virginia corporation and wholly-owned subsidiary of Pledgor ("Borrower"), in the principal amount of up to One Million Two Hundred and Fifty Thousand (\$1,250,000) Dollars (the "Loan") pursuant to the provisions of that certain Loan and Security Agreement between Borrower and Pledgee of even date herewith (the "Loan Agreement"), and evidenced by Borrower's Promissory Note of even date herewith (the "Note"). The obligations of Borrower under the Loan Documents is secured by a lien on and security interest in All Assets of Borrower and the Mortgage on Borrower's leasehold interest in the Premises (the foregoing, collectively, the "Collateral").

Pledgee is unwilling to make the Loan unless Pledgor guarantees payment of the Note and performance by Borrower of each and every term, covenant, condition and agreement contained therein and in the Loan Agreement and any other Loan Document and under any and all other agreements executed by Borrower to or for the benefit of Pledgee in connection with the Loan on the part of Borrower to be kept, observed or performed.

Pledgor desires to give such guaranty in order to induce Pledgee to make the Loan, and has therefore entered into the Guaranty of even date herewith. The obligations of Pledgor under the Guaranty are secured by: a lien on and security interest in All Assets of Pledgor pursuant to the Security Agreement, by all of the issued and outstanding capital stock of Borrower pursuant to this Pledge Agreement, and by a lien on and security interest in the Premises pursuant to the Mortgage, all as set forth in such documents and agreements (the foregoing, the "Pledgor Collateral").

Each initially-capitalized term used herein shall have the meaning ascribed to it in the Guaranty or in the Loan Agreement unless the context clearly requires to the contrary.

NOW THEREFORE, in consideration of the foregoing premises and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by

Document No. 304111

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Pledgor, and intending to be legally bound hereby, Pledgor agrees as follows, for the benefit of Pledgee:

1. Pledge. To secure the payment and performance, when due, of the Obligations, Pledgor hereby pledges and assigns to Pledgee and grants Pledgee a security interest in the stock, which stock is currently evidenced by certificates, set forth on Schedule 1 attached hereto (which shares of stock of Corporation are referred to as the "Pledged Shares" and which certificates are referred to as the "Certificates"), together with all rights of Pledgor in and to any dividends or other distributions made on or with respect to the Pledged Shares, or in exchange therefore, whether as dividends in cash or property, stock dividends, stock splits, as a result of any recapitalization, reorganization, merger, exchange of shares, or otherwise. All cash dividends paid with respect to the Pledged Shares shall be applied first to the payment of the Note, and then to the payment of the balance of the Obligations, as determined by Pledgee.

2. Delivery of Pledged Shares. Pledgor has delivered, and by these presents does hereby deliver to Pledgee all of the Certificates, together with stock powers for each Certificate duly executed in blank for transfer by the registered owner of the Pledged Shares evidenced by each Certificate. Pledgee shall retain such Certificates and stock powers in its possession in pledge subject to the terms of this Agreement.

3. Additional Obligations. In addition to the Obligations, the security interests and pledges created hereby shall secure reimbursement of Pledgee for (i) all costs and expenses incurred in collection of all amounts due to Pledgee; (ii) all future advances made by Pledgee for taxes, levies, or maintenance of the Pledged Shares; (iii) all other expenses incurred by Pledgee for the account of Pledgor; (iv) performance by Pledgor of the agreements set forth in this Agreement or contemplated by this Agreement (including pursuant to any of the other Loan Documents); and (v) interest on all of the foregoing at the rate set forth in the Note.

4. Representations. The Pledgor warrants and represents; that it owns the Pledged Shares; that there are no restrictions upon the transfer of the Pledged Shares; that the Pledgor has the right to transfer the Pledged Shares to Pledgee as provided for herein free of any liens, encumbrances or restrictions and without obtaining the consent of any person, corporation, or other legal entity; and that the Pledged Shares represent all of the issued and outstanding capital stock of Borrower.

5. Capital Structure. In the event that during the term of this Agreement any stock dividend, reclassification, readjustment, or other change is declared or made in the capital structure of Borrower, Pledgor shall, immediately after receipt thereof, deliver to Pledgee, all new, substituted or additional shares, or other securities of any kind, issued by reason of any such change, to be held by Pledgee under the terms of this Agreement and in the same manner as the Pledged Shares originally pledged hereunder. Pledgee shall have the right at any time, whether before or after an Event of Default, as defined herein, to transfer the Pledged Shares to its name or to the name of its nominee.

6. Pledgor's Covenants. Until the termination of this Agreement and the pledge created hereby: Pledgor shall not, and shall not permit Borrower, without the prior written consent of Pledgee, to undertake any of the following:

(a) The sale, transfer, pledge, hypothecation or other encumbrance or the execution of an agreement contemplating any of the foregoing for all or any part of the Pledged Shares;

(b) The merger or consolidation or execution of an agreement for the merger or consolidation of Borrower or Pledgor into or with any other firm or corporation or the total or partial liquidation or dissolution of Borrower or Pledgor or the adopting of a plan or agreement for the total or partial liquidation or dissolution of Borrower or Pledgor;

(c) The issuance or agreement to issue any shares of capital stock of Borrower or partnership interests of Pledgor or any options, warrants, or rights to purchase or convertible into shares of capital stock of Borrower or partnership interests of Pledgor;

(d) The filing by Borrower or Pledgor of a petition under any federal or state law for the relief of debtors, the making of an assignment by Borrower or Pledgor for the benefit of its creditors, or the appointment of a receiver or trustee for Borrower or Pledgor;

(e) The declaration or payment of any dividends or other distributions, whether in cash, property, or shares of capital stock of Borrower or in any manner with respect to the Pledged Shares.

7. Further Assurances. Pledgor will, upon Pledgee's request, and in confirmation of the security interest hereby created, execute and deliver to Pledgee such further acts, deeds, transfers, assurances, financing and continuation statements, and agreements, and take such other action, as Pledgee may reasonably request.

8. Events of Default. The following shall constitute an Event of Default hereunder:

(a) Any Event of Default under or breach by Borrower or Guarantor of any representation, warranty, covenant or other term of, the Loan Agreement, the Note, the Guaranty, this Pledge, the Mortgage, the Security Agreement, or any other Loan Document, or any document or instrument entered into or delivered in connection with any of the foregoing; or

(b) The dissolution, liquidation or sale of all or substantially all of the assets of the Pledgor or Borrower, or the sale or encumbrance of any of the capital stock of Borrower.

9. Remedies. In the event of an Event of Default, Pledgee shall have and may exercise all of the rights and remedies available to a secured party under the Uniform Commercial Code as in effect in the State of West Virginia and all other applicable laws.

If, in the enforcement of the foregoing rights and remedies, Pledgee shall propose to dispose of all or any portion of the Pledged Shares, Pledgor agrees that ten (10) days prior written notice, sent to Pledgor shall be adequate and reasonable notice.

Pledgor acknowledges and agrees that Pledgee may be unable to effect a public sale of the Pledged Shares, or any part thereof, by reason of certain prohibitions contained in the Securities Act of 1933, as amended, or state securities laws and that private sales made at prices and other terms less favorable than those which might be obtainable at public sales shall not for that reason be deemed to have not been made in a commercially reasonable manner and that Pledgee has no obligation to delay any such private sale to permit the registration of any of the Pledged Shares under said Act or other laws.

10. Indemnification. Pledgor shall indemnify, defend and hold harmless Pledgee and its officers, directors, members and agents from and against any loss, liability, damage, or expense which Pledgee or any such party may incur without willful default on its part arising out of or in connection with this Agreement or the taking, holding, and/or disposing of the Pledged Shares, including fees, costs and expenses of defending itself against any claims of liability hereunder, provided however, the obligations of Pledgor under the foregoing indemnification shall be limited to the assets of Pledgor.

11. Rights of Pledgor in Pledged Shares. For so long as there is no Event of Default, Pledgor shall retain and may exercise all rights of or incident to the ownership of the Pledged Shares, including voting rights, which are not inconsistent with the terms of this Agreement; provided that Pledgor shall not vote the Pledged Shares in any manner contrary to the terms or intent hereof.

12. Termination. This Agreement and the security interest and pledge created hereby shall terminate on the payment and performance in full by Borrower of the Indebtedness and the satisfaction in full by Pledgor of all the Obligations. Upon termination, Pledgee shall deliver to Pledgor all the Certificates, with all stock powers therefor.

13. Waivers. Pledgee shall at all times have the right to enforce the provisions of this Agreement in strict accordance with the terms hereof, notwithstanding any conduct or custom to the contrary. The failure of Pledgee at any time to enforce its rights hereunder shall not be construed as having created a custom contrary to the provisions of this Agreement, as having modified in any manner the terms hereof, or as preventing Pledgee from thereafter enforcing strict compliance. All rights and remedies of Pledgee are cumulative and concurrent and the exercise of one right or remedy shall not be deemed a waiver or release of any other right or remedy.

14. Miscellaneous.

(a) Notices. All notices, requests, demands, claims, and other communications hereunder will be in writing. Any notice, request, demand, claim, or other communication hereunder shall be deemed duly given if (and then two

business days after) it is sent by registered or certified mail, return receipt requested, postage prepaid, and addressed to the intended recipient as set forth below:

If to Pledgor: Charles Town Racing Limited
Partnership
Charles Town Racetrack
U.S. Route 340
Charles Town, West Virginia 25414
Attention: D. Keith Wagner
Telecopier: 304-725-6979

If to Pledgee: Peter M. Carlino, Chairman
c/o Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Blvd., Suite 203
Wyomissing, PA 19610
Telecopier: 610-376-2842

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Any party hereto may give any notice, request, demand, claim or other communication hereunder using any other means (including personal delivery, expedited courier, messenger service, tele copy, telex, ordinary mail, or electronic mail), but no such notice, request, demand, claim, or other communication shall be deemed to have been duly given unless and until it actually is received by the individual for whom it is intended. Any party hereto may change the address to which notices, requests, demands, claims, and other communications hereunder are to be delivered by giving the other parties hereto notice in the manner herein set forth.

(b) Entire Agreement. This Agreement constitutes the entire agreement between the parties with respect to the subject matter hereof, and may not be changed, nor any rights or remedies waived, except in writing, signed by the party sought to be bound by such change or waiver.

(c) Headings. The headings of sections and paragraphs of this Agreement are for convenience of reference only, and in case of any conflict the text of this Agreement, rather than such headings, shall control.

(d) Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the State of West Virginia.

(e) Counterparts. This Agreement may be executed in any number of copies, and by the different parties hereto on the same or separate counterparts, each of which shall be deemed to be an original instrument.

IN WITNESS WHEREOF, the parties have executed this Agreement, under seal, the day and year first above written.

CHARLES TOWN RACING LIMITED PARTNERSHIP

By: D.K.W., Inc., general partner and
attorney-in-fact for all general partners
of the Partnership

By: /s/ D. Keith Wagner (SEAL)
D. Keith Wagner, President

PNGI CHARLES TOWN GAMING LIMITED LIABILITIES COMPANY, by
Penn National Gaming of West Virginia, Inc., its
Managing Member

By: /s/ William Bork 6/4/96
William Bork, President

Schedule 1

Name of Issuer (Corporation")	No. of Shares	Certificate No.
Charles Town Races, Inc.	2,000	1

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