SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended December 31, 1998

OR

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

For the transition period from _____ to _____

Commission File Number 0-24206

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

PENNSYLVANIA	23-2234473	Wyomissing Professional Center 825 Berkshire Blvd., Suite 200 Wyomissing, Pennsylvania	19610
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)	(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Securities registered pursuant to Section 12(g) of the Act:

Title of Each Class
Common stock par value .01 per share

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. X

Aggregate market value of the voting common stock held by nonaffiliates of the Registrant as of March 19, 1999 was approximately $106,073,740.

Number of Shares of Common Stock outstanding as of March 19, 1999 - 14,757,059

Documents Incorporated by Reference

Registrants Definitive Proxy Statement with respect to annual meeting of Shareholders to be held on May 5, 1999.

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

References to "Penn National Gaming" or the "Company" include Penn National Gaming, Inc. and its subsidiaries.

PART 1

ITEM 1 BUSINESS

GENERAL

The Company, which began operations in 1972, is a diversified gaming and pari-mutuel wagering company that owns and operates two racetracks and ten off-track wagering facilities ("OTWs") in Pennsylvania, and the Charles Town Joint Venture which is an entertainment complex that includes a thoroughbred racetrack and gaming machines in Charles Town, West Virginia (89% owned). The Company's Pennsylvania racetracks include Penn National Race Course, located outside Harrisburg, one of two thoroughbred racetracks in Pennsylvania, and Pocono Downs, located outside Wilkes-Barre, one of two harness racetracks in Pennsylvania. The Company intends to develop the one additional OTW that has been allocated to it under Pennsylvania law, after which it would operate 11 of the 23 OTWs currently authorized in Pennsylvania. Between 1994 and 1998, the Company increased total wagers at a compound annual growth rate of 12.9% by expanding its simulcast and OTW operations.

INDUSTRY OVERVIEW

Pari-mutuel wagering on thoroughbred or harness racing is pooled wagering in which a pari-mutuel wagering system totals the amounts wagered and adjusts the payouts to reflect the relative amounts bet on different horses and various possible outcomes. The pooled wagers are (i) paid out to bettors as winnings in accordance with the payoffs determined by the pari-mutuel wagering system, (ii) paid to the applicable regulatory or taxing authorities and (iii) distributed to the track's horsemen in the form of "purses" which encourage owners and trainers to enter their horses in that track's live races. The balance of the pooled wagers is retained by the wagering facility. Pari-mutuel wagering is currently authorized in more than 40 states in the United States, all provinces in Canada and approximately 100 other countries around the world.

Gaming and wagering companies, such as the Company, that focus on pari-mutuel horse race wagering derive revenue through wagers placed at their own tracks, at their OTWs and on their own races at the tracks and OTWs of others. While some states, such as New York, operate off-track betting locations that are independent of racetracks, in other states (such as Pennsylvania) racetrack ownership and operation is a precondition to OTW ownership and operation. Owning a racetrack in such a state, then, is akin to an "admission ticket" to the OTW business. Over the past several years, attendance at live racing has generally declined; however the decline in revenues from live racing has been more than offset by an increase in telephone wagering, off-track wagering in and gaming machine operations.

STRATEGY

The Company intends to be a leading operator in the pari-mutuel wagering industry by capitalizing on its horse racing expertise and its numerous wagering locations and when possible expand them to include gaming machines ("Gaming Wagering"). The Company plans to increase revenue significantly by using the following strategies:

Focus on Gaming Machine Operations. The Company intends to seek legislation to permit it to operate gaming machines at its racetracks where not now permitted and to expand legislation in West Virginia. Legislation has been passed in West Virginia, subject to the Governor's signature or veto, which would allow coin out and reel slot machines at race tracks. If such legislation is signed by the Governor, the Company intends to convert some or all of its current machines to coin out and increase the maximum number of machines with reel slot machines.

Open Additional OTWs. The Company operates ten of the 20 OTWs now open in Pennsylvania and has the right to operate one of the three remaining OTWs that have been authorized in Pennsylvania. The Company's OTWs are located in Allentown, Carbondale, Chambersburg, Erie, Hazleton, Johnstown, Lancaster, Reading, Williamsport and York, Pennsylvania. At OTWs, customers can place

wagers on thoroughbred and harness races simulcast from the Company's racetracks and on import simulcast races from other tracks around the country. Under the Pennsylvania Racing Act, only licensed thoroughbred and harness racing associations, such as the Company, can operate OTWs or accept customer wagers on simulcast races at Pennsylvania racetracks. The Company plans (subject to the receipt of remaining regulatory approvals, including site approvals) to open and operate an additional OTW in Stroudsburg, Pennsylvania, and to seek legislation in other jurisdictions to operate additional OTW's.

Expand Simulcasting Operations. Simulcasting involves the transmission to, or the receipt of, the audio and/or video signals of a live racing event through a satellite for re-transmission at a different wagering location. The Company transmits simulcasts of Company races to other wagering locations year-round and receives simulcasts of races from other locations for wagering by its customers at the Company's facilities year-round. During the past five years, the Company expanded its simulcasting operations and took advantage of favorable changes in pari-mutuel wagering and simulcasting laws in various states and the expanded use of simulcasting technology. Import simulcasting generates revenue for the Company by maximizing the number of events available to a patron for wagering at the Company's facilities by utilizing idle time between races at Company racetracks and OTWs. When customers place wagers on import simulcast races, of the amount not returned to bettors as winning wagers, a portion is paid to the state in which the Company's wagering facility is located, a portion is paid to the "purse" fund for the horse owners and trainers at the Company's racetrack with which the wagering facility is associated, a portion is paid as a simulcast fee to the originating track and the balance is retained by the wagering facility and/or track. In order to promote wagering, the Company has increased and expects to continue to increase full-card import simulcasts from premier racetracks. The Company currently receives import simulcasts from approximately 77 racetracks, including premier racetracks such as Belmont Park, Churchill Downs, Gulfstream Park, Hollywood Park, Santa Anita and Saratoga. The Company believes that "full-card" import simulcasting, in which all of the races at a non-Company track are import simulcast to a Company wagering facility, has improved the wagering opportunities for its customers and thereby increased the amount wagered at Company facilities. Export simulcasting generates revenue for the Company by increasing the consumer base for Company races beyond Company racetracks and OTWs. The Company transmits export simulcasts of Company races to approximately 126 locations and receives a flat percentage of the amounts wagered on Company races at non-Company locations, while incurring minimal additional expense. The Company intends to increase export simulcasting of races from Company-owned tracks to out-of-state racetracks, OTWs, casinos and other gaming facilities.

Capitalize on Other Gaming and Pari-Mutuel Wagering Opportunities. The Company intends to continue identifying opportunities in the gaming and pari-mutuel wagering industries which complement the Company's core operations and leverage its pari-mutuel management and operating strengths. Management also intends to explore other opportunities to capitalize upon changes in gaming legislation, including legislation relating to gaming machines.

ACQUISITIONS

Pocono Downs Acquisition

On November 27, 1996, the Company acquired Pocono Downs for an aggregate purchase price of $48.2 million plus approximately $730,000 in acquisition-related fees and expenses. In addition, pursuant to the terms of the purchase agreement, the Company will be required to pay the sellers of Pocono Downs an additional $10.0 million if, within five years after the consummation of the acquisition of Pocono Downs, Pennsylvania authorizes any additional form of gaming in which the Company may participate. The $10.0 million payment is payable in annual installments of $2.0 million a year for five years, beginning on the date that the Company first offers such additional form of gaming. As of March 19, 1999, no such additional form of gaming in Pennsylvania has been adopted, therefore no such payment is due at this time.

Charles Town Acquisition

On January 15, 1997, the Charles Town Joint Venture acquired substantially all of the assets of Charles Town Races for an aggregate net purchase price of approximately $16.0 million plus approximately $2.2 million in acquisition-related fees and expenses. Prior to its acquisition by the Charles Town Joint Venture, Charles Town Races conducted live thoroughbred horse racing, on-site pari-mutuel wagering on live races run at Charles Town Races and wagering on import simulcast races. The Company has refurbished and reopened the facility as the Charles Town Entertainment Complex, which features live racing,

dining, simulcast wagering and, effective September 1997, gaming machines. The cost of the refurbishment, exclusive of the cost of the gaming machines, was approximately $27.8 million.

GAMING MACHINE OPERATIONS AT CHARLES TOWN ENTERTAINMENT COMPLEX

On November 5, 1996, Jefferson County, West Virginia approved a referendum authorizing the installation and operation of gaming machines at the Charles Town Entertainment Complex. As a result, the Company consummated the Charles Town Acquisition on January 15, 1997. In April 1997, the Company reopened the Charles Town Entertainment Complex, featuring live racing, dining and simulcast wagering. In September 1997, the Company expanded wagering opportunities by installing gaming machines at the Charles Town Entertainment Complex. The gaming machines are dollar bill-fed video gaming machines that replicate traditional spinning reel slot machines and also feature video card games, such as blackjack and poker. Legislation has been passed in West Virginia, subject to the Governor's signature or veto, which would allow coin out and reel slot machines at racetracks. If such legislation is signed by the Governor, the Company intends to convert some or all of its current machines to coin out and increase the maximum number of machines with reel slot machines. The West Virginia Video Lottery Act specifies a 20% maximum percentage of each dollar wagered on gaming machines which can be retained by the Company. The balance of each dollar wagered must be paid out to the public as winning wagers. Of the portion retained by the Company, a portion is paid to taxing authorities and other beneficiary organizations mandated by the State of West Virginia and a portion is paid to the Charles Town Horsemen in the form of purses. The Company has installed and is operating, as of March, 1999, 899 gaming machines at the Charles Town Entertainment Complex. The Company has obtained all necessary approvals for the installation and operation of a total of 1,000 gaming machines at the Charles Town Entertainment Complex and will increase the number of gaming machines if demand warrants and they are approved by the West Virginia Lottery Commission.

RACING AND PARI-MUTUEL OPERATIONS

The Company's racing and pari-mutuel revenues have been derived from (i) wagering on the Company's live races (a) at the Company's racetracks, (b) at the Company's OTWs, (c) at other Pennsylvania racetracks and OTWs and (d) through telephone wagering, as well as wagering at the Company's racetracks on certain stakes races run at out-of-state racetracks (collectively, referred to in the Company's financial statements as "pari-mutuel revenues from live races"), (ii) wagering on full-card import simulcasts at the Company's racetracks and OTWs and through telephone wagering (collectively, referred to in the Company's financial statements as "pari-mutuel revenues from import simulcasting") and (iii) fees from wagering on export simulcasting Company races at out-of-state locations (referred to in the Company's financial statements as "pari-mutuel revenues from export simulcasting"). The Company's other revenues have been derived from admissions, program sales, food and beverage sales and concessions and certain other ancillary activities.

Pari-Mutuel Revenues

Revenues from Company races consist of the total amount wagered, less the amount paid as winning wagers. Of the amount not returned to bettors as winning wagers, a portion is paid to the state in which the track is located, a portion is distributed to the track's horsemen in the form of "purses" and the balance is retained by the wagering facility. The Pennsylvania Racing Act specifies the maximum percentages of each dollar wagered on horse races in Pennsylvania which can be retained by the Company (prior to required payments to the horse owners (the "Horsemen") in Pennsylvania and applicable taxing authorities). The percentages vary, based on the type of wager; the average percentage which is retained by the Company has approximated 20%. The balance of each dollar wagered must be paid out to the public as winning wagers. With the exception of revenues derived from wagers at the Company's racetracks and OTWs, the Company's revenues on each race are determined pursuant to such maximum percentage and agreements with the other racetracks and OTWs at which wagering is taking place. Amounts payable to the Pennsylvania Horsemen are determined under agreements with the Pennsylvania Horsemen ("Horsemen Agreements")and vary depending upon where the wagering is conducted and the racetrack at which such races take place. The Pennsylvania Horsemen receive their share of such wagering as race purses. The Company retains a higher percentage of wagers made at its own facilities than of wagers made at other locations. The West Virginia Racing Act provides for a similar disposition of pari-mutuel wagers placed at the Charles Town Entertainment Complex, with the average percentage of wagers retained by the Company having been approximately 20% (prior to required payments to the Charles Town Horsemen and to applicable West Virginia taxing authorities and other mandated beneficiary organizations).

Simulcasting

The Company has been transmitting simulcasts of its races to other wagering locations and receiving simulcasts of races from other locations for wagering by its customers at Company facilities year-round, for more than five years. When customers place wagers on import simulcast races, the Company receives revenue and incurs expense in substantially the same manner as it would if the race had been run at one of the Company's own tracks: of the amount not returned to bettors as winning wagers, a portion is paid to the state in which the Company wagering facility is located, a portion is paid to the purse fund for the horse owners or trainers (thoroughbred or harness) of the Company's racetrack with which the wagering facility is associated, a portion is paid to the racetrack from which the race is simulcast and the balance is retained by the Company. The Company believes that full-card import simulcasting, in which all of the races at a non-Company track are import simulcast to a Company wagering facility, has improved the wagering opportunities for its customers and thereby increased the amount wagered at Company facilities. When the Company export simulcasts Company races for wagering at non-Company locations, it receives a fixed percentage of the amounts wagered on that race from the location to which the simulcast is exported, while incurring minimal additional expense. During the years ended December 31, 1997 and 1998, respectively, the Company received import simulcasts from approximately 75 and 77 racetracks, respectively, including premier racetracks such as Belmont Park, Church Hill Downs, Gulfstream Park, Hollywood Park, Santa Anita and Saratoga and transmitted export simulcasts of Company races to 98 and 126 locations, respectively.

Pursuant to an agreement among the members of the Pennsylvania Racing Association, the Company and the two other Pennsylvania racetracks provide simulcasts of all their races to all of each other's facilities and set the commissions payable on such races. In addition, the Company has short-term agreements with various racetracks throughout the United States to import simulcast from, and export simulcast to, their facilities; these agreements include import simulcasts of major stakes races. The Company believes that import simulcasting of out-of-state races, including full card import simulcasting, is beneficial economically to the Company because it makes available wagering on higher quality races and which tends to increase the size of the average wager.

Telephone Wagering

In 1983, the Company pioneered Telebet, Pennsylvania's first telephone account wagering system. A telebet customer opens an account by depositing funds with the Company. Account holders can then place wagers by telephone on Company races and import simulcast races to the extent of the funds on deposit in the account; any winnings are posted to the account and are available for withdrawal or future wagers. In December 1995, Pocono Downs instituted Dial-A-Bet, a similar telephone account betting system.

Operating Data of the Company

The following table summarizes certain key operating statistics for the Company's pari-mutuel operations and their respective OTWs, including the pro forma presentation of data assuming the acquisition of Pocono Downs occurred on January 1, 1994:

	YEAR ENDED DECEMBER 31				
	1994	1995	1996	1997	1998
	(DOLLARS IN THOUSANDS, EXCEPT AVERAGE DAILY PURSES)				
NUMBER OF LIVE RACING DAYS:					
Penn National Race Course	219	204	206	212	206
Pocono Downs	143	135	134	134	135
Charles Town Races	-	-	-	159	206
TOTAL ATTENDANCE: (4)					
Penn National Race Course (1)	485,224	430,128	370,898	339,487	304,220
Pocono Downs (1)	253,521	242,870	377,830	370,090	263,591
Reading OTW	253,183	246,012	214,314	178,237	159,818
Chambersburg OTW	110,075	143,554	132,447	125,448	105,384
York OTW	-	232,109	238,610	225,672	213,929
Lancaster OTW	-	-	92,641	158,003	142,027
Williamsport OTW	-	-	-	81,797	66,378
Johnstown OTW	-	-	-	-	25,411
Erie OTW	129,074	116,367	113,169	94,429	99,726
Allentown OTW	275,118	272,491	271,706	252,909	258,237
Carbondale OTW	-	-	-	-	62,757
Hazleton OTW	-	-	-	-	60,706
Total paid attendance (1)	1,506,195	1,683,531	1,811,615	1,762,184	1,826,072
TOTAL WAGERING: (1) (2)					
Penn National Race Course	$ 91,898	$ 85,661	$ 75,708	$ 69,687	$ 70,155
Pocono Downs	51,980	57,784	53,190	47,217	38,867
Reading OTW	39,714	42,810	41,320	30,811	29,178
Chambersburg OTW	14,589	24,365	25,024	24,899	22,336
York OTW	-	42,140	49,864	45,245	43,873
Lancaster OTW	-	-	13,079	29,292	29,131
Williamsport OTW	-	-	-	9,684	10,461
Johnstown OTW	-	-	- -		3,977
Erie OTW	26,404	29,379	27,200	21,767	20,737
Allentown OTW	52,676	56,440	56,216	58,681	56,719
Carbondale OTW	-	-	-	-	10,284
Hazleton OTW	-	-	-	-	9,926
Penn National Telebet	7,967	8,281	8,423	9,473	10,333
Pocono Downs Dial-A-Bet	-	75	5,510	8,179	9,088
Export simulcasting:					
Penn National Race Course	90,878	113,639	148,702	181,281	199,041
Pocono Downs	25,723	30,121	32,493	26,426	23,986
Charles Town Races	-	-	-	40,195	65,552
Total wagering	$ 401,829	$ 490,695	$ 536,729	$ 602,836	$ 659,649

	YEAR ENDED DECEMBER 31				
	1994	1995	1996	1997	1998
	(DOLLARS IN THOUSANDS, EXCEPT AVERAGE DAILY PURSES)				
AVERAGE DAILY PURSES:					
Penn National Race Course	$ 48,560	$ 57,897	$ 62,328	$ 60,623	$ 63,374
Pocono Downs	35,790	42,314	42,313	40,149	41,363
Charles Town Races	-	-	-	25,805	50,985
Total average daily purse	$ 84,350	$ 100,211	$ 104,641	$ 126,577	$ 155,722
GROSS MARGIN FROM WAGERING: (3)					
Penn National Race Course	$ 17,963	$ 24,915	$ 27,955	$ 28,669	$ 29,068
Pocono Downs	16,653	17,838	17,805	16,920	18,820
Charles Town Races	-	-	-	3,099	5,878
Total gross margin from wagering	$ 34,616	$ 42,753	$ 45,760	$ 48,688	$ 53,766

(1) Does not reflect attendance for wagering on simulcasts when live racing is not conducted (i) for all periods presented, in the case of Penn National Race Course (ii) for the years ended December 31, 1994-1995, in the case of Pocono Downs.

(2) Wagering on certain stakes races is included in Wagering on the Penn National Race Course races.

(3) Amounts equal total pari-mutuel revenues, less purses paid to the Horsemen, taxes payable and simulcast commissions or host track fees paid to other racetracks.

(4) Does not include attendance for Charles Town Races.

Live Racing

The following table summarizes the Company's live racing facilities:

RACING FACILITY	LOCATION	DATE OPENED/STATUS	OPERATIONS CONDUCTED
Penn National Race Course	Grantville, PA	Constructed in 1972; operated by the Company since 1972	Live thoroughbred racing; simulcast wagering; dining; telephone account wagering
Pocono Downs	Plains Township, PA	Constructed in 1965; operated by the Company since November 1996	Live harness racing; simulcast wagering; dining; telephone account wagering
Charles Town Races at the Charles Town Entertainment Complex	Charles Town, WV	Charles Town Races was constructed in 1933; acquired by Charles Town Joint Venture on January 15, 1997; refurbished in 1997 and reopened as the Charles Town Entertainment Complex	Live thoroughbred racing; simulcast wagering; dining (this facility is adjacent gaming machine operations)

The Penn National Race Course is located on approximately 225 acres approximately 15 miles northeast of Harrisburg, 100 miles west of Philadelphia and 200 miles east of Pittsburgh. There is a total population of approximately 1.4 million persons within a radius of approximately 35 miles around the Penn National Race Course and approximately 2.2 million persons within a 50-mile radius. The property includes a one mile all-weather thoroughbred racetrack and a 7/8-mile turf track. The property also includes approximately 400 acres surrounding the Penn National Race Course which are available for future expansion or development.

The Penn National Race Course's main building is the grandstand/clubhouse, which is completely enclosed and heated and, at the clubhouse level, fully air-conditioned. The building has a capacity of approximately 15,000 persons with seating for approximately 9,000, including 1,400 clubhouse dining seats. Several other dining facilities and numerous food and beverage stands are situated throughout the facility. Television sets for viewing live racing and simulcasts are located throughout the facility. The pari-mutuel wagering areas are divided between those available for on-track wagering and those available for simulcast wagering.

The Penn National Race Course includes stables for approximately 1,250 horses, a blacksmith shop, veterinarians' quarters, jockeys' quarters, a paddock building, living quarters for grooms, a cafeteria and recreational building in the backstretch area and water and sewage treatment plants. Parking facilities for approximately 6,500 vehicles adjoin the Penn National Race Course.

The Company has conducted live racing at Penn National Race Course since 1972, and has held at least 204 days of live racing at the facility in each of the last five years. The Penn National Race Course is one of only two thoroughbred racetracks in Pennsylvania. Post time at Penn National Race Course is 7:30 p.m. on Wednesdays, Fridays and Saturdays, and 5:00 p.m. on Sundays and holidays.

Pocono Downs is located on approximately 400 acres in Plains Township, outside Wilkes-Barre, Pennsylvania. There is a total population of approximately 785,000 persons within a radius of approximately 35 miles around Pocono Downs and approximately 1.5 million persons within a 50-mile radius. The property includes a 5/8-mile all-weather, lighted harness track. Pocono Downs's main buildings are the grandstand and the clubhouse. The clubhouse is completely enclosed, heated and fully air-conditioned. The grandstand has enclosed, heated and air-conditioned seating for approximately 500 persons and permanent open-air stadium-style seating for approximately 2,500 persons. The clubhouse is a tiered dining and wagering facility that seats approximately 1,000 persons. The clubhouse dining area seats 500 persons. Television sets for viewing live racing and simulcasts are located throughout the facility along with pari-mutuel wagering areas.

A two-story 14,000 square foot building which houses the Pocono Downs offices is located on the property. Pocono Downs also includes stables for approximately 950 horses, five paddock stables, quarters for grooms, two blacksmith shops and a cafeteria for the Harness Horsemen. Parking facilities for approximately 5,000 vehicles adjoin the track.

The acquisition of Pocono Downs was consummated following the last day of racing at Pocono Downs for the 1996 season. The Company resumed live racing at Pocono Downs in April 1997. The Company conducted 134 and 135 days of live harness racing at the facility during 1997 and 1998 racing seasons, respectively. Post time at Pocono Downs is 7:15 p.m.

The Charles Town Entertainment Complex is located on a portion of a 250-acre parcel in Charles Town, West Virginia, which is approximately a 60-minute drive from Baltimore, Maryland and a 70-minute drive from Washington, D.C. There is a total population of approximately 3.1 million persons within a 50-mile radius and approximately 9.0 million persons within a 100-mile radius of the Charles Town Entertainment Complex. The property includes a 3/4-mile thoroughbred racetrack. The Charles Town Entertainment Complex's main building is the grandstand/clubhouse, which is completely enclosed and heated. The clubhouse dining room has seating for 600. Additional food and beverage areas are situated throughout the facility. The property surrounding the Charles Town Entertainment Complex, including the site of the former Shenandoah Downs Racetrack, is available for future expansion or development. In addition, the Company has a right of first refusal for an additional 250 acres that are adjacent to the Charles Town Entertainment Complex. The Charles Town Entertainment Complex also includes stables, an indoor paddock, ample parking and water and sewage treatment facilities.

The Charles Town Races reopened in April 1997. The Company conducted 159 and 206 days of thoroughbred racing at the facility during 1997 and 1998 racing seasons, respectively. Post time at the Charles Town Races is 7:15 p.m. on Mondays, Fridays and Saturdays, 4:00 p.m. on Wednesdays and 1:00 p.m. on Sundays. Although other regional racetracks offer nighttime thoroughbred racing, Penn National Race Course and Charles Town Races are the only racetracks in the Eastern time zone conducting year-round nighttime thoroughbred horse racing, which the Company believes increases its opportunities to export simulcast its races during periods in which other racetracks are not conducting live racing.

OTWs

The Company's OTWs provide areas for viewing import simulcasts and televised sporting events, placing pari-mutuel wagers and dining. The facilities also provide convenient parking.

FACILITY/LOCATION	DATE OPENED/STATUS	SIZE (SQ.FT.)	COST (1)	OWNED/LEASED
Allentown, PA	Opened 7/93	28,500	$ 5,207,000	Owned
Carbondale, PA	Opened 3/98	13,000	$ 2,661,000	Owned
Chambersburg, PA	Opened 4/94	12,500	$ 1,500,000	Leased
Erie, PA	Opened 5/91	22,500	$ 3,575,000	Owned
Hazleton, PA	Opened 3/98	13,000	$ 1,868,000	Leased
Johnstown, PA	Opened 9/98	14,220	$ 1,300,000	Leased
Lancaster, PA	Opened 7/96	24,000	$ 2,700,000	Leased
Reading, PA	Opened 5/92	22,500	$ 2,100,000	Leased
Williamsport, PA	Opened 2/97	14,000	$ 3,000,000	Owned
York, PA	Opened 3/95	25,000	$ 2,200,000	Leased
Stroudsburg, PA	License authorized; approval to operate pending; site selected	12,000	$ 2,000,000 (estimated)	Leased (2)

(1) Consists of original construction costs, equipment and, for owned properties, the cost of land and building.

(2) The Company is licensed to operate one additional OTW and has identified a site to operate the OTW facility in Stroudsburg, Pennsylvania, subject to receipt of all applicable approvals to operate this site.

The Company considers its properties adequate for its presently anticipated purposes.

POTENTIAL TENNESSEE DEVELOPMENT PROJECT

In June 1997, the Company acquired twelve one-month options to purchase approximately 100 acres of land in Memphis, Tennessee. Since such time, the Company, through its subsidiary, Tennessee Downs, Inc. ("Tennessee Downs"), has pursued the development of a harness track and simulcast facility which is located in the northeastern section of Memphis (the "Tennessee Development Project"). The Company submitted an application to the Tennessee State Racing Commission (the "Tennessee Commission") in October 1997 for an initial license for the development and operation of a harness track and OTW facility at this site. A land use plan for the construction of a 5/8-mile harness track, clubhouse and grandstand area was approved in October 1997 by the Land Use Hearing Board for the City of Memphis and County of Shelby. Tennessee Downs was determined to be financially suitable by the Tennessee Commission and a public comment hearing before the Tennessee Commission was held in November 1997. In December 1997, the Company received the necessary zoning and land development approvals from the Memphis City Council.

In April 1998, the Tennessee Commission granted a license to the Company, which would expire on the earlier of: (i) December 31, 2000 or (ii) the expiration of Tennessee Commission's term on June 30, 1998, if such term was not extended by the Tennessee Commission. On May 1, 1998, the Tennessee State Legislature voted against extending the life of the Tennessee Commission, allowing the Tennessee Commission's term to expire on June 30, 1998. The Tennessee Commission held a meeting on May 29, 1998 at which it rejected the Company's request: (i) to grant the Company an extended timeframe for the effectiveness of its racing license; (ii) for racing days for the period ending December 31, 2000; and (iii) to operate a temporary simulcast facility. On July 28, 1998, the Company filed for a preliminary injunction and a declaratory ruling on the legal status of racing in Memphis. On November 23, 1998, the court ruled that the Racing Control Act had not been repealed and cannot be repealed by implication by dissolving the Tennessee Commission. It is the opinion of the court that because the Racing Control Act is still in force, horse-racing and pari-mutuel betting is a legal, unregulated activity in Tennessee. This opinion has been appealed by the Tennessee Attorney General. The Company intends to

continue its efforts to develop and operate a harness track in Tennessee. Costs incurred as of December 31, 1998 regarding the Tennessee license amount to $489,000 and are presented in prepaid expenses and other current assets.

If the State of Tennessee reinstates the Tennessee Commission or otherwise regulates racing, the Company plans to spend approximately $9.0 million in the next year to purchase the land subject to the option and build a combined OTW and grandstand facility. The Company estimates that total development costs, including subsequent track construction, will be approximately $15.5 million. In addition, it will be permitted to pursue the development of additional OTWs in Tennessee, provided it first obtains necessary approvals, including a public referendum for each proposed OTW site and other necessary zoning and land development approvals.

NEW JERSEY JOINT VENTURE

On January 28, 1999, pursuant to a First Amendment to an Asset Purchase Agreement by, between and among Greenwood New Jersey, Inc. ("Greenwood"), International Thoroughbred Breeders Inc., Garden State Race Track, Inc., Freehold Racing Association, Atlantic City Harness, Inc. and Circa 1850, Inc., the original parties to an Asset Purchase Agreement entered into as of July 2, 1998, and the Company (the "Agreement"), and pursuant to which the Company entered into a joint venture ("Joint Venture"), the Company, along with its Joint Venture partner, Greenwood, agreed to purchase certain assets of the Garden State Race Track and Freehold Raceway, both located in New Jersey (the "Acquisition").

The purchase price for the Acquisition is approximately $46 million (subject to reduction of certain disputed items, for which amounts have been placed in escrow). The purchase price consisted of $23 million in cash and $23 million pursuant to two deferred purchase price promissory notes in the amount of $22 million and $1 million each. The Company is responsible for 50% of the purchase price. The parties to the Joint Venture are also contingently liable to the sellers in amounts not to exceed a total of $10 million, if the Joint Venture receives various approvals for off-track wagering or phone betting.

The Joint Venture is contingent upon, among other things, the Company obtaining approvals necessary to effect the Joint Venture, which approvals include: (i) full and complete New Jersey regulatory approval (including but not limited to approval of the New Jersey Racing Commission); (ii) Hart Scott Rodino compliance; and (iii) the written consent of a majority of the holders of its $80 million Senior Notes issued December 17, 1997 to any necessary modification to the Indenture dated December 12, 1997 to permit the Company's investment in the Joint Venture. At the initial closing of the Acquisition on January 28, 1999, The Company loaned FR Park Racing, LP, a New Jersey limited partnership, $11,250,000 (at the Company's effective borrowing rate as specified in Note 3 under "Credit Facilities"), which is secured by certain assets. After obtaining the above approvals, the Company will invest an additional $11,750,000 into the Joint Venture with a portion of this amount treated as capital and the balance as debt. The Company will have a 50% interest in the Joint Venture.

MARKETING AND ADVERTISING

The Company seeks to increase wagering by broadening its customer base and increasing the wagering activity of its existing customers. To attract new customers, the Company seeks to increase the racing knowledge of its customers through its television programming, and by providing "user friendly" automated wagering systems and comfortable surroundings. The Company also seeks to attract new customers by offering various types of promotions including family fun days, premium give-away programs, contests and handicapping seminars.

Charles Town Gaming Machine Marketing Programs

The Company's marketing efforts, which include print and radio advertising, commenced in October 1997 and are focused on the Washington, D.C., Baltimore, Maryland, Northern Virginia, Eastern West Virginia and Southern Pennsylvania markets. At the Charles Town Entertainment Complex the Company established the Silver Screen Video Slots Club, a manual player tracking system designed to reward frequent and active customers. In 1999, the Company is installing a computerized player tracking system at the Charles Town Entertainment Complex, which will further focus the Company's marketing efforts. In 1998, the Company

implemented a coupon program where customers who visit the Charles Town Entertainment Complex can redeem the coupons for $5. From these coupons, the Company has compiled a database of customers which will be integrated into the new player tracking system.

Televised Racing Program

The Company's Racing Alive program is televised by satellite transmission commencing approximately one hour before post time on each live racing day at the Penn National Race Course. The program provides color commentary on the races at the Penn National Race Course (including wagering odds, past performance information and handicapper analysis), general education on betting and handicapping, interviews with racing personalities and featured races from other thoroughbred racetracks across the country. The Racing Alive program is shown at the Penn National Race Course and on various cable television systems in Pennsylvania and is transmitted to all OTWs that receive the Penn National Race Course races. The Company has expanded Racing Alive and created additional televised programming to cover racing at Pocono Downs and at other harness racing venues throughout the United States. The Company's satellite transmissions are encoded so that only authorized facilities can receive the program.

Automated Wagering Systems

To make wagering more "user friendly" to the novice and more efficient for the expert, the Company leases Autotote Corporation's automated wagering equipment. These wagering systems enable the customer to choose a variety of ways to place a bet through touch-screen interactive terminals and personalized portable wagering terminals, provide current odds information and enable customers to place bets and credit winning tickets to their accounts. Currently, more than 35% of all wagers at Penn National are processed through these self-service terminals and Telebet.

Modern Facilities

The Company provides a comfortable, upscale environment at each of its OTWs, including a full bar, a range of restaurant services and an area devoted to televised sporting events. The Company believes that its attractive facilities appeal to its current customers and to new customers, including those who have not previously visited a racetrack.

GTECH GAMING MACHINE SUPPLY AND SERVICE AGREEMENT

In June 1997, the Charles Town Joint Venture, which is operated as PNGI Charles Town Gaming, LLC, an 89% subsidiary of the Company, entered into an agreement (the "GTECH Agreement") with GTECH relating to the lease, installation and service of a video lottery system ("VLS") at the Charles Town Entertainment Complex. On November 18, 1998, the Company entered into an agreement to purchase GTECH's assets and rights related to the provision of gaming technology at Charles Town Races. Under the terms of the agreement, the Company assumed the ownership and operation of the 799 gaming devices and the central monitoring system for consideration of $12.9 million.

PURSES; AGREEMENTS WITH HORSEMEN

The agreements with the Horsemen at each of the Company's racetracks set forth the purses. The continuation of these agreements is required to allow the Company to conduct live racing and export and import simulcasting. (See "Racing and Pari-Mutuel Operations")

The Penn National Race Course Thoroughbred Horsemen Agreement was entered into in February 1996, and expired on February 15, 1999. Failing to reach an agreement through negotiations, on February 16, 1999, the Pennsylvania Thoroughbred Horsemen stopped racing at Penn National Race Course and withdrew their permission for the Company to import simulcast races from other racetracks. This resulted in the closure of Penn National Race Course and its six OTW facilities at Reading, Chambersburg, York, Lancaster, Williamsport and Johnstown. The Company continued its efforts to negotiate a new agreement with the Pennsylvania Thoroughbred Horsemen and on March 23, 1999 the Company signed a new Horsemen agreement with the Pennsylvania Thoroughbred Horsemen with an initial term that expires on January 1, 2004. The Pennsylvania Harness Horsemen Agreement was entered into in November 1994, became effective in January 1995 and expires in January 2000. The Company has an agreement with the Charles Town Horsemen, which expires on December 31, 2000. See, Management's Discussion and Analysis of Financial Condition and Results of Operations - "Liquidity and Capital

Resources". The West Virginia Video LotteryAct also requires that the operator of the Charles Town Entertainment Complex be subject to a written agreement with the pari-mutuel clerks in order to operate gaming machines, this agreement expires on December 31, 2000.

COMPETITION

The Company faces significant competition for wagering dollars from other racetracks and OTWs in Pennsylvania and neighboring states (some of which also offer other forms of gaming), other gaming venues such as casinos and state-sponsored lotteries, including the Pennsylvania Lottery and the West Virginia Lottery. The Company may also face competition in the future from new OTWs or from new racetracks. From time to time, Pennsylvania has considered legislation to permit other forms of gaming. Although Pennsylvania has not authorized any form of casino or other gaming, if additional gaming opportunities become available in or near Pennsylvania, such gaming opportunities could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's live races compete for wagering dollars and simulcast fees with live races and races simulcast from other racetracks both inside and outside Pennsylvania (including several in New York, New Jersey, West Virginia, Ohio, Maryland and Delaware). The Company's ability to compete successfully for wagering dollars is dependent, in part, on the quality of its live horse races. The quality of horse races at some racetracks that compete with the Company, either by live races or simulcasts, is higher than the quality of Company races. The Company believes that there has been some improvement over the last several years in the quality of the horses racing at the Penn National Race Course, due to higher purses being paid as a result of the Company's increased simulcasting activities, however, there can be no assurance that the Company can continue such improvement.

The Company's OTWs compete with the OTWs of other Pennsylvania racetracks, and new OTWs may compete with the Company's existing or proposed wagering facilities. Competition between OTWs increases as the distance between them decreases. For example, the Company believes that its Allentown OTW, which was acquired in the acquisition of Pocono Downs and which is approximately 50 miles from the Penn National Race Course and 35 miles from the Company's Reading OTW, has drawn some patrons from the Penn National Race Course, the Reading OTW and the Company's telephone wagering system; and, the Company's Lancaster OTW, which is approximately 31 miles from the Penn National Race Course and 25 miles from the Company's York OTW, has drawn some patrons from the Penn National Race Course, the York OTW and the Company's telephone wagering system. Moreover, the Company believes that a competitor's OTW in King of Prussia, Pennsylvania, which is approximately 23 miles from the Reading OTW, has drawn some patrons from the Reading OTW. Although only one competing OTW remains authorized by law for future opening, the opening of a new OTW in close proximity to the Company's existing or future OTWs could have a material adverse effect on the Company's business, financial condition and results of operations.

The Company's gaming machine operations face competition from other gaming machine venues in West Virginia and in neighboring states (including Dover Downs in Dover, Delaware, Delaware Park in northern Delaware, Harrington Raceway in southern Delaware and the casinos in Atlantic City, New Jersey). Venues in Delaware and New Jersey, in addition to video gaming machines, currently offer mechanical slot machines that feature physical spinning reels, pull-handles and the ability to both accept and pay out coins. Legislation has been passed in West Virginia, subject to the Governor's signature or veto, which would allow coin out and reel slot machines at race tracks. If such legislation is signed by the Governor, the Company intends to convert some or all of its current machines to coin out and increase the maximum number of machines with reel slot machines. The failure to attract or retain gaming machine customers at the Charles Town Entertainment Complex, whether arising from such competition or from other factors, could have a material adverse effect upon the Company's business, financial condition and results of operations.

EFFECT OF INCLEMENT WEATHER AND SEASONALITY

Because horse racing is conducted outdoors, variable weather contributes to the seasonality of the Company's business. Weather conditions,

particularly during the winter months, may cause races to be canceled or may curtail attendance. Because a substantial portion of the Company's racetrack expenses are fixed, the loss of scheduled racing days could have a material adverse effect on the Company's business, financial condition and results of operations.

For the year ended December 31, 1998, the Company canceled a total of five racing days because of inclement weather. The severe winter weather in 1996 resulted in the closure of the Company's OTW facilities for two days in January 1996. Because of the Company's growing dependence upon OTW operations, severe weather that causes the Company's OTWs to close could have an adverse effect upon the Company's business, financial condition and results of operations.

Attendance and wagering at the Company's facilities have been favorably affected by special racing events which stimulate interest in horse racing, such as the Triple Crown races in May and June and the heavier racing schedule throughout the country during the second and third quarter of the year. As a result, the Company's revenues and net income have been greatest in the second and third quarters of the year, and lowest in the first and fourth quarters of the year.

REGULATION AND TAXATION

General

Company subsidiaries are authorized to conduct thoroughbred racing and harness racing in Pennsylvania under the Pennsylvania Racing Act. Such subsidiaries are also authorized, under the Pennsylvania Racing Act and the Federal Horseracing Act, to conduct import simulcast wagering. The Charles Town Joint Venture is subject to the provisions of the West Virginia Racing Act, which governs the conduct of thoroughbred horse racing in West Virginia, and the West Virginia Video Lottery Act, which governs the operation of gaming machines in West Virginia. The Company's live racing, pari-mutuel wagering and gaming machine operations are contingent upon the continued governmental approval of such operations as forms of legalized gaming. All of the Company's current and proposed operations are subject to extensive regulations and could be subjected at any time to additional or more restrictive regulations, or banned entirely.

Pennsylvania Racing Regulations

The Company's horse racing operations at Penn National Race Course and Pocono Downs are subject to extensive regulation under the Pennsylvania Racing Act, which established the Pennsylvania State Horse Racing Commission and the State Harness Racing Commission (together, the "Pennsylvania Racing Commissions") which are responsible for, among other things, (i) granting permission annually to maintain racing licenses and schedule race meets, (ii) approving, after a public hearing, the opening of additional OTWs, (iii) approving simulcasting activities, (iv) licensing all officers, directors, racing officials and certain other employees of the Company and (v) approving all contracts entered into by the Company affecting racing, pari-mutuel wagering and OTW operations.

As in most states, the regulations and oversight applicable to the Company's operations in Pennsylvania are intended primarily to safeguard the legitimacy of the sport and its freedom from inappropriate or criminal influences. The Pennsylvania Racing Commissions have broad authority to regulate in the best interests of racing and may, to that end, disapprove the involvement of certain personnel in the Company's operations, deny approval of certain acquisitions following their consummation or withhold permission for a proposed OTW site for a variety of reasons, including community opposition. For example, the Pennsylvania State Thoroughbred Racing Commission withheld approval for the Company's initial site for its Lancaster OTW, but the Company applied and was ultimately approved for another site in Lancaster, which opened in July 1996. The Pennsylvania legislature also has reserved the right to revoke the power of the Pennsylvania Racing Commissions to approve additional OTWs and could, at any time, terminate pari-mutuel wagering as a form of legalized gaming in Pennsylvania or subject such wagering to additional restrictive regulation; such termination would, and any further restrictions could, have a material adverse effect upon the Company's business, financial condition and results of operations.

The Company may not be able to obtain all necessary approvals for the continued operation or expansion of its business. Even if all such approvals are obtained, the regulatory process could delay implementation of the Company's plans to open additional OTWs. The Company has had continued permission from the Pennsylvania State Horse Racing Commission to conduct live racing at the Penn National Race Course since it commenced operations in 1972, and has obtained permission from the Pennsylvania State Harness Racing Commission to conduct live racing at Pocono Downs. Currently, the Company has approval from the

Pennsylvania Racing Commissions to operate the ten OTWs that are currently open and the one additional OTW the Company proposes to open. A Commission may refuse to grant permission to open additional OTWs or to continue to operate existing facilities. The failure to obtain required regulatory approvals would have a material adverse effect upon the Company's business, financial condition and results of operations.

West Virginia Racing and Gaming Regulation

The Company's operations at the Charles Town Entertainment Complex are subject to regulation by the West Virginia Racing Commission under the West Virginia Racing Act, and by the West Virginia Lottery Commission under the West Virginia Video Lottery Act. The powers and responsibilities of the West Virginia Racing Commission under the West Virginia Racing Act are substantially similar in scope and effect to those of the Pennsylvania Racing Commissions and extend to the approval and/or oversight of all aspects of racing and pari-mutuel wagering operations. The Charles Town Joint Venture has obtained from the West Virginia Racing Commission a license to conduct racing and pari-mutuel wagering at the Charles Town Entertainment Complex. Pursuant to the West Virginia Video Lottery Act, the Company has obtained approval for the installation and operation of a total of 1,000 gaming machines at the Charles Town Entertainment Complex.

State and Federal Simulcast Regulation

The Federal Interstate Horseracing Act, the Pennsylvania Racing Act and the West Virginia Racing Act require that the Company have a written agreement with each applicable horsemen's organization in order to simulcast races. The Company has entered into the Horsemen Agreements, and in accordance therewith has agreed on the allocations of the Company's revenues from import simulcast wagering to the purse funds for the Penn National Race Course, Charles Town Races and Pocono Downs. Because the Company cannot conduct import simulcast wagering in the absence of the Horsemen Agreements, the termination or non-renewal of such Horsemen Agreements could have a material adverse effect on the Company's business, financial condition and results of operations.

Taxation

The Company believes that the prospect of significant additional revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to normal federal and state income taxes, and such taxes and fees are subject to increase at any time. The Company pays substantial taxes and fees with respect to its operations. From time to time, federal legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws. Such changes, if adopted, could have a material adverse effect on the Company's business, financial condition and results of operations.

Compliance with Other Laws

The Company and its OTWs are also subject to a variety of other rules and regulations, including zoning, construction and land-use laws and regulations in Pennsylvania and West Virginia governing the serving of alcoholic beverages. Currently, Pennsylvania laws and regulations permit the construction of off-track wagering facilities, but may affect the selection of a particular OTW site because of parking, traffic flow and other similar considerations, any of which may serve to delay the opening of future OTWs in Pennsylvania. By contrast, West Virginia law does not permit the operation of OTWs. The Company derives a significant portion of its other revenues from the sale of alcoholic beverages to patrons of its facilities. Any interruption or termination of the Company's existing ability to serve alcoholic beverages would have a material adverse effect on the Company's business, financial condition and results of operations.

Restrictions on Share Ownership and Transfer

The Pennsylvania Racing Act requires that any shareholder proposing to transfer beneficial ownership of 5% or more of the Company's shares file an affidavit with the Company setting forth certain information about the proposed transfer and transferee, a copy of which the Company is required to furnish to the Pennsylvania Racing Commissions. The certificates representing the Company shares owned by 5% beneficial shareholders are required to bear certain legends prescribed by the Pennsylvania Racing Act. In addition, under the Pennsylvania Racing Act, the Pennsylvania Racing Commissions have the authority to order a 5% beneficial shareholder of the Company to dispose of his Common Stock of the Company if it determines that continued ownership would be inconsistent with the public interest, convenience or necessity or the best interest of racing generally. The West Virginia Video Lottery Act provides that a transfer of more than 5% of the voting stock of a corporation which controls the license may only be to persons who have met the licensing requirements of the West Virginia Video Lottery Act or which transfer has been pre-approved by the West Virginia Lottery Commission. Any transfer that does not comply with this requirement voids the license.

Potential Tennessee Development Regulatory Compliance.

If the Company successfully completes the development of its potential Tennessee harness track and OTWs, the Company will likely face regulatory requirements that are similar to the requirements affecting its existing operations; however, given the absence of horse racing in Tennessee at this time, the Company may face more burdensome regulatory approvals or compliance in light of the absence of an established regulatory framework.

ITEM 2 PROPERTIES

See, ITEM 1-BUSINESS - "RACING AND PARI-MUTUEL OPERATIONS"

A solid waste landfill ("Landfill") is on a parcel of land adjacent to the Company's Harness Track. The East Side Landfill Authority (the "Landfill Authority"), which operated the Landfill from 1970 until 1982, disposed of municipal waste on behalf of four municipalities. The Landfill is currently subject to a closure order issued by the Pennsylvania Department of Environmental Resources ("PADER") which the four municipalities are required to implement pursuant to a 1986 Settlement Agreement among the former trustee in bankruptcy for Pocono Downs, the Landfill Authority, the municipalities and PADER (the "Settlement Agreement"). According to the Company's environmental consulting firm, the Landfill closure is substantially complete. To date, the municipalities obligated to implement the closure order pursuant to the Settlement Agreement, have been fulfilling their obligations under the Settlement Agreement or that the terms of the Settlement Agreement will not be amended in the future. In addition, the Company may be liable for future claims with respect to the Landfill under the Comprehensive Environmental Response, Compensation and Liability Act and analogous state laws. The Company may incur expenses in connection with the Landfill in the future, which expenses may not be reimbursed by the municipalities. Any such expenses could have a material adverse effect on the Company's business, financial condition and results of operations.

Other Property and Equipment

The Company currently leases 6,183 square feet of office space in an office building in Wyomissing, Pennsylvania for the Company's executive offices. The lease expires in April 2000 and provides for an annual minimum rental of $71,100. The office building is owned by an affiliate of Peter M. Carlino, the Chairman and Chief Executive Officer of the Company. The Company believes that the lease terms are not less favorable than lease terms that could have been obtained from an unaffiliated third party.

The Company currently leases an aircraft from a company owned by John Jacquemin, a director of the Company. The lease expires in September, 2007 and provides for monthly payments of $8,356. The Company believes that the lease terms are not less favorable than lease terms that could have been obtained from an unaffiliated third party.

EMPLOYEES AND LABOR RELATIONS

At March 19, 1999, the Company had 1,654 permanent employees, of whom 837 were full-time and 817 part-time. Employees of the Company who work in the admissions department and pari-mutuels department at the Penn National Race Course, Pocono Downs and the OTWs are represented under collective bargaining agreements between the Company and Sports Arena Employees' Union Local 137. The agreements extend until October 3, 1999 for track employees and until May 27, 1999 for OTW employees. The pari-mutuel clerks at Pocono Downs voted to unionize in June 1997. The Company has held negotiations with this union, but does not have a contract to date. Failure to reach agreement with this union would not result in the suspension or termination of the Company's license to operate live racing at Pocono Downs or to conduct simulcast or OTW operations. The pari-mutuel clerks and racing valets at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks, which expires on December 31, 2000. The Company believes that its relations with its employees are satisfactory.

ITEM 3 LEGAL PROCEEDINGS

In December 1997, Amtote International, Inc. ("Amtote"), filed an action against the Company and the Charles Town Joint Venture in the United States District Court for the Northern District of West Virginia. In its complaint, Amtote (i) states that the Company and the Charles Town Joint Venture allegedly breached certain contracts with Amtote and its affiliates when it entered into a wagering services contract with a third party (the "Third Party Wagering Services Contract"), and not with Amtote, effective January 1, 1998, (ii) sought preliminary and injunctive relief through a temporary restraining order seeking to prevent the Charles Town Joint Venture from (a) entering into a wagering services contract with a party other than Amtote and (b) having a third party provide such wagering services, (iii) sought declaratory relief that certain contracts allegedly bind the Charles Town Joint Venture to retain Amtote for wagering services through September 2004 and (iv) seeks unspecified compensatory damages, legal fees and costs associated with the action and other legal and equitable relief as the Court deems just and appropriate. On December 24, 1997, a temporary restraining order was issued, which prescribed performance under the Third Party Wagering Contract. On February 20, 1998, the temporary restraining order was lifted by the court. The Company intends to pursue legal remedies in order to terminate Amtote and proceed under the Third Party Wagering Services Contract. The Company believes that this action, and any resolution thereof, will not have any material adverse impact upon its financial condition, results, or the operations of either the Charles Town Joint Venture or the Company.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

ITEM 5 MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS

The Company's Common Stock is quoted on The Nasdaq National Market under the symbol "PENN". The following table sets forth for the periods indicated the high and low sales prices per share of the Company's Common Stock as reported on The Nasdaq National Market.

	HIGH	LOW
1996		
First Quarter	$ 6.000	$ 4.292
Second Quarter	14.500	5.875
Third Quarter	15.625	9.000
Fourth Quarter	21.375	13.750
1997		
First Quarter	$ 18.250	$ 14.000
Second Quarter	19.625	13.750
Third Quarter	20.125	14.625
Fourth Quarter	19.250	8.750
1998		
First Quarter	$ 13.125	$ 8.875
Second Quarter	12.000	6.813
Third Quarter	9.125	5.125
Fourth Quarter	10.313	5.500

The closing sale price per share of Common Stock on The Nasdaq National Market on March 19, 1999, was $7.188. As of March 19, 1999, there were 738 holders of record of Common Stock.

DIVIDEND POLICY

Since the Company's initial public offering of Common Stock in May 1994, the Company has not paid any cash dividends on its Common Stock. The Company intends to retain all of its earnings to finance the development of the Company's business, and thus, does not anticipate paying cash dividends on its Common Stock for the foreseeable future. Payment of any cash dividends in the future will be at the discretion of the Company's Board of Directors and will depend upon, among other things, future earnings, operations, capital requirements, the general financial condition of the Company and general business conditions. Moreover, the Company's existing credit facility (the "Credit Facility") prohibits the Company from authorizing, declaring or paying any dividends until the Company's commitments under the Credit Facility have been terminated and all amounts outstanding thereunder have been repaid. In addition, future bank financing may prohibit the payment of dividends under certain conditions.

ITEM 6 SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data of the Company for the years ended December 31, 1994, 1995, 1996 1997 and 1998, except for Operating Data, are derived from financial statements that have been audited by BDO Seidman, LLP independent certified public accountants, adjusted as described in the notes below. The selected consolidated financial data should be read in conjunction with the consolidated financial statements of the Company and Notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included herein.

	YEAR ENDED DECEMBER 31				
	1994	1995	1996	1997 (1)	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
INCOME STATEMENT DATA					
Revenue					
Pari-mutuel revenues					
Live races	$ 23,428	$ 21,376	$ 18,727	$ 27,653	$ 26,893
Import simulcasting	16,968	27,254	32,992	59,810	68,136
Export simulcasting	1,187	2,142	3,347	5,279	5,810
Gaming revenue	-	-	-	5,712	37,396
Admissions, programs and other racing revenue	2,563	3,704	4,379	5,678	6,280
Concessions revenues	1,885	3,200	3,389	7,404	9,550
Total revenues	46,031	57,676	62,834	111,536	154,065
OPERATING EXPENSES					
Purses, stakes, and trophies	10,674	12,091	12,874	22,335	29,141
Direct salaries, payroll taxes and employee benefits	6,707	7,699	8,669	16,200	19,134
Simulcast expenses	8,892	9,084	9,215	12,982	13,809
Pari-mutuel taxes	4,054	4,963	5,356	9,506	9,281
Lottery taxes and administration	-	-	-	1,874	14,749
Other direct meeting expenses	6,093	7,576	8,536	18,087	24,029
Concessions expenses	1,175	2,125	2,349	5,605	7,929
Management fees paid to related entity	345	-	-	-	-
Other operating expenses	2,968	5,002	4,942	8,735	10,787
Depreciation and amortization	699	881	1,433	4,040	5,748
Site development and restructuring changes	-	-	-	2,437	-
Total operating expenses	41,607	49,421	53,374	101,801	134,607
Income from operations	4,424	8,255	9,460	9,735	19,458
Other income (expenses)					
Interest income (expense), net	(340)	198	(156)	(3,656)	(7,549)
Other	15	10	-	(2)	113
Total other income (expenses)	(325)	208	(156)	(3,658)	(7,436)
Income before income taxes and extraordinary item	4,099	8,463	9,304	6,077	12,022
Taxes on income	1,381	3,467	3,794	2,308	4,519
Income before extraordinary item	2,718	4,996	5,510	3,769	7,503
Extraordinary item - loss on early extinquishment of debt, net of income taxes of $83 and $1,001 respectively	115	-	-	1,482	-

	YEAR ENDED DECEMBER 31				
	1994	1995	1996	1997 (1)	1998
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Net income	$ 2,603	$ 4,996	$ 5,510	$ 2,287	$ 7,503
PER SHARE DATA:					
Basic income per share before extraordinary item		$ 0.39	$ 0.41	$ 0.25	$ 0.50
Basic net income per share		$ 0.39	$ 0.41	$ 0.15	$ 0.50
Diluted income per share before extraordinary item		$ 0.38	$ 0.40	$ 0.24	$ 0.49
Diluted net income per share		$ 0.38	$ 0.40	$ 0.15	$ 0.49
WEIGHTED SHARES OUTSTANDING:					
Basic		12,906	13,302	14,925	15,015
Diluted		13,017	13,822	15,458	15,374
SUPPLEMENTAL PRO FORMA NET INCOME:					
Statement data (3)					
Supplemental pro forma net income	$ 2,724				
Supplemental pro forma net income per share	$ 0.22				
Weighted average number of common shares outstanding (4)	12,663				
OPERATING DATA:					
Pari-mutuel wagering	$ 111,248	$ 102,145	$ 89,327	$ 128,090	$ 122,686
Import simulcasting	93,461	142,499	170,814	298,459	336,191
Export simulcasting	40,337	72,252	112,871	176,287	194,772
Total pari-mutuel wagering	$ 245,046	316,896	373,012	602,836	653,649
Gross profit from wagering (2)	$ 17,936	24,915	27,955	45,589	47,888
BALANCE SHEET DATA:					
Cash and cash equivalents	$ 5,502	$ 7,514	$ 5,634	$ 21,854	6,826
Working capital (deficiency)	2,074	4,134	(509)	15,226	1,911
Total assets	21,873	27,532	96,723	158,878	160,798
Total debt	516	390	47,517	80,336	78,256
Shareholders' equity	15,627	20,802	27,881	53,856	59,036

(1) Reflects the November 27, 1996 acquisition of Pocono Downs and the January 15, 1997 acquisition of a joint venture interest in the Charles Town Entertainment Complex. See "Business-Acquisitions."

(2) Amounts equal total pari-mutuel revenues, less purses paid to Horsemen, taxes payable to Pennsylvania and simulcast commissions or host track fees paid to other racetracks. Figures for the years ended December 31, 1995 and 1996 do not include purses paid at Penn National Speedway.

(3) Supplemental pro forma amounts for the year ended December 31, 1994 reflect (i) the elimination of $345,000 in management fees paid to a related entity, (ii) the inclusion of $133,000, in executive compensations, (iii) the elimination of $413,000 of interest expenses on Company debt which was repaid with the proceeds of the initial public offering in 1994, (iv) the elimination of $198,000 of loss on early extinguishment of debt, and (v) a provision for income taxes of $377,000 as if the S corporations and partnerships comprising part of the Company prior to the Reorganization in 1994 had been taxed as C corporations. There were no supplemental pro forma adjustments for any subsequent periods.

(4) Based on 8,400,000 shares of Common Stock outstanding before the initial public offering in May 1994, plus 4,500,000 shares sold by the Company in the initial public offering.

ITEM 7 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

OVERVIEW

The Company's pari-mutuel revenues have been derived from (i) wagering on the Company's live races (a) at the Company's racetracks, (b) at the Company's OTWs, (c) at other Pennsylvania racetracks and OTWs and (d) through telephone wagering, as well as wagering at the Company's racetracks on certain stakes races run at out-of-state racetracks (collectively, referred to in the Company's financial statements as "pari-mutuel revenues from live races"), (ii) wagering on full-card import simulcasts at the Company's racetracks and OTWs and through telephone wagering (collectively, referred to in the Company's financial statements as "pari-mutuel revenues from import simulcasting") and (iii) fees from wagering on export simulcasting Company races at out-of-state locations (referred to in the Company's financial statements as "pari-mutuel revenues from export simulcasting"). The Company's other revenues have been derived from admissions, program sales and certain other ancillary activities, food and beverage sales and concessions and, beginning in September 1997, gaming machines.

RESULTS OF OPERATIONS

The following table sets forth certain data from the Consolidated Statements of Income of the Company as a percentage of total revenues:

	YEAR ENDED DECEMBER 31		
	1996	1997	1998
INCOME STATEMENT DATA			
Revenue			
Pari-mutuel revenues			
Live races	29.8%	24.8%	17.5%
Import simulcasting	52.5	53.6	44.2
Export simulcasting	5.3	4.7	3.8
Gaming revenue	-	5.1	24.3
Admissions, programs and other racing revenue	7.0	5.1	4.1
Concessions revenues	5.4	6.7	6.2
Total revenues	100.0	100.0	100.0
Operating expenses			
Purses, stakes, and trophies	20.5	20.0	18.9
Direct salaries, payroll taxes and employee benefits	13.8	14.5	12.4
Simulcast expenses	14.7	11.7	9.0
Pari-mutuel taxes	8.5	8.5	6.0
Lottery taxes and administration	-	1.7	9.6
Other direct meeting expenses	13.6	16.2	15.6
Concessions expenses	3.7	5.0	5.1
Other operating expenses	7.9	7.8	7.0
Depreciation and amortization	2.3	3.6	3.7
Site development and restructuring changes	-	2.2	-
Total operating expenses	84.9	91.3	87.4
Income from operations	15.1	8.7	12.6
Total other (expenses)	(0.2)	(3.3)	(4.8)
Income before income taxes and extraordinary item	14.9	5.4	7.8
Net income	8.8%	2.1%	4.9%

Year Ended December 31, 1998 compared to Year Ended December 31, 1997

Total revenue increased by approximately $42.5 million or 38.1% from $111.5 million in 1997 to $154.1 million in 1998. Charles Town Races, which was purchased in January of 1997 and began racing operations on April 30, 1997 and video lottery machine operations on September 10, 1997, accounted for $40.4 million of the increase. Revenues from video lottery machines increased by $31.7 million as a result of a full year of operations in 1998 compared to three and one-half months of operations in 1997. Racing revenues increased by $6.2 million due to a racing season of 206 live race days at the Charles Town Races in 1998 compared to 159 live races days in 1997 and the opening of the new simulcast-racing center in January 1998. Concession revenues increased by $2.2 million due to the increased attendance and the opening of the new buffet dining area during the year. At Penn National Race Course and its OTW facilities, revenues increased at the track ($.3 million) due to an increase in on-track wagering and export simulcast wagering and the purchase and opening of the Johnstown OTW ($.9 million) on September 1, 1998. The increases were offset by a decrease in revenues at Chambersburg OTW ($.6 million) due to the opening of the Charles Town Facility, Reading OTW ($.3 million) and York OTW ($.3 million). Revenues at Pocono Downs and its OTW facilities resulted in a net increase of $2.1 million primarily due to the opening of new facilities in Hazleton ($2.2 million) and Carbondale ($2.4 million). This was offset by a decrease at the Pocono Downs racetrack ($2.1 million) due to the proximity of the two new OTW facilities and decreases at Allentown OTW ($.3 million) and Erie OTW ($.2 million).

Total operating expenses increased by approximately $32.8 million or 32.2% from $101.8 million in 1997 to $134.6 million in 1998. Charles Town Races accounted for $32.6 million of the increase due primarily to the video lottery operations ($24.7 million), racing operations ($5.9 million) and concession operations ($2.1 million). Penn National Race Course and its OTW facilities had a net decrease in operating expenses of $.6 million due to an increase in expenses at the new Johnstown OTW ($.8 million) offset by a decrease in operating expenses at the racetrack and other OTW facilities ($1.4 million). Pocono Downs and its OTW facilities had a net increase in operating expenses of $.9 million due to the opening of Hazleton OTW ($1.9 million) and Carbondale OTW ($1.8 million). The increase was offset by a decrease in operating expenses at the Pocono Downs racetrack ($1.8 million), Allentown OTW ($.6 million) and Erie OTW ($.4 million). Corporate expenses increased by $.6 million due to the hiring of additional staff for OTW facility management, human resource management and the leasing of additional office space. Depreciation and amortization increased by $1.7 million due primarily to depreciation associated with new facilities for Charles Town Gaming (September 1997), Charles Town Simulcast Center (January 1998), Hazleton and Carbondale OTW facilities (March 1998) and Johnstown OTW (September 1998). Site development and restructuring expenses were $2.4 million in 1997.

Income from operations increased by approximately $9.7 million or 100.0 % from $9.7 million in 1997 to $19.5 million in 1998 due to the factors described above.

Other expenses increased by approximately $3.8 million or 105.6% from $3.6 million in 1997 to $7.4 million in 1998. Net interest expense increased by $3.9 million (primarily due to the 10.625% Senior Notes issued December 1997). Other income in 1998 of $113,000 consisted of a gain on the sale of Casino Magic Corporation stock of $148,000 offset by a write-off of deferred financing cost on the repurchase of the Company's 10.625% Senior Notes.

Taxes on income increased by approximately $2.2 million from $2.3 million in 1997 to $4.5 million in 1998, due to the increase in income for the year.

The extraordinary item in 1997 consisted of a loss on the early extinquishment of debt in the amount of $1,482,000, net of income taxes. The loss consists primarily of write-offs of deferred finance costs associated with the retired bank notes and legal and bank fees relating to the early extinquishment of the debt.

Net income increased by approximately $5.2 million from $2.3 million in 1997 to $7.5 million in 1998 due to the factors described above.

Year Ended December 31, 1997 compared to Year Ended December 31, 1996

Total revenue increased by approximately $48.7 million, or 77.5%, from $62.8 million in 1996 to $111.5 million in 1997. Pocono Downs, which was acquired in the fourth quarter of 1996 under the purchase method, accounted for $30.8 million of the increase. Charles Town Races, which was purchased in January 1997, accounted for $16.5 million of the increase. The Company renovated and refurbished the Charles Town Entertainment Complex following its acquisition and commenced racing operations on April 30, 1997 and gaming machine operations, with a soft opening, on September 10, 1997. The remaining revenue increase of $1.4 million was primarily due to an increase of approximately $6.2 million associated with the opening of the Penn National OTW facility in Williamsport in February 1997, a full year of operations at the Lancaster OTW facility, and increased export of the Penn National Race Course live signal. This increase was offset by a decrease in revenues of approximately $4.2 million at the Company's OTW facilities in Reading and York. Management believes that the decrease in revenues at these facilities was primarily due to the opening of a competitor's OTW facility and the opening of the Company's Lancaster OTW facility in July 1996. The Company also had a decrease in revenues of $.6 million due to the closing of Penn National Speedway at the end of the 1996 season.

Total operating expenses increased by approximately $48.4 million, or 90.7%, from $53.4 million in 1996 to $101.8 million in 1997. Pocono Downs and Charles Town Races, which the Company did not operate in the corresponding prior period, accounted for $25.5 million and $17.5 million of this increase, respectively. Operating expenses also increased by $5.4 million primarily due to an increase of $4.4 million associated with the opening of the Company's new OTW facility in Williamsport in February 1997, and a full year of operations at the Lancaster OTW facility. This increase was offset by a decrease in operating expenses of approximately $1.9 million at the Penn National Race Course facility and at the Company's OTW facilities in Reading and York associated with lower revenues at those facilities. The increase in corporate expenses of $1.4 million was due to increased personnel, office space and other administrative expense necessary to support the expansion of the Company. The Company also incurred site development and restructuring charges in the amount of $2.4 million. The site development charges ($1.7 million) consist of $800,000 related to the Charles Town Races Facility and $935,000 related to the abandonment of certain proposed operating in 1997. The restructuring charges primarily consist of $350,000 in severance termination benefits and other charges at the Charles Town Races facility, $300,000 for the restructuring of the Erie, Pennsylvania OTW facility and $52,000 of property and equipment written-off in connection with the discontinuation of Penn National Speedway, Inc. operations during 1997. The Company also had a decrease in expenses of $.9 million due to the closing of Penn National Speedway at the end of the 1996 season.

Income from operations increased by approximately $275,000, or 2.9%, from $9.5 million in 1996 to $9.7 million in 1997 due to the factors described above. The Company had other expenses of approximately $3.7 million in 1997 compared to $156,000 in 1996, primarily as a result of increased interest expense. The increase in interest expense is due to the company incurring bank debt for the purchase of Pocono Downs and Charles Town Races, renovations to the Charles Town Facility and the issuance of 10.625% Senior Notes on December 12, 1997 to repay existing bank debt.

The extraordinary item consisted of a loss on the early extinquishment of debt in the amount of $1,482,000, net of income taxes. The loss consists primarily of write-offs of deferred financing costs associated with the retired bank notes and legal and bank fees relating to the early extinquishment of the debt.

Net income decreased by approximately $3.2 million or 58.5%, from $5.5 million in 1996 to $2.3 million in 1997 based on the factors described above. Income taxes decreased by $1.5 million from $3.8 million in 1996 to $2.3 million in 1997 as a result of the decrease in income for the year.

Liquidity and Capital Resources

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

Net cash provided from operating activities was $11.9 million for the year ended December 31, 1998. This consisted of net income and non-cash expenses ($13.6 million), an increase in accounts receivable ($1.6 million) due from other tracks, a decrease in accounts payable and accrued expenses due to the completion of construction at Charles Town ($2.6 million), an increase in purses due horsemen ($.9 million) a decrease in prepaid income taxes ($2.1 million) and other changes in certain assets and liabilities ($.5 million).

Cash flows used in investing activities for the year ended December 31, 1998 ($22.3 million) consisted of renovation and refurbishment of the Charles Town facility and racetrack ($1.1 million), completion of the Hazleton and Carbondale OTW facilities ($3.2 million), the purchase of the Johnstown OTW facility ($1.3 million), the purchase of the GTECH video lottery machines and central monitoring system ($12.9 million) and $3.8 million in capital expenditures at other facilities.

Net cash flows used in financing activities was approximately $4.6 million for the year ended December 31, 1998. The Company purchased 424,700 shares of the Company's common stock ($2.4 million) and $11.0 million of the Company's 10.625% Senior Notes at 97.25% during the year. In November 1998, the Company borrowed $9.0 million under its Credit Facility to buy the GTECH video lottery machines and central monitoring system.

The Company is subject to possible liabilities arising from the environmental condition at the landfill adjacent to Pocono Downs. Specifically, the Company may incur expenses in connection with the landfill in the future, which expenses may not be reimbursed by the four municipalities, which are parties to the settlement agreement. The Company is unable to estimate the amount, if any, that it may be required to expend. See ITEM 2 -"PROPERTIES".

In the first quarter of 1999, the Company anticipates a one time material loss associated with the actions by the Pennsylvania Thoroughbred Horsemen on February 16, 1999 that resulted in the closing of Penn National Race Course and its six OTW facilities at Reading, Chambersburg, York, Lancaster, Williamsport and Johnstown, from February 16, 1999 through March 24, 1999. At this time the Company has insufficient information to reasonably quantify the amount of the loss.

Also in 1999, the Company anticipates spending approximately $9.0 million on capital expenditures at its racetrack and OTW facilities. The Company anticipates expending approximately $5.0 million at the Charles Town Entertainment Complex for player tracking ($1.5 million), new video slot machines ($.8 million), interior renovations ($.4 million), machinery and equipment ($.7 million) and other projects including design and planning for a new motel ($1.6 million). The Company also plans to spend approximately $578,000 at Pocono Downs, $645,000 at Penn National, $295,000 at the OTW facilities for building improvements and equipment and $2.0 million on building improvements and equipment for its new OTW facility in Stroudsburg, Pennsylvania. If the State of Tennessee reinstates the Tennessee Commission and the Company's racing license or if the racing industry is regulated under another government agency, the Company anticipates expending an additional $9.0 million to complete the first phase of the Tennessee project.

The Company entered into its Credit Facility with Bankers Trust Company, as Agent in 1996. This Credit Facility was amended and restated on January 29, 1999 with First Union National Bank replacing Bankers Trust Company, as Agent. The amended Credit Facility provides for, subject to certain terms and conditions, a $20.0 million revolving credit facility, a $5.0 million term loan due in one year, a $3.0 million sublimit for standby letters of credit and has a four-year term from its closing. The Credit Facility, under certain circumstances, requires the Company to make mandatory prepayments and commitment reductions and to comply with certain covenants, including financial ratios and maintenance tests. In addition, the Company may make optional prepayments and commitment reductions pursuant to the terms of the Credit Facility. Borrowings under the Credit Facility will accrue interest, at the option of the Company, at

either a base rate plus an applicable margin of up to 2.0% or a eurodollar rate plus an applicable margin of up to 3.0%. The Credit Facility is secured by the assets of the Company and contains certain financial ratios and maintenance tests. On December 31, 1998, the Company was in compliance with all applicable ratios.

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

Year 2000 Compliance

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

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

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

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

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

All of the Company's debt obligations at December 31, 1998 were fixed rate obligations, and Management, therefore, does not believe that the Company has any material market risk from its debt obligations.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Report of Independent Certified Public Accountants

Penn National Gaming, Inc.
and Subsidiaries
Wyomissing, Pennsylvania

We have audited the accompanying consolidated balance sheets of Penn National Gaming, Inc. and Subsidiaries as of December 31, 1997 and 1998, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1998. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Penn National Gaming, Inc. and Subsidiaries at December 31, 1997 and 1998, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1998 in conformity with generally accepted accounting principles.

Philadelphia, Pennsylvania
February 26, 1999, except for
Note 11 which is as of March 23, 1999

\s\BDO Seidman, LLP

BDO Seidman, LLP

Penn National Gaming, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share data)

December 31,	1997	1998
Assets		
Current assets		
Cash and cash equivalents	$ 21,854	$ 6,826
Accounts receivable	2,257	3,840
Prepaid expenses and other current assets	1,441	2,131
Deferred income taxes	469	458
Prepaid income taxes	3,003	859
Total current assets	29,024	14,114
Property, plant and equipment, at cost		
Land and improvements	24,643	26,969
Building and improvements	56,298	66,918
Furniture, fixtures and equipment	13,847	29,772
Transportation equipment	490	527
Leasehold improvements	6,778	9,579
Leased equipment under capitalized lease	824	824
Construction in progress	11,288	1,847
	114,168	136,436
Less accumulated depreciation and amortization	11,007	15,684
Net property, plant and equipment	103,161	120,752
Other assets		
Excess of cost over fair market value of net assets acquired (net of accumulated amortization of $1,389 and $2,002, respectively)	23,055	22,442
Deferred financing costs	3,014	2,403
Miscellaneous	624	1,087
Total other assets	26,693	25,932
	$ 158,878	$ 160,798

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Balance Sheets
(In thousands, except share and per share data)

December 31,	1997	1998
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	$ 204	$ 168
Accounts payable	7,405	6,217
Purses due horsemen	--	887
Uncashed pari-mutuel tickets	1,504	1,597
Accrued expenses	2,427	1,063
Accrued interest	326	468
Accrued salaries and wages	813	752
Customer deposits	470	548
Taxes, other than income taxes	649	503
Total current liabilities	13,798	12,203
Long-term liabilities		
Long-term debt and capital lease obligations, net of current maturities	80,132	78,088
Deferred income taxes	11,092	11,471
Total long-term liabilities	91,224	89,559
Commitments and contingencies		
Shareholders' equity		
Preferred stock, $.01 par value, authorized 1,000,000 shares; issued none	--	--
Common stock, $.01 par value, authorized 20,000,000 shares; issued 15,152,580 and 15,164,080, respectively	152	152
Treasury stock, 424,700 shares at cost	--	(2,379)
Additional paid-in capital	37,969	38,025
Retained earnings	15,735	23,238
Total shareholders' equity	53,856	59,036
	$ 158,878	$ 160,798

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Income
(In thousands, except per share data)

Year ended December 31,	1996	1997	1998
Revenues			
Pari-mutuel revenues			
Live races	$ 18,727	$ 27,653	$ 26,893
Import simulcasting	32,992	59,810	68,136
Export simulcasting	3,347	5,279	5,810
Gaming revenue	--	5,712	37,396
Admissions, programs and other racing revenues	4,379	5,678	6,280
Concessions revenues	3,389	7,404	9,550
Total revenues	62,834	111,536	154,065
Operating expenses			
Purses, stakes and trophies	12,874	22,335	29,141
Direct salaries, payroll taxes and employee benefits	8,669	16,200	19,134
Simulcast expenses	9,215	12,982	13,809
Pari-mutuel taxes	5,356	9,506	9,281
Lottery taxes and administration	--	1,874	14,749
Other direct meet expenses	8,536	18,087	24,029
Concessions expenses	2,349	5,605	7,929
Other operating expenses	4,942	8,735	10,787
Depreciation and amortization	1,433	4,040	5,748
Site development and restructuring charges	--	2,437	--
Total operating expenses	53,374	101,801	134,607
Income from operations	9,460	9,735	19,458
Other income (expenses)			
Interest (expense)	(506)	(4,591)	(8,374)
Interest income	350	935	825
Other	--	(2)	113
Total other (expenses)	(156)	(3,658)	(7,436)

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Income
(In thousands, except per share data)

Year ended December 31,	1996	1997	1998
Income before income taxes and extraordinary item	$ 9,304	$ 6,077	$ 12,022
Taxes on income	3,794	2,308	4,519
Income before extraordinary item	5,510	3,769	7,503
Extraordinary item			
Loss on early extinguishment of debt, net of income taxes of $1,001	--	1,482	--
Net income	$ 5,510	$ 2,287	$ 7,503
Per share data			
Basic			
Income per share before extraordinary item	$ .41	$ .25	$ .50
Extraordinary item	--	.10	--
Net income per share	$ .41	$ .15	$ .50
Diluted			
Income per share before extraordinary item	$ .40	$ .24	$ .49
Extraordinary item	--	.09	--
Net income per share	$ .40	$ .15	$ .49
Weighted shares outstanding			
Basic	13,302	14,925	15,015
Diluted	13,822	15,458	15,374

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Shareholders' Equity
(In thousands, except share data)

	Common Stock Shares	Common Stock Amount	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Total
Balance, January 1, 1996	12,945,000	$ 43	$ --	$12,821	$ 7,938	$20,802
Issuance of common stock	410,290	4	--	1,565	--	1,569
Stock splits	--	87	--	(87)	--	--
Net income for the year	--	--	--	--	5,510	5,510
Balance, December 31, 1996	13,355,290	134	--	14,299	13,448	27,881
Issuance of common stock	1,725,000	17	--	22,914	--	22,931
Exercise of stock options and warrants	72,290	1	--	154	--	155
Tax benefit related to stock options exercised	--	--	--	602	--	602
Net income for the year	--	--	--	--	2,287	2,287
Balance, December 31, 1997	15,152,580	152	--	37,969	15,735	53,856
Exercise of stock options and warrants	11,500	--	--	56	--	56
Acquisition of treasury stock	--	--	(2,379)	--	--	(2,379)
Net income for the year	--	--	--	--	7,503	7,503
Balance, December 31, 1998	15,164,080	$152	$(2,379)	$ 38,025	$ 23,238	$59,036

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

Year ended December 31,	1996	1997	1998
Cash flows from operating activities			
Net income	$ 5,510	$ 2,287	$ 7,503
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	1,433	4,040	5,748
Write-off of deferred financing costs	--	--	376
Extraordinary loss relating to early extinguishment of debt, before income tax benefit	--	2,483	--
Deferred income taxes (benefit)	228	(97)	390
Decrease (increase) in			
Accounts receivable	(1,870)	2,036	(1,583)
Prepaid expenses and other current assets	871	111	(690)
Prepaid income taxes	--	(3,003)	2,144
Miscellaneous other assets	(255)	(258)	(463)
Increase (decrease) in			
Accounts payable	1,288	2,339	(1,188)
Purses due horsemen	(248)	(1,421)	887
Uncashed pari-mutuel tickets	632	168	93
Accrued expenses	726	1,155	(1,364)
Accrued interest	101	225	142
Accrued salaries and wages	265	306	(61)
Customer deposits	105	50	78
Taxes,other than income taxes	146	257	(146)
Income taxes	(985)	--	--
Net cash provided by operating activities	7,947	10,678	11,866
Cash flows from investing activities			
Expenditures for property, plant and equipment	(6,995)	(29,196)	(22,333)
Acquisition of business, net of cash acquired	(47,320)	(18,248)	--
(Increase) in prepaid acquisition costs	(1,514)	(176)	--
Net cash (used in) investing activities	(55,829)	(47,620)	(22,333)

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(In thousands)

Year ended December 31,	1996	1997	1998
Cash flows from financing activities			
Proceeds from sale of common stock	$ 1,569	$ 23,086	$ 56
Acquisition of treasury stock	--	--	(2,379)
Tax benefit related to stock options exercised	--	602	--
Proceeds from long-term debt	47,000	111,167	9,000
Principal payments on long-term debt and capital lease obligations	(123)	(78,348)	(11,080)
(Increase) in unamortized financing costs	(2,444)	(3,345)	(158)
Net cash provided (used) by financing activities	46,002	53,162	(4,561)
Net (decrease) increase in cash and cash equivalents	(1,880)	16,220	(15,028)
Cash and cash equivalents at beginning of period	7,514	5,634	21,854
Cash and cash equivalents at end of period	$ 5,634	$ 21,854	$ 6,826

See accompanying summary of significant accounting policies and notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Penn National Gaming, Inc. and its subsidiaries (collectively the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior years' amounts have been reclassified to conform to the 1998 presentation.

Description of Business

The Company provides pari-mutuel wagering opportunities on both live and simulcast thoroughbred and harness horse races at two racetracks and ten off-track wagering facilities ("OTWs") located in Pennsylvania and pari-mutuel wagering opportunities and video gaming machines at Charles Town Races, the Company's Charles Town, West Virginia thoroughbred racetrack. In March 1998, the Company opened OTW facilities in Hazleton and Carbondale, Pennsylvania and acquired its tenth OTW facility in Johnstown, Pennsylvania from Ladbroke Racing Management-Pennsylvania ("Ladbroke") in September 1998. The Company's sole operating segment is gaming activities.

At each of its three racetracks, the Company conducts pari-mutuel wagering on thoroughbred and harness races from the Company's racetracks and simulcasts from other racetracks. The Company also simulcasts its Penn National Race Course and Pocono Downs races for wagering at other racetracks and OTWs, including all Pennsylvania racetracks and OTWs and locations outside Pennsylvania. Wagering on Penn National Race Course and Pocono Downs races and races simulcast from other racetracks also occurs through the Company's Pennsylvania racetracks' telephone account betting network.

Glossary of Terminology

The following is a listing of terminology used throughout the financial statements:

The Company's racetracks - Penn National Race Course near Harrisburg, Pennsylvania, Pocono Downs near Wilkes-Barre, Pennsylvania and Charles Town Races in Charles Town, West Virginia.

Gaming machines - Video lottery terminal gaming machines.

OTW - Off-track wagering location.

Pari-mutuel wagering - All wagering at the Company's racetracks, at the Company's OTWs and all wagering on the Company's races at other racetracks and OTWs.

Telebet - Telephone account wagering.

Totalisator services - Computer services provided to the Company by various totalisator companies for processing pari-mutuel betting odds and wagering proceeds.

Pari-mutuel revenues:

Live races - The Company's share of pari-mutuel wagering on live races within Pennsylvania and West Virginia and certain stakes races from racetracks outside of Pennsylvania and West Virginia after payment of the amount returned as winning wagers.

Import simulcasting - The Company's share of wagering at the Company's racetracks, at the Company's OTWs and by Telebet on full cards of races simulcast from other racetracks.

Export simulcasting - The Company's share of wagering at out-of-state locations on live races conducted by the Company.

Gaming revenue - The Company's share of net winnings from gaming wins and losses.

A summary of pari-mutuel wagering for the periods indicated is as follows:

Year ended December 31,	1996	1997	1998
			(in thousands)
Pari-mutuel wagering on the Company's live races	$ 89,327	$ 128,090	$ 122,686
Pari-mutuel wagering on simulcasting			
Import simulcasting from other racetracks	170,814	298,459	336,191
Export simulcasting to out of Pennsylvania wagering facilities	112,871	176,287	194,772
Total pari-mutuel wagering	$ 373,012	$ 602,836	$ 653,649

Racing Meet

The racing seasons, under the management of the Company, for the past three years consisted of the following number of live race days:

Year ended December 31,	1996	1997	1998
Penn National Race Course	206	212	206
Pocono Downs	--	134	135
Charles Town Races	--	159	206

Depreciation and Amortization

Depreciation of property, plant and equipment and amortization of leasehold improvements are computed by the straight-line method at rates adequate to allocate the cost of applicable assets over their estimated useful

lives. Depreciation and amortization for the years ended December 31, 1996, 1997 and 1998 amounted to $1,301,000, $3,193,000 and $4,705,000, respectively.

The excess of cost over fair value of net assets acquired is being amortized on the straight-line method over a forty-year period. Amortization expense for 1996, 1997 and 1998 amounted to $98,000, $578,000 and $613,000, respectively. The Company evaluates the recoverability of the goodwill quarterly, or more frequently whenever events and circumstances warrant revised estimates and considers whether the goodwill should be completely or partially written off or the amortization period accelerated.

The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicates that the carrying amount of the assets may not be recoverable based on undiscounted estimated future operating cash flows. As of December 31, 1998, the Company has determined that no impairment has occurred.

Deferred financing costs are charged to operations over the life of the underlying indebtedness. Amortization of deferred financing costs for 1996, 1997 and 1998 amounted to $34,000, $269,000 and $430,000, respectively.

Income Taxes

The Company recognizes deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, deferred tax liabilities and assets are determined based on the difference between the financial statement carrying amounts and tax bases of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Customer Deposits

Customer deposits represent amounts held by the Company for telephone wagering.

Cash and Cash Equivalents

The Company considers all cash balances and highly liquid investments with original maturities of three months or less to be cash equivalents.

Net Income Per Common Share

Basic net income per share includes no dilution and is calculated by dividing net income by the weighted average number of common shares outstanding for the period. Dilutive net income per share reflects the potential dilution of securities that could share in the net income of the Company which consist of stock options and warrants (using the treasury stock method).

Deferred Financing Costs

Deferred financing costs which are incurred by the Company in connection with debt are charged to operations over the life of the underlying indebtedness using the interest method, adjusted to give effect to any early repayments.

Concentration of Credit Risk

Financial instruments which potentially subject the Company to credit risk consist of cash equivalents and accounts receivable.

The Company's policy is to limit the amount of credit exposure to any one financial institution and place investments with financial institutions evaluated as being creditworthy, or in short-term money market and tax-free bond funds which are exposed to minimal interest rate and credit risk. At December 31, 1998, the Company had bank deposits which exceeded federally insured limits by approximately $3,298,000 and money market and tax-free bond funds of approximately $975,000. Concentration of credit risk, with respect to accounts receivable, is limited due to the Company's credit evaluation process. The Company does not require collateral from its customers. The Company's receivables consist principally of amounts due from other racetracks and OTWs. Historically, the Company has not incurred any significant credit-related losses.

Fair Value of Financial Instruments

The following methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practical to estimate.

Cash and Cash Equivalents: The carrying amount approximates the fair value due to the short maturity of the cash equivalents.

Long-Term Debt and Capital Lease Obligations: The fair value of the Company's long-term debt and capital lease obligations is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities. The carrying amount approximates fair value since the Company's interest rates approximate current interest rates.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses at the reporting period. Actual results could differ from those estimates.

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments" ("SFAS 133"). SFAS 133 is effective for all fiscal quarters of the fiscal years beginning after June 15, 1999 and establishes accounting and reporting standards for derivative instruments and for hedging activities. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair market value. Presently, the Company does not use derivative instruments either in hedging activities or as investments. Accordingly, the Company believes that adoption of SFAS 133 will have no impact on its financial position or results of operations.

The Company has no comprehensive income items as required by Statement of Financial Accounting Standards No. 130, "Comprehensive Income".

2. Acquisitions

Pocono Downs Acquisition

On November 27, 1996, the Company purchased all of the capital stock of The Plains Company and the limited partnership interests in The Plains Company's affiliated entities (together, "Pocono Downs") for an aggregate purchase price of $48.2 million plus acquisition-related fees and expenses of $730,000. Pocono Downs conducts live harness racing at the harness racetrack located outside Wilkes-Barre, Pennsylvania, export simulcasting of Pocono Downs races to locations throughout the United States, pari-mutuel wagering at Pocono Downs and at OTWs in Allentown, Erie, Carbondale and Hazleton, Pennsylvania on Pocono Downs races and on import simulcast races from other racetracks, and telephone account wagering on live and import simulcast races.

The Pocono Downs acquisition was accounted for using the purchase method of accounting. Accordingly, a portion of the purchase price was allocated to the net assets acquired based on their estimated fair values. The balance of the purchase price was recorded at cost over net assets acquired as goodwill, approximately $10.4 million, and is being amortized over forty years on a straight-line basis. The Company recorded an additional increase to goodwill of approximately $9.7 million and a corresponding increase to a deferred tax liability, representing the difference between the financial and tax bases of certain assets acquired. The results of operations of Pocono Downs have been included in the Company's consolidated financial statements since the effective date of the acquisition. The Company used its credit facility (see Note 3) and cash of Pocono Downs to fund the acquisition. Pursuant to the terms of the Pocono Downs purchase agreement, the Company will be required to pay the sellers of Pocono Downs an additional $10 million if, within five years after the consummation of the Pocono Downs acquisition, Pennsylvania authorizes any additional form of gaming in which the Company may participate. The $10 million payment would be payable in annual installments of $2 million for five years, beginning on the date that the Company first offers such additional form of gaming.

Charles Town Acquisition

On February 26, 1996, the Company entered into a joint venture agreement (the "Charles Town Joint Venture") with Bryant Development Company and its affiliates ("Bryant"), the holder of an option to purchase substantially all of the assets of Charles Town Racing Limited Partnership and Charles Town Races, Inc. (together, "Charles Town") relating to the Charles Town Race Track and Shenandoah Downs (together, the "Charles Town Entertainment Complex") in Jefferson County, West Virginia. In connection with the Charles Town Joint Venture agreement, Bryant assigned the option to the Charles Town Joint Venture. In November 1996, the Charles Town Joint Venture and Charles Town entered into an amended and restated option agreement. On November 5, 1996, Jefferson County, West Virginia approved a referendum permitting installation of gaming machines at the Charles Town Entertainment Complex. On January 15, 1997, the Charles Town Joint Venture acquired substantially all of the assets of Charles Town for approximately $16.0 million plus acquisition-related fees and expenses of approximately $2.2 million. Pursuant to the original operating agreement governing the Charles Town Joint Venture, the

Company held an 80% ownership interest in the Charles Town Joint Venture and was obligated to contribute 80% of the purchase price of the Charles Town acquisition and 80% of the cost of refurbishing the Charles Town Entertainment Complex. In consideration of the fact that the Company contributed 100% of the purchase price of the Charles Town acquisition and 100% of the cost of refurbishing the Charles Town Entertainment Complex, the Company amended its operating agreement with Bryant to, among other things, increase the Company's ownership interest in the Charles Town Joint Venture to 89% and decrease Bryant's interest to 11%. In addition, the amendment provided that the entire amount the Company has contributed to the Charles Town Joint Venture for the acquisition and refurbishment of the Charles Town Entertainment Complex would be treated, as between the parties, as a loan to the Charles Town Joint Venture from the Company. Accordingly, prior to the distribution of any future profits pursuant to the Charles Town Joint Venture, the Company must be repaid in full all such contributions or loans, plus accrued interest, which as of December 31, 1998 amounted to $52.0 million.

Bryant had acquired its option from Showboat Operating Company ("Showboat"). Showboat has retained an option (the "Showboat Option") to operate any casino at the Charles Town Entertainment Complex in return for a management fee (to be negotiated at the time, based on rates payable for similar properties) and a right of first refusal to purchase or lease the site of any casino at the Charles Town Entertainment Complex proposed to be leased or sold and to purchase any interest proposed to be sold in any such casino on the same terms offered by a third party or otherwise negotiated with the Charles Town Joint Venture. The rights retained by Showboat under the Showboat Option extend for a period of five years from November 6, 1996, the date that the Charles Town Joint Venture exercised its option to purchase the Charles Town Races, and expires thereafter unless legislation to permit casino gaming at the Charles Town Entertainment Complex has been adopted prior to the end of the five-year period. If such legislation has been adopted prior to such time, then the rights of Showboat continue for a reasonable time (not less than 24 months) to permit completion of negotiations.

While the express terms of the Showboat Option do not specify which activities at the Charles Town Entertainment Complex would constitute operation of a casino, Showboat has agreed that the installation and operation of gaming devices linked to the lottery (like the gaming machines the Company has installed and will continue to install) at the Charles Town Entertainment Complex's racetrack would not trigger Showboat's right to exercise the Showboat Option.

The Charles Town Joint Venture refurbished and reopened the Charles Town Entertainment Complex as an entertainment complex that features live racing, dining, simulcast wagering and, effective September 1997, the operation of gaming machines. The cost of the refurbishment was approximately $27.8 million inclusive of $614,000 of capitalized interest and exclusive of the costs of the gaming machines.

The Charles Town acquisition was accounted for using the purchase method of accounting. Accordingly, a portion of the purchase price was allocated to the net assets acquired based on their estimated fair values. The balance of the purchase price was recorded as cost over net assets acquired as goodwill, approximately $1.7 million, and is being

amortized over forty years on a straight-line basis. The Company used its credit facility (see Note 3) and cash from operations to fund the acquisition.

The results of operations of Charles Town have been included in the Company's consolidated financial statements since January 15, 1997, the effective date of the acquisition.

3. Long-Term Debt and Capital Lease Obligations

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

December 31,	1997	1998
	(In thousands)	
Long-term debt		
$80 million Senior Notes, due December 15, 2004 with interest at 10.625% per annum payable semi-annually on June 15 and December 15, commencing June 15, 1998. The notes are unsecured and are unconditionally guaranteed by certain subsidiaries of the Company	$ 80,000	$ 69,000
Revolving credit facility payable to a bank group (see additional information below under Credit Facilities)	--	9,000
Other notes payable	279	246
Capital lease obligations	57	10
	80,336	78,256
Less current maturities	204	168
	$ 80,132	$ 78,088

Credit Facilities

At December 31, 1998, the Company was contingently obligated under letters of credit with face amounts aggregating $1,886,000. These amounts consisted of $1,786,000 relating to the horsemens' account balances and $100,000 for Pennsylvania pari-mutuel taxes.

In November 1996, the Company entered into an agreement with a bank group which provides an aggregate of $75 million of credit facilities, which included a $5 million revolving credit facility (the "Credit Facility"). Simultaneously with the closing of the Credit Facility, the Company repaid amounts outstanding under its old credit facility and replaced it. The Credit Facility consisted of two term loan facilities of $47 million and $23 million (together, the "Term Loans") which were used for the Pocono Downs and Charles Town acquisitions, respectively, and which were used for a portion of the cost of refurbishment of the Charles Town Entertainment Complex, and a revolving credit facility of $5 million (together, the "Loans"). The Term Loans were repaid in December 1997 with the proceeds of the Company's debt offering. See "Debt Offering" hereinafter. At such time, the Credit Facility was amended and restated to provide for a $12 million revolving credit facility,

including a $3 million sublimit for standby letters of credit, which matures in December 2002.

On January 28, 1999, the Company entered into a second amendment and restatement of the Credit Facility. The Credit Facility, as amended, provides for a $20 million revolving credit facility, including a $3 million sublimit for standby letters of credit and a $5 million term loan. Under the terms of the Credit Facility, as amended, the Company borrowed an additional $11.5 million, of which $11.2 million of the proceeds was used to finance its share of the New Jersey Joint Venture (see Note 4). The revolving credit facility is secured by substantially all of the assets of the Company, except for the assets of the Charles Town facility. The revolving credit facility provides for certain covenants, including those of a financial nature.

At the Company's option, the revolving facility may bear interest at the highest of: (1) 1/2 of 1% in excess of the federal reserve reported certificate of deposit rate, (2) the rate that the bank group announces from time to time as its prime lending rate and (3) 1/2 of 1% in excess of the federal funds rate plus an applicable margin of up to 2% or the revolving facility may also bear interest at a rate tied to a eurodollar rate plus an applicable margin of up to 3%. The outstanding amount under this credit facility as of December 31, 1998 was $9.0 million at an interest rate of 7.8125%.

Mandatory repayments of the revolving facility are required in an amount equal to a percentage of the net cash proceeds from any issuance or incurrence of equity or funded debt by the Company, that percentage to be dependent upon the then outstanding balance of the revolving facility and the Company's leverage ratio. Mandatory repayments of varying percentages are also required in the event of either asset sales in excess of stipulated amounts or defined excess cash flow.

Debt Offering

On December 12, 1997, the Company and certain of its subsidiaries (as guarantors) entered into a purchase agreement for the sale and issuance of $80,000,000 aggregate principal amount of its 10.625% Senior Notes due 2004 (the "Offering"). The net proceeds of the Offering were used for repayment of existing indebtedness, for capital expenditures and for general corporate purposes. Interest on the notes will accrue from their date of original issuance (the "Issue Date") and will be payable semi-annually, commencing in 1998. The notes will be redeemable, in whole or in part, at the option of the Company in 2001 or thereafter at the redemption prices set forth in the Offering, plus accrued and unpaid interest to the date of redemption.

The notes are general unsecured senior obligations of the Company and rank equally in right of payment to any existing and future unsubordinated indebtedness of the Company and senior in right of payment with all existing and future subordinated indebtedness of the Company. The notes are unconditionally guaranteed (the "Guarantees") on a senior basis by certain of the Company's existing subsidiaries (the "Subsidiary Guarantors"). The Guarantees are general unsecured obligations of the Subsidiary Guarantors and rank equally in right of payment to any unsubordinated indebtedness of

the Subsidiary Guarantors and rank senior in right of payment to all other subordinated obligations of the Subsidiary Guarantors. The notes are effectively subordinated in right of payment to all secured indebtedness of the Company, including indebtedness incurred under the amended $20 million revolving credit facility.

On September 3, 1998, the Company repurchased $11 million of the 10.625% Senior Notes due 2004 at 97.25% of the principal amount ($10,697,500) plus accrued interest of $253,229 in public market trading. In conjunction with the repurchase of the notes, the Company recorded a write-off of deferred financing costs associated with this portion of the long-term debt. The extinguishment of these notes did not result in any material net loss.

The following is a schedule of future minimum lease payments under capitalized leases and repayments of long-term debt as of December 31, 1998:

December 31,	Capitalized Leases	Term Loans and Notes Payable	Total
		(In thousands)	
1999	$ 10	$ 158	$ 168
2000	--	34	34
2001	--	37	37
2002	--	9,017	9,017
2003	--	--	--
Thereafter	--	69,000	69,000
Total minimum payments	10	78,246	78,256
Less interest discount amount	--	--	--
Total present value of net minimum lease payments and total notes payable	10	78,246	78,256
Current maturities	10	158	168
Total noncurrent maturities	$ --	$ 78,088	$ 78,088

On February 18, 1997, the Company completed a secondary public offering of 1,725,000 shares of common stock and used $19 million of the $23 million proceeds therefrom to reduce the then outstanding Term Loan amounts (see Note 7).

4. Commitments and Contingencies

Operating Agreements

In November 1997, the Company signed a new Totalisator services and equipment agreement for all of its subsidiaries. The agreement is for five years, expiring on March 31, 2003. The new agreement provides for annual payments based on a specified percentage of the total amount wagered at the Company's facilities with a minimum annual payment of $1,475,000.

The Company is also liable under numerous operating leases for automobiles, other equipment and buildings, which expire through 2004. Total rental expense under these agreements was $1,001,000, $807,000 and $1,169,000 for the years ended December 31, 1996, 1997 and 1998, respectively.

The future lease commitments relating to noncancelable operating leases as of December 31, 1998 are as follows:

	(In thousands)
1999	$ 1,369
2000	1,370
2001	1,286
2002	1,052
2003	957
Thereafter	2,339
	$ 8,373

In June 1997, the Charles Town Joint Venture, which is operated as PNGI Charles Town Gaming, LLC, an 89% subsidiary of the Company, entered into an agreement (the "GTECH Agreement") with GTECH relating to the lease, installation and service of a video lottery system ("VLS") at the Charles Town Entertainment Complex. The GTECH Agreement included a minimum annual fee of $4.3 million if more than 799 gaming machines were placed in operation. Due to significant economic benefits to the Company, on November 18, 1998 the Company entered into an agreement to purchase GTECH's assets and rights related to the provision of gaming technology at Charles Town Races. Under the terms of the agreement, the Company assumed the ownership and operation of the 799 gaming machines and the central monitoring system for consideration of $12.9 million.

Employment and Consulting Agreements

The Company has employment agreements with its Chairman and Chief Financial Officer at annual base salaries of $225,000 and $95,000, respectively. The agreements became effective June 1, 1994 and, as amended, terminate on June 30, 1999. Each agreement prohibits the employee from competing with the Company during its term and for one year thereafter, and requires a death benefit payment by the Company equal to 50% of the employee's annual salary in effect at the time of death.

The Company signed a consulting agreement with its former Chairman expiring in August 1999 at an annual payment of $125,000. On July 1, 1998, the consulting agreement was amended to increase the annual payment to $135,000.

The Company has an employment agreement with its President and Chief Operating Officer at an annual base salary of $210,000. The agreement was to terminate on June 12, 1998, but has been extended until June 12, 1999. The agreement prohibits the employee from competing with the Company during its term and for two years thereafter, and requires a death benefit payment by the Company equal to 50% of the employee's annual salary in effect at the time of his death.

The Company has two profit sharing plans under the provisions of Section 401(k) of the Internal Revenue Code, The Penn National Gaming, Inc. Profit Sharing Plan (the Penn National 401(k) Plan") and the Pocono Downs, Inc. Profit Sharing Plan (the "Pocono Downs 401(k) Plan"), that cover all eligible employees who are not members of a bargaining unit. Both plans enable employees choosing to participate to defer a portion of their salary in a retirement fund to be administered by the Company. The Company's

contributions to the Penn National 401(k) Plan are set at 50% of employees elective salary deferrals which may be made up to a maximum of 6% of employee compensation. The Company has no obligation to contribute to the Pocono Downs 401(k) plan. However, for the years ended December 31, 1996, 1997, and 1998, the Company has made discretionary contributions to the Pocono Downs 401(k) Plan based upon a percentage of the employee elective deferrals which may be made up to a maximum of 15% of employee compensation. The Company made contributions to these plans of approximately $89,000, $145,000 and $172,000 for the years ended December 31, 1996, 1997, and 1998, respectively. Charles Town has a defined contribution plan covering substantially all of its employees. Charles Town makes monthly contributions equal to the amount accrued for retirement expense, which is calculated as .25% of the daily mutual handle and .5% of the net video lottery revenues. Total contributions for the years ended December 31, 1997 and 1998 were $114,000 and $185,000, respectively.

On December 31, 1998, the Company merged the Pocono Downs, Inc. Profit Sharing Plan into the Penn National Gaming, Inc. 401(k) Plan and spun off the assets into the non-bargaining unit employees in the Charles Town Races Future Services Retirement Plan and merged those assets into the Penn National 401(k) Plan. The results of the merger is that the Company operates the Penn National 401(k) Plan for all non-bargaining unit employees at all locations while the Charles Town Races Future Services Retirement Plan is for bargaining unit employees at the Charles Town facility.

OTW and Operating Facilities

On July 7, 1998, the Company entered into an agreement with Ladbroke to purchase their Johnstown, Pennsylvania OTW facility. The agreement provided for a purchase price of $1,225,000 for the assignment of the facility lease and the sale of assets and was subject to numerous contingencies, including approval by the Pennsylvania State Horse Racing Commission. Approval for the sale and transfer of the Johnstown OTW was received from the Harness Racing Commission on August 14, 1998 and the Pennsylvania State Horse Racing Commission on August 20, 1998. Under the terms of the agreements, the Company sub-leased the facility from Ladbroke and operated the facility from September 1, 1998, the effective date of the agreement, through December 30, 1998, the closing date of the agreement, for $12,500 per month, at which time the Company assumed full rights and ownership of the facility.

On July 14, 1998, the Company entered into a lease agreement for an OTW facility in East Stroudsburg. The lease is for approximately 14,000 square feet at the Eagle's Glen Shopping Plaza located in East Stroudsburg, Pennsylvania. The initial term of the lease is for ten years with two additional five-year renewal options available. The agreement is subject to numerous contingencies, including approval by the Harness Racing Commission. On November 6, 1998, the Company submitted its application for such approval. If approved by the Harness Racing Commission, the Company expects to spend approximately $2 million to have the facility constructed and operational by the end of 1999.

The Company is subject to possible liabilities arising from environmental conditions at the landfill adjacent to Pocono Downs Racetrack. Specifically, the Company may incur expenses in connection with the landfill in the future, which expenses may not be reimbursed by the four municipalities

which are parties to an existing settlement agreement. The Company is unable to estimate the amount, if any, that it may be required to expend.

Potential Tennessee Development Project

In June 1997, the Company acquired twelve one-month options to purchase approximately 100 acres of land in Memphis, Tennessee. Since such time, the Company, through its subsidiary, Tennessee Downs, Inc. ("Tennessee Downs"), has pursued the development of a harness track and simulcast facility, which is located in the northeastern section of Memphis (the "Tennessee Development Project"). The Company submitted an application to the Tennessee State Racing Commission (the "Tennessee Commission") in October 1997 for an initial license for the development and operation of a harness track and OTW facility at this site. A land use plan for the construction of a 5/8-mile harness track, clubhouse and grandstand area was approved in October 1997 by the Land Use Hearing Board for the City of Memphis and County of Shelby. Tennessee Downs was determined to be financially suitable by the Tennessee Commission and a public comment hearing before the Tennessee Commission was held in November 1997. In December 1997, the Company received the necessary zoning and land development approvals from the Memphis City Council. In April 1998, the Tennessee Commission granted a license to the Company, which would expire on the earlier of: (i) December 31, 2000 or (ii) the expiration of Tennessee Commission's term on June 30, 1998, if such term was not extended by the Tennessee Commission. On May 1, 1998, the Tennessee State Legislature voted against extending the life of the Tennessee Commission, allowing the Tennessee Commission's term to expire on June 30, 1998. The Tennessee Commission held a meeting on May 29, 1998 at which it rejected the Company's request: (i) to grant the Company an extended timeframe for the effectiveness of its racing license; (ii) for racing days for the period ending December 31, 2000; and (iii) to operate a temporary simulcast facility. On July 28, 1998, the Company filed for a preliminary injunction and a declaratory ruling on the legal status of racing in Memphis. On November 23, 1998, the court ruled that the Racing Control Act had not been repealed and cannot be repealed by implication by dissolving the Tennessee Commission. It is the opinion of the court that because the Racing Control Act is still in force, horse-racing and pari-mutuel betting is a legal unregulated activity in Tennessee. This opinion has been appealed by the Tennessee Attorney General. The Company intends to continue its efforts to develop and operate a harness track in Tennessee. Costs incurred as of December 31, 1998 regarding the Tennessee license amounted to $489,000 and are presented in prepaid expenses and other current assets.

New Jersey Joint Venture

On January 28, 1999, pursuant to a First Amendment to an Asset Purchase Agreement by, between and among Greenwood New Jersey, Inc. ("Greenwood"), International Thoroughbred Breeders, Inc., Garden State Race Track, Inc., Freehold Racing Association, Atlantic City Harness, Inc. and Circa 1850, Inc., the original parties to an Asset Purchase Agreement entered into as of July 2, 1998, and the Company (the "Agreement"), and pursuant to which the Company entered into a joint venture ("Joint Venture"), the Company, along with its Joint Venture partner, Greenwood, agreed to purchase certain assets of the Garden State Race Track and Freehold Raceway, both located in New Jersey (the "Acquisition").

The purchase price for the Acquisition is approximately $46 million (subject to reduction of up to approximately $1 million based upon the resolution of certain disputed items, for which amounts have been placed in escrow). The purchase price will consist of $23 million in cash and $23 million pursuant to two deferred purchase price promissory notes in the amount of $22 million and $1 million each. The Company is responsible for 50% of the purchase price. The parties to the Joint Venture are also contingently liable to the sellers in amounts not to exceed a total of $10 million, if the Joint Venture receives various approvals for off-track wagering or phone betting.

The Joint Venture is contingent upon, among other things, the Company obtaining approvals necessary to effect the Joint Venture, which approvals include: (i) full and complete New Jersey regulatory approval (including but not limited to approval of the New Jersey Racing Commission); (ii) Hart Scott Rodino compliance; and (iii) the written consent of a majority of the holders of its $80 million Senior Notes issued December 17, 1997 to any necessary modification to the Indenture dated December 12, 1997 to permit the Company's investment in the Joint Venture. At the initial closing of the Acquisition on January 28, 1999, the Company loaned FR Park Racing, LP, a New Jersey limited partnership, $11,250,000 (at the Company's effective borrowing rate as specified in Note 3 under "Credit Facilities"), which is secured by certain assets. After obtaining the above approvals, the Company will invest an additional $11,750,000 into the Joint Venture with a portion of this amount being treated as capital and the balance as debt. The Company will have a 50% interest in the Joint Venture.

5. Income Taxes

The provision for income taxes charged to operations was as follows:

Year ended December 31,	1996	1997	1998
		(in thousands)	
Current tax expense			
Federal	$ 2,686	$ 2,006	$ 3,374
State	880	399	755
Total current	3,566	2,405	4,129
Deferred tax expense (benefit)			
Federal	178	(56)	378
State	50	(41)	12
Total deferred	228	(97)	390
Total provision	$ 3,794	$ 2,308	$ 4,519

Deferred tax assets and liabilities are comprised of the following:

December 31,	1997	1998
	(in thousands)	
Deferred tax assets		
Reserve for debit balances of horsemens' accounts, bad debts restructuring charges and litigation	$ 469	$ 458
Deferred tax liabilities		
Property, plant and equipment	$ 11,092	$ 11,471

The following is a reconciliation of the statutory federal income tax rate to the actual effective income tax rate for the following periods:

Year ended December 31,	1996	1997	1998
Percent of pretax income			
Federal tax rate	34.0%	34.0%	34.0%
Increase in taxes resulting from state and local income taxes, net of federal tax benefit	6.6	3.9	4.2
Permanent difference relating to amortization of goodwill	.2	.9	.4
Other miscellaneous items	--	(.8)	(1.0)
	40.8%	38.0%	37.6%

6. Supplemental Disclosures of Cash Flow Information

Cash paid during the year for interest was $506,000, $4,346,000 and $8,192,000 in 1996, 1997 and 1998, respectively.

Cash paid during the year for income taxes was $2,490,000, $3,649,000 and $4,207,000 in 1996, 1997 and 1998, respectively.

Noncash investing and financing activities were as follows:

During 1996, the Company purchased Pocono Downs for an aggregate purchase price of $47,320,000, net of cash acquired. In conjunction with the acquisition, liabilities were assumed as follows:

Fair value of assets acquired, primarily property, plant and equipment	$ 53,150,000
Cash paid for the capital stock and the limited partnership interests	47,320,000
Liabilities assumed	$ 5,830,000

During 1996, the Company issued a $250,000 long-term note payable for the incurrence of prepaid Charles Town Acquisition costs.

7. Common

Stock On February 18, 1997, the Company completed a secondary public offering of 1,725,000 shares of its common stock. The net proceeds of $23 million were used to reduce $19 million of the Term Loan amounts outstanding under the Credit Facility with the balance of the proceeds used to finance a portion of the cost of the refurbishment of the Charles Town Entertainment Complex (see Note 2 for Acquisitions).

From August 21, 1998 to September 10, 1998, the Company purchased 424,700 shares of its common stock in public market trading. The total cost of these transactions was $2,378,465 or $5.60 per share average price.

In April 1994, the Company's Board of Directors and shareholders adopted and approved the Stock Option Plan (the "Plan"). On April 30, 1997, the shareholders and the Board of Directors approved an increase in the number of authorized shares underlying stock options to be granted from 1,290,000 to 2,000,000 shares. Therefore, the Plan permits the grant of options to purchase up to 2,000,000 shares of Common Stock, subject to antidilution adjustments, at a price per share no less than 100% of the fair market value of the Common Stock on the date an option is granted with respect to incentive stock options only. The price would be no less than 110% of fair market value in the case of an incentive stock option granted to any individual who owns more than 10% of the total combined voting power of all classes of outstanding stock. The Plan provides for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, and nonqualified stock options which do not so qualify. Unless the Plan is terminated earlier by the Board of Directors, the Plan will terminate in April 2004.

Stock options that expire between August 20, 2000 and August 6, 2008 have been granted to officers and directors to purchase Common Stock at prices ranging from $3.33 to $17.63 per share. All options and warrants were granted at market prices at date of grant. The following table contains information on stock options issued under the Plan for the three-year period ended December 31, 1998:

	Option Shares	Exercise Price Range Per Share	Average Price
Outstanding at January 1, 1996	810,000	$ 3.33 to 5.58	$ 3.82
Granted	280,000	5.63 to 17.63	12.99
Exercised	(110,250)	3.33	3.33
Outstanding at December 31, 1996	979,750	3.33 to 17.63	9.10
Granted	100,000	11.50 to 16.63	15.59
Exercised	(39,250)	3.33 to 5.63	4.01

	Option Shares	Exercise Price Range Per Share	Average Price
Outstanding at December 31, 1997	1,040,500	3.33 to 17.63	7.31
Granted	195,000	6.44 to 15.50	9.06
Exercised	(11,500)	3.33 to 5.63	4.88
Canceled	(39,500)	5.63 to 15.50	13.36
Outstanding at December 31, 1998	1,184,500	3.33 to 17.63	9.50

In addition, 300,000 common stock options were issued to the Chairman outside the Plan on October 23, 1996. These options were issued at $17.63 per share and are exercisable through October 23, 2006.

Exercisable at year-end:

	Option Shares	Exercise Price Range Per Share	Weighted Average Price
1996	337,250	$ 3.33 to 17.63	$ 3.71
1997	653,833	3.33 to 17.63	7.08
1998	1,034,666	3.33 to 17.63	8.36

Options available for future grant:	1994 Plan
1998	654,500

The following table summarizes information about stock options outstanding at December 31, 1998:

	Ranges		Total
Range of exercise prices	$3.33 to $5.50	$5.58 to $17.63	$3.33 to $17.63
Outstanding options			
Number outstanding at December 31, 1998	637,250	847,250	1,484,500
Weighted average remaining contractual life (years)	4.84	6.51	5.79
Weighted average exercise price	$ 3.84	$ 13.75	$ 9.50
Exercisable options			
Number outstanding at December 31, 1998	637,250	397,416	1,034,666
Weighted average exercise price	$ 3.84	$ 15.61	$ 8.36

Warrants outstanding have been granted to the underwriters of the Company's initial public offering at a price of $4.00 per share which expire on June 2, 1999.

A summary of the warrant transactions follows:

	Warrant Shares	Exercise Price Range Per Share	Weighted Average Price
Warrants outstanding at January 1, 1996	495,000	$ 4.00	$ 4.00
Warrants exercised	(300,000)	4.00	4.00
Warrants outstanding at December 31, 1996	195,000	4.00	4.00
Warrants exercised	(43,000)	4.00	4.00
Warrants outstanding at December 31, 1997	152,000	4.00	4.00
Warrants exercised	(3,000)	4.00	4.00
Warrants outstanding at December 31, 1998	149,000	4.00	4.00

During 1995, the Financial Accounting Standards Board adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), which has recognition provisions that establish a fair value based method of accounting for stock-based employee compensation plans and established fair value as the measurement basis for transactions in which an entity acquires goods or services from nonemployees in exchange for equity instruments. SFAS 123 also has certain disclosure provisions. Adoption of the recognition provisions of SFAS 123 with regard to these transactions with nonemployees was required for all such transactions entered into after December 15, 1994, and the Company adopted these provisions as required. The recognition provision with regard to the fair value based method of accounting for stock-based employee compensation plans is optional. Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employers" ("APB 25"), uses what is referred to as an intrinsic value based method of accounting. The Company has decided to continue to apply APB 25 for its stock-based employee compensation arrangements. Accordingly, no compensation cost has been recognized. Had compensation cost for the Company's employee stock option plan been determined based on the fair value at the grant date for awards under the plan consistent with the method of SFAS 123, the Company's net income and net income per share would have been reduced to the pro forma amounts indicated below:

Year ended December 31,	1996	1997	1998
Net income			
As reported	$ 5,510,000	$ 2,287,000	$ 7,503,000
Pro forma	5,344,000	1,660,000	6,827,000
Basic net income per share			
As reported	$ .41	$ .15	$ .50
Pro forma	.40	.11	.45
Diluted net income per share			
As reported	$ .40	$ .15	$ .49
Pro forma	.39	.11	.44

The fair value of each option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1996, 1997 and 1998: dividend yield of 0%; expected volatility of 20%; risk-free interest rate of 6%; and expected lives of five years. The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to 1995. Additional awards in future years are anticipated.

8. Shareholder Rights Plan

On May 20, 1998, the Board of Directors of the Company authorized and declared a dividend distribution of one Preferred Stock purchase right (the "Rights") for each outstanding share of the Company's common stock, par value $.01 per share (the "Common Shares"), payable to shareholders of record at the close of business on March 19, 1999. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share (a "Preferred Stock Fraction"), or a combination of securities and assets of equivalent value, at a purchase price of $40.00 per Preferred Stock Fraction (the "Purchase Price"), subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") dated March 2, 1999 between the Company and Continental Stock Transfer and Trust Company as Rights Agent. All terms not otherwise defined herein are used as defined in the Rights Agreement.

The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock (the "Stock Acquisition Date"), announces a tender or exchange offer that will result in such person or group acquiring 20% or more of the outstanding common stock or is a beneficial owner of a substantial amount of Common Shares (at least 10%) whose ownership may have a material adverse impact ("Adverse Person") on the business or prospects of the Company. The Company will be entitled to redeem the Rights at a price of $.01 per Right (payable in cash or stock) at anytime until 10 days following the Stock Acquisition Date or the date on which a person has been determined to be an Adverse Person. If the Company is involved in certain transactions after the Rights become exercisable, a Holder of Rights (other than Rights owned by a shareholder who has acquired 15% or more of the Company's outstanding common stock or is determined to be an Adverse Person, which Rights become void) is entitled to buy a number of the acquiring company's Common Shares or the Company's common stock, as the case may be, having a market value of twice the exercise price of each Right. A potential dilutive effect may exist upon the exercise of the Rights. Until a Right is exercised,

		the holder will have no rights as a stockholder of the Company, including, without limitations, the right to vote as a stockholder or to receive dividends. The Rights are not exercisable until the Distribution Date and will expire at the close of business on March 18, 2009, unless earlier redeemed or exchanged by the Company.
9.	Loss From Retirement of Debt	In 1997, the Company recorded an extraordinary loss of $1,482,000 after taxes for the early retirement of debt. The extraordinary loss consists primarily of write-offs of deferred finance costs associated with the retired notes and legal and bank fees relating to the early extinguishment of the debt.
10.	Site Development and Restructuring Charges	During 1997, the Company incurred site development (1,735,000) and restructuring ($702,000) charges of $2,437,000. The site development charges consist of $800,000 related to the Charles Town Races facility and $935,000 related to the abandonment of certain proposed operating sites during 1997. The restructuring charges primarily consistof $350,000 in severance termination benefits and other charges at the Charles Town Races facility; $300,000 for the restructuring of the Erie, Pennsylvania OTW facility and $52,000 of property and equipment written off in connection with the discontinuation of Penn National Speedway, Inc. operations during 1997. These charges, net of income taxes, decreased the 1997 net income and diluted net income per share by $1,462,000 and $.09 per share, respectively.
11.	Subsequent Event	The Company's contract with the Penn National Race Course Thoroughbred Horsemen ("Horsemen") expired on February 15, 1999. On that date, the Horsemen stopped live racing at Penn National Race Course and withdrew their permission for the Company to import simulcast races from other racetracks, resulting in the closure of Penn National Race Course and its six OTW facilities at Reading, Chambersburg, York, Lancaster, Williamsport and Johnstown. Effective March 23, 1999, the parties signed a new Horsemen Agreement with an initial term which expires on January 1, 2004.

12. Subsidiary Summarized financial information for years ended December 31, 1998 and 1997 for Guarantors Penn National Gaming, Inc. ("Parent"), the Subsidiary Guarantors and Subsidiary Nonguarantors is as follows:

	Parent Company	Subsidiary Guarantors	Subsidiary Non-Guarantors	Elimin-ations	Consoli-dated
As of December 31, 1997 Consolidated Balance Sheet (In Thousands)					
Current assets	$ 3,068	$ 21,842	$ 1,636	$ 2,478	$ 29,024
Net property, plant and equipment	21,856	38,097	43,208		103,161
Other assets	(2,575)	237,878	1,764	(210,374)	26,693
Total	$ 22,349	$ 297,817	$ 46,608	$ (207,896)	$ 158,878
Current liabilities	$ 5,077	$ 3,403	$ 7,628	$ (2,310)	$ 13,798
Long-term liabilities	1,117	155,388	41,913	(107,194)	91,224
Shareholders' equity (deficiency)	16,155	139,026	(2,933)	(98,392)	53,856
Total	$ 22,349	$ 297,817	$ 46,608	(207,896)	$ 158,878
Year ended December 31, 1997 Consolidated Statement of Income (In Thousands)					
Total revenues	$ 6,887	$ 90,320	$ 16,484	$ (2,155)	$ 111,536
Total operating expenses	3,434	81,822	18,700	(2,155)	101,801
Income from operations	3,453	8,498	(2,216)		9,735
Other income(expenses)	(3,565)	1,612	(1,705)		(3,658)
Income before income taxes	(112)	10,110	(3,921)		6,077
Taxes on income	(38)	3,909	(1,563)		2,308
Extraordinary item	(142)	(768)	(572)		(1,482)
Net income (loss)	$ (216)	$ 5,433	$ (2,930)	$	$ 2,287
Consolidated Statement of Cash Flows (In Thousands)					
Net cash provided by (used in) operating activities	$ 2,559	$ (169,422)	$ 882	$ 176,659	$ 10,678
Net cash provided by (used in) investing activities	(8,995)	68,529	40	(107,194)	(47,620)
Net cash provided by (used in) financing activities	22,361	100,266		(69,465)	53,162
Net increase (decrease) in cash and cash equivalents	15,925	(627)	922		16,220
Cash and cash equivalents at beginning of period	3,015	2,597	22		5,634
Cash and cash equivalents at end of period	$ 18,940	$ 1,970	$ 944	$	$ 21,854

	Parent Company	Subsidiary Guarantors	Subsidiary Non-Guarantors	Elimin-ations	Consoli-dated
As of December 31, 1998					
Consolidated Balance Sheet (In Thousands)					
Current assets	$ 3,558	$ 6,944	$ 4,204	$ (592)	$ 14,114
Net property, plant and equipment	13,576	62,598	44,578		120,752
Other assets	102,400	153,818	1,779	(232,065)	25,932
Total	$ 119,534	$ 223,360	$ 50,561	$ (232,657)	$ 160,798
Current liabilities	$ 1,000	$ 13,961	$ 7,520	$ (10,278)	$ 12,203
Long-term liabilities	81,037	78,527	47,334	(117,339)	89,559
Shareholders' equity (deficiency)	37,497	130,872	(4,293)	(105,040)	59,036
Total	$ 119,534	$ 223,360	$ 50,561	(232,657)	$ 160,798
Year ended December 31, 1998					
Consolidated Statement of Income (In Thousands)					
Total revenues	$ 10,789	$ 89,142	$ 56,883	$ (2,749)	$ 154,065
Total operating expenses	4,612	81,187	51,557	(2,749)	134,607
Income from operations	6,177	7,955	5,326		19,458
Other income(expenses)	(5,535)	2,842	(4,743)		(7,436)
Income before income taxes	642	10,797	583		12,022
Taxes on income	100	4,186	233		4,519
Net income	$ 542	$ 6,611	$ 350	$	$ 7,503
Consolidated Statement of Cash Flows (In Thousands)					
Net cash provided by (used in) operating activities	$ (2,072)	$ (4,121)	$ 1,267	$ 16,792	$ 11,866
Net cash provided by (used in) investing activities	(13,387)	290	909	(10,145)	(22,333)
Net cash provided by (used in) financing activities	(1,480)	3,566		(6,647)	(4,561)
Net increase (decrease) in cash and cash equivalents	(16,939)	(265)	2,176		(15,028)
Cash and cash equivalents at beginning of period	18,940	1,970	944		21,854
Cash and cash equivalents at end of period	$ 2,001	$ 1,705	$ 3,120	$	$ 6,826

ITEM 9 CHANGES AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated by reference from the Company's definitive proxy statement with respect to the Company's Annual Meeting of Shareholders to be held on May 5, 1999. Such proxy statement shall be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 11 EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from the Company's definitive proxy statement with respect to the Company's Annual Meeting of Shareholders to be held on May 5, 1999. Such proxy statement shall be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated by reference from the Company's definitive proxy statement with respect to the Company's Annual Meeting of Shareholders to be held on May 5, 1999. Such proxy statement shall be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated by reference from the Company's definitive proxy statement with respect to the Company's Annual Meeting of Shareholders to be held on May 5, 1999. Such proxy statement shall be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

ITEM 14 EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(A) (1) The Financial Statements included in the Index to Part II, Item 8, are filed as part of this Report

(2) List of Exhibits

EXHIBIT NOS.	DESCRIPTION OF EXHIBIT
1.	Purchase Agreement.
2.1	Agreement and Plan of Reorganization dated April 11, 1994 among the Registrant, Carlino Family Partnership, Carlino Financial Corporation and the shareholders and general partners of the entities now comprising Penn national Gaming, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
2.1.1	Amendment to Agreement and Plan of Reorganization dated April 26, 1994 among the registrant, Carlino Family Partnership, Carlino Financial Corporation and the shareholders and general partners of the entities now comprising Penn national Gaming, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
2.2	Agreement and Plan of Reorganization dated April 11, 1994 between the Registrant and Thomas J. Gorman. (Incorporated by reference to the Company's registration statement on Form S-1, File #33/77758, dated May 26, 1994.)
2.2.1	Amendment to Agreement and Plan of Reorganization dated April 26, 1994 between the Registrant and Thomas J. Gorman. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)
2.3	Closing Agreement dated January 15, 1997 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Gaming Limited Liability Company. (Incorporated by reference to the Company's registration statement on Form 8-K, File #0-24206, dated January 30, 1997.)
2.4	Amended and Restated Operating Agreement dated as of December 31, 1996 among Penn National Gaming of West Virginia, Inc., Bryant Development Company and PNGI Charles Town Gaming limited Liability Company. (Incorporated by reference to the Company's registration statement on Form 8-K, File #0-24206, dated January 30, 1997.)
2.5	Letter dated January 14, 1997 from Peter M. Carlino to James A. Reeder (Incorporated by reference to the Company's registration statement on Form 8-K, File #0-24206, dated January 30, 1997.)
2.6	First Amendment and Consent dated as of January 7, 1997 among the Company, Bankers Trust Company as Agent, CoreStates Bank, N.A. as Co-Agent, and certain banks party to the Credit Agreement dated as of November 27, 1996 (Incorporated by reference to the Company's registration statement on Form 8-K, File #0-24206, dated January 30, 1997.)
2.7	Amended and Restated Option Agreement dated as of February 17, 1995 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Gaming limited Liability Company (Incorporated by reference to Exhibit 2.1 of the Company's Form 8-K, File #0-24206, dated January 30, 1997)
2.8	Transfer, Assignment and Assumption Agreement and Bill of Sale dated January 15, 1997 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Limited Liability Company (Incorporated by reference to Exhibit 2.2 of the Company's Form 10-Q , File #0-24206, dated November 14, 1997.)
2.9	Second Amended and Restated Operating Agreement dated as of October 17, 1997, among Penn National Gaming of West Virginia, Inc., BDC Group and PNGI Charles Town Gaming Limited Liability Company (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated November 14, 1997.)

2.10 Purchase Agreement dated September 13, 1996 between the Company and the Estate of Joseph B. Banks for the purchase of Pocono Downs Race Track and two related OTW facilities. (Incorporated by reference to the Company's Form 10-Q , File #0-24206, dated November 13, 1996.)

3.1 Amended and Restated Articles of Incorporation of Registrant,filed with the Pennsylvania Department of State on April 12, 1994. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

3.2 By-laws of Registrant (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

4.1 Indenture. (Incorporated by reference to the Company's registration statement on Form S-4, File #333-45337, dated January 30, 1998.)

4.2 Registration Rights Agreement dated as of December 17, 1997 among the Company, certain subsidiaries, BT Alex. Brown Incorporated and Jefferies & Company, Inc. (Incorporated by reference to the Company's registration statement on Form S-4, File #333-45337, dated January 30, 1998.)

5 Opinion of Morgan, Lewis & Bockius regarding validity of Notes. (Incorporated by reference to the Company's registration statement on Form S-4, File #333-45337, dated January 30, 1998.)

9.1 Form of Trust Agreement of Peter D. Carlino, Peter M. Carlino, Richard J. Carlino, David E. Carlino, Susan F. Harrington, Anne de Lourdes Irwin, Robert M. Carlino, Stephen P. Carlino and Rosina E. Carlino Gilbert. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

10.1 1994 Stock Option Plan. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

10.2 Employment Agreement dated April 12, 1994 between the Registrant and Peter M. Carlino. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

10.3 Credit Agreement, dated as of November 27, 1996, among Penn National Gaming, inc., various banks, CoreStates bank, N.A., as Co-Agent and Bankers Trust Company, as Agent. (Incorporated by reference to Exhibit 10.1 of the Company's registration statement on Form 8-K, File #0-24206, dated December 12, 1996.)

10.4 Employment Agreement dated April 12, 1994 between the Registrant and Robert S. Ippolito. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

10.8 Consolidation of PRA Agreement dated may 18, 1992 and PRA Amendment dated February 9, 1993 among all members of the Pennsylvania Racing Association. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated may 26, 1994.)

10.11 Lease dated march 7, 1991 between Shelbourne Associated and PNRC Limited Partnership. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

10.13 Lease dated June 30, 1993 between John E. Kyner, Jr. and Sandra R. Kyner, and PNRC Chambersburg, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

10.34 Warrant Agreement between the Registrant and Fahnestock & Co. Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

10.38 Consulting Agreement dated August 29, 1994, between the Company and Peter D. Carlino. (Incorporated by reference to the Company's Form 10-K, File #0-24206 dated March 23, 1995.)

10.39 Lese dated July 7, 1994, between North Mall Associates and the Company for the York OTW. (Incorporated by reference to the Company's Form 10-K, File #0-24206 dated March 23, 1995.)

10.41.1 Lease dated March 31, 1995 between Wyomissing Professional Center III, LP and the Company for the Wyomissing Corporate Office. (Incorporated by reference to the Company's Form 10-K, File #0-24206 dated March 20, 1996.)

10.42 Employment Agreement dated June 1, 1995 between the Company and William J. Bork. (Incorporated by reference to the Company's Form 10-K, File #0-24206 dated March 20, 1996.)

10.43 Lease dated July 17, 1995 between E. Lampeter Associates and Pennsylvania National Turf Club, Inc. for the Lancaster OTW, as amended. (Incorporated by reference to the Company's Form 10-K, File #0-24206 dated March 20, 1996.)

10.44 Agreement dated September 1, 1995 between Mountainview Thoroughbred racing Association and Pennsylvania national Turf Club, Inc. and Sports Arena Employees' Union Local 137 (non-primary location.) (Incorporated by reference to the Company's Form 10-K, File #0-24206 dated March 20, 1996.)

10.45 Agreement dated December 27, 1995 between Pennsylvania national Turf Club, Inc. and Televiews Racing Patrols, Inc. (Incorporated by reference to the Company's Form 10-K, File #0-24206 dated March 20, 1996.)

10.47 Agreement dated February 15, 1996 among Mountainview Thoroughbred Racing Association, Pennsylvania national Turf Club, Inc. and Pennsylvania Division, horsemen's Benevolent and Protection Association, Inc. (Incorporated by reference to the Company's Form 10-K, File #0-24206 dated March 20, 1996.)

10.50 Formation Agreement dated February 26, 1996 between the Company and Bryant Development Company. (Incorporated by reference to the Company's Form 10-K, File #0-24206 dated March 20, 1996.)

10.51 Assignment of Agreement of Sale dated March 6, 1996 between the Company and Montgomery Realty Growth Fund, Inc. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated May 14, 1996.)

10.56 Amended and Restated Option Agreement dated as of February 17, 1995 between the PNGI Charles Town Gaming Limited Liability Company (The Joint Venture) and Charles Town Racing Limited Partnership and Charles Town Races, Inc. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated November 13,1996.)

10.57 General Contractor Agreement dated December 23, 1996, between PNGI Charles Town Gaming Limited Liability Company and Warfel Construction Company. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1997.)

10.58 Agreement dated March 19, 1997, between PNGI Charles Town Gaming Limited Liability Company and the Charles Town HBPA, Inc. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1997.)

10.59 Agreement dated March 21, 1997, between PNGI Charles Town Gaming Limited Liability Company and The West Virginia Thoroughbred Breeders Association. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1997.)

10.60 Agreement between PNGI Charles Town Gaming Limited Liability Company and The West Virginia Union of Mutuel Clerks, Local 533, Service Employees International Union, AFL-CIO. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1997.)

10.61 General Contractor Agreement dated March 26, 1997, between PNGI Charles Town Gaming Limited Liability Company and Myers Building Systems, Inc. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated May 15, 1997.)

10.62 Agreement dated June 25, 1997, between the PNGI Charles Town Gaming Limited Liability Company and GTECH Corporation. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated August 12, 1997.)

10.63 Purchase Option dated June 20, 1997, between the Company and Roosevelt Boyland Devisees. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated August 12, 1997.)

10.64 Purchase Option dated June 20, 1997, between the Company and Joyce M. Peck. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated August 12, 1997.)

10.65 Purchase Option dated June 20, 1997, between the Company and Alan J. Aste. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated August 12, 1997.)

10.66 Fourth Amendment Waiver and Consent dated as of October 20, 1997, among the Company, Bankers Trust, as Agent, CoreStates Bank, N.A. as Co-Agent and certain banks party to the Credit Agreement dated as of November 17, 1996. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated November 14, 1997.)

10.67 Agreement dated October 2, 1996 between Pennsylvania National Turf Club, Inc., Mountainview Racing Association and Sports Arena Employees' union Local No. 137 (Primary Location.) (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1998.)

10.68 Lease dated July 1, 1997 between Laurel Mall Associated and the Downs Off-Track Wagering, Inc. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1998.)

10.69 General Contractor Agreement dated August 15, 1997, between Pocono Downs, Inc. and S.G. Mastriani Construction Management. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1998.)

10.70 General Contractor Agreement dated October 15, 1997, between Pocono Downs, Inc. and S.G. Mastriani Construction Management. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1998.)

10.71 General Contractor Agreement dated November 12, 1997, between Pocono Downs, Inc. and Warfel Construction Company. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1998.)

10.72 Totalisator Agreement dated November 19, 1997, between Penn National Gaming, Inc. and AutoTote Systems, Inc. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1998.)

10.73 Amended and Restated Credit Facility dated as of December 17, 1997, among the Company, certain lenders, Bankers Trust Company, as Agent, and CoreStates Bank, N.A., as Co-Agent. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1998.)

10.74 Waiver dated March 25, 1998, between the Company, certain lenders, Bankers Trust Company as Agent, and CoreStates Bank, N.A., as Co-Agent. (Incorporated by reference to the Company's Form 10-K, File #0-24206, dated March 27, 1998.)

10.75 General Contractor Agreement dated April 24, 1998, between Penn National Turf Club and Warfel Construction Company. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated March 31, 1998.)

10.76 First Amendment and Waiver dated May 15, 1998, among Penn National Gaming, Inc., CoreStates Bank, N.A. and Bankers Trust Company. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated March 31, 1998.)

10.77 Purchase Agreement dated July 7, 1998, between Ladbroke Racing Management - Pennsylvania and Mountainview Thoroughbred Racing Association. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated June 30, 1998.)

10.78 Lease Agreement between Penn National Gaming, Inc. and Eagle Valley Realty dated July 14, 1998. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated September 30, 1998.)

10.79 Joint Venture Agreement dated October 30, 1998 between Penn National Gaming, Inc. and Greenwood New Jersey, Inc. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated September 30, 1998.)

10.80 Amendment dated November 2, 1998 to Joint Venture Agreement between Penn National Gaming, Inc. and Greenwood New Jersey, Inc. (Incorporated by reference to the Company's Form 10-Q, File #0-24206, dated September 30, 1998.)

10.81 Rights Agreement dated as of March 2, 1999 between Penn National Gaming, Inc., and Continental Stock Transfer and Trust Company. (Incorporated by reference to the Company's Form 8-K, File #0-24206, dated March 2, 1999.)

10.82 First Amendment to Asset Purchase Agreement dated as of January 28, 1999 by and among Greenwood New Jersey, Inc., International Thoroughbred Breeders, Inc., Garden State Race Track, Inc., Freehold Racing Association, Atlantic City Harness Inc., Circa 1850, Inc., and Penn National Gaming, Inc. (Incorporated by reference to the Company's Form 8-K, File #0-24206, dated January 28, 1999.)

10.83 First Amendment to Joint Venture Agreement dated as of January 28, 1999, by and between Greenwood New Jersey, Inc. and Penn National Gaming, Inc. (Incorporated by reference to the Company's Form 8-K, File #0-24206, dated January 28, 1999.)

10.84 Purchase Agreement dated November 17, 1998 between the Company and GTECH Corporation.

10.85 Assignment and Assumption of Lease Agreement dated December 31, 1998 between Mountainview Thoroughbred Racing Association and Ladbroke Racing Management-Pennsylvania.

10.86 Subordination, Non-Disturbance and Attornment Agreement dated December 31, 1998 between Mountainview Thoroughbred Racing Association and CRIIMI MAE Services Limited Partnership.

10.87 Second Amended and Restated Credit Agreement dated as of January 28, 1999 between the Company and various banks, First Union National Bank, as Agent.

10.88 Live Racing Agreement dated March 23, 1999 between Pennsylvania National Turf Club, Inc. and Mountainview Thoroughbred Racing Association and Pennsylvania Horsemen's Benevolent and Protection Association, Inc.

21 Subsidiaries of the Registrant.

23.1 Consent of BDO Seidman, LLP. (Incorporated by reference to the Company's registration statement on Form S-3, file #333-18861, dated February 11, 1997.)

23.2 Consent of Robert Rossi & Co. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-18861, dated February 11, 1997.)

23.3 Consent of Leonard J. Miller & Associates, Chartered. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-18861, dated February 11, 1997.)

23.4 Consent of Morgan, Lewis & Bockius LLP (included in its opinion filed as Exhibit 5.1 hereto). (Incorporated by reference to the Company's registration statement of Form S-3, File #333-18861, dated February 11, 1997.)

23.6 Consent of Morgan, Lewis & Bockius LLP (included in Exhibit 5) (Incorporated by reference to the Company's Form S-4, File #333-45337, dated January 30, 1997.)

24.1 Powers of Attorney. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-18861, dated February 11, 1997.)

27.1 Financial Data Schedule.

99 Press Release of Penn National Gaming, Inc., issued January 20, 1995. (Incorporated by reference to the Company's Form 8-K, File #0-24206, dated January 21, 1997.)

(B) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PENN NATIONAL GAMING, INC.

By \s\Peter M. Carlino

Peter M. Carlino,
Chairman of the Board

Dated: March 30 , 1999

Pursuant to the requirements of the Securities Act of 1934 this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
\s\ Peter M. Carlino Peter M. Carlino	Chief Executive Officer and Director (Principal Executive Officer)	March 30, 1999
\s\ William J. Bork William J. Bork	Chief Operating Officer and Director (Principal Operating Officer)	March 30, 1999
\s\ Robert S. Ippolito Robert S. Ippolito	Chief Financial Officer (Principal Financial Officer)	March 30, 1999
\s\ Harold Cramer Harold Cramer	Director	March 30, 1999
\s\ David A. Handler David A. Handler	Director	March 30, 1999
\s\ Robert P. Levy Robert P. Levy	Director	March 30, 1999
\s\ John M. Jacquemin John M. Jacquemin	Director	March 30, 1999

EXHIBIT INDEX

PURCHASE AND SALE AGREEMENT

THIS PURCHASE AND SALE AGREEMENT entered into on November 17, 1998 is by and among GTECH CORPORATION ('GTECH'), a Delaware corporation with its corporate headquarters at 55 Technology Way, West Greenwich, Rhode Island 02817, PENN NATIONAL GAMING, INC., a Pennsylvania corporation with a place of business at 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610 ("PENN") and PNGI CHARLES TOWN GAMING, LLC ("PNGI"), a West Virginia limited liability company with a place of business at 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610 ("PNGI,).

WITNESSETH:

WHEREAS, PNGI, a subsidiary of PENN, and GTECH are each party to that certain Agreement dated as of June 25, 1997 (the "June 1997 Agreement") pursuant to which GTECH provides a video lottery system that is operated at the Charles Town Racetrack in Charles Town, West Virginia;

WHEREAS, PENN wishes to purchase, and GTECH wishes to sell the video lottery system upon the terms and conditions set forth herein and PENN and PNGI, on the one hand, and GTECH, on the other hand (collectively, the "Parties"), wish to provide for an orderly resolution of their business relationship, including the termination of the June 1997 Agreement, upon terms set forth herein; and

WHEREAS, the Parties have agreed that nothing herein shall affect any agreement, or understanding between AmTote International, Inc. and any of the Parties
hereto.

NOW THEREFORE, in consideration of the foregoing and the material promises and covenants contained herein, the Parties hereto, intending to be legally bound, agree as follows:

I - Definitions. Terms used but not defined herein shall have the respective meanings set forth in the June 1997 Agreement.

2.Purchase and Sale. Subject only to the receipt by GTECH of the payment described in paragraph 4 hereof, effective on the date hereof:

2.1 GTECH hereby transfers, sells and assigns to PENN GTECH's entire right, title and interest in and to the VLS System (other than Software) installed at Charles Town Race Track on the date hereof and described more particularly in Exhibit A hereof (the "Transferred Property");

2.2 PENN hereby purchases the Transferred Property and accepts delivery of the Transferred Property "as is where is"; and

2.3 title to the Transferred Property hereby passes from GTECH to PENN.

3. The Software.

3.1 PNGI and PENN acknowledge that the Software installed at Charles Town Race Track on the date hereof and described more particularly on Exhibit B hereof (the "Transferred Software") is comprised exclusively of software developed by IGT.

3.2 GTECH hereby transfers, sells and assigns to PENN GTECH's entire right, title and interest in and to the Transferred Software for use by PENN in connection with the operation of the VLS System at the Charles Town Race Track.

3.3 As between GTECH and PENN, PENN hereby accepts the Transferred Software "as is where is" and acknowledges and agrees that GTECH shall have no continuing obligations of support or maintenance with respect to the Transferred Software.

3.4 PENN hereby covenants and agrees with GTECH that simultaneously with the execution of this Agreement, PENN and IGT shall enter into the software license agreement set forth on Exhibit B (the "Software License") and that thereafter PENN shall use the Transferred Software strictly in accordance with the terms of the Software License.

4.Compensation. In consideration of the transfer, sale and assignment by GTECH to PENN of the Transferred Property, as provided in paragraph 2 hereof, and the transfer, sale and assignment by GTECH to PENN of the Transferred Software, as provided in paragraph 3 hereof, PENN shall simultaneously with the execution of this Agreement pay to GTECH by wire transfer to the bank account identified on Exhibit C hereof, cash proceeds in United States Dollars in an amount equal to $12,999,999.00.

5. GTECH Warranties., Limitations.

5.1 GTECH has good and merchantable title, free and clear of all third party claims, to the Transferred Property. 5.2 GTECH has all requisite power and authority to transfer, sell and assign to PENN the Transferred Software pursuant to paragraph 3 hereof.

5.3 THE TRANSFERRED PROPERTY AND THE TRANSFERRED SOFTWARE SOLD "AS IS WHERE, IS" WITHOUT BY GTECH OF ANY KIND, EXPRESS OR IMPLIED. GTECH EXPRESSLY DISCLAIMS ANY IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE.

6. Additional Representations and Warranties. Each Party represents and warrants to the others:

6.1 It is duly organized, validly existing and in good standing under the laws of its state of incorporation or organization, and has all requisite power and authority to conduct its businesses and to own its properties, and is duly qualified and in good standing in all jurisdictions where such qualification is required in order to perform its respective obligations under this Agreement.

6.2 The execution, delivery and performance of its respective obligations under this Agreement has been duly authorized by all necessary action and does not and will not violate any provision of law or of its articles of incorporation, bylaws and/or organization, or result in a breach of or constitute a default under any agreement, indenture or instrument to which it is a party.

6.3 This Agreement and its terms constitute valid legally binding and enforceable obligations enforceable in accordance with its terms.

6.4 No governmental or other authorization, approval or filing is required for the performance by it of its obligations hereunder and the transaction contemplated herein.

7. Settlement of October and November Invoices. PNGI agrees to pay to GTECH amounts due under the June 1997 Agreement with respect to services performed from October 16, 1998 through November 17, 1998 not later than 10 days after receipt of each invoice from GTECH, prepared in a manner consistent with the manner in which invoices issued heretofore have been prepared, respecting services performed for such period or portion thereof. For purposes of calculating amounts due hereunder for services performed during the month of November 1998, applicable expenses for the entire calendar month of November shall, where practicable, be prorated on a daily basis for the period November 1 - 17, 1998.

8. Mutual Release.

8.1 Effective on the date hereof, and except to the extent provided in paragraph 7 hereof with respect to amounts due to GTECH for services performed through the date hereof, the June 1997 Agreement is hereby terminated, null and void and of no further force or effect. Without limiting the foregoing, GTECH shall hereafter have no continuing obligation to provide, and PENN no continuing obligation to use, any GTECH Services whatsoever.

8.2 In consideration of the foregoing, PENN and PNGI, on behalf of themselves and each of their present and former directors, officers, employees, agents, subsidiaries, shareholders, successors and assigns (each, a "Releasing Party"), each hereby release and forever discharge GTECH, its present and former directors, officers, employees, agents, subsidiaries, shareholders, successors and assigns from any and all liabilities, causes of action, debts, claims and demands both in law and in equity, known or unknown, fixed or contingent, which any Releasing Party may have or claim to have, in its own right or as assignee, from the beginning of time through the date hereof, including, without limitation, any claim based upon or in any way related to the June 1997 Agreement, the goods or services fumished under the June 1997 Agreement or the termination of the June 1997 Agreement, and PENN and PNGI each hereby covenants not to file a lawsuit or charge or commence any arbitration or other proceeding to assert any such claim.

8.3 In consideration of the foregoing, GTECH, on behalf of itself and each of its present and former directors, officers, employees, agents, subsidiaries, shareholders, successors and assigns (each, a "Releasing Party"), hereby releases and forever discharges PENN and PNGI, each of their respective present and former directors, officers, employees, agents, subsidiaries, shareholders, successors and assigns from any and all liabilities, causes of action, debts, claims and demands both in law and in equity, known or unknown, fixed or contingent, which any Releasing Party may have or claim to have, in its own right or as assignee, from the beginning of time through the date hereof (other than amounts due pursuant to paragraph 7 hereof), including, without limitation (other than as provided in such paragraph 7), any claim based upon or in any way related to the June 1997 Agreement, the goods or services furnished under the June 1997 Agreement or the termination of the June 1997 Agreement, and GTECH hereby covenants not to file a lawsuit or charge or commence any arbitration or other proceeding to assert any such claim.

9. Confidentiality. Notwithstanding the termination of the June 1997 Agreement, paragraph 18 thereof is hereby incorporated by reference in this Agreement as if set forth herein in its entirety.

10. Binding Nature of Agreement.

10.1 This Agreement shall be binding upon and inure to the benefit of the Parties and to their respective permitted successors, assigns, heirs, executors and administrators.

10.2 If any one or more of the provisions contained in this Agreement shall for any reason be held to be excessively broad as to duration, scope, activity or subject, it shall be construed as compatible with the applicable law as it shall then appear. Each Party acknowledges that the duration and other restrictions set forth therein, are reasonable to protect the other Parties' business interests.

11. Governing Law.

11.1 The validity, interpretation and enforcement of this Agreement shall be governed by the laws of the State of West Virginia, without resort to its rules regarding conflicts of laws.

12. Notices-, Press Releases.

12.1 All notices and other communications required or permitted to be given under this Agreement to a Party shall be in writing and (a) personally delivered, (b) mailed by registered or certified mail, postage prepaid, return receipt requested, or (c) sent by prepaid overnight courier service (e.g. Federal Express, Airborne, DHL), in any case to the address of the relevant Party set forth on the first page of this Agreement, or at such other addresses such Party may, by written notice, designate as its address for purposes of notice, hereunder. In addition, notices and communications to GTECH shall be sent to the attention of the President, and notices and communications to PENN or to PNGI shall be sent to the attention of their respective Chief Operating Officers.

12.2 If mailed by registered or certified mail, notices shall be deemed to be given five (5) days after being sent; if sent by personal delivery, notice shall be deemed to be given when delivered; and if sent by prepaid overnight courier service, notice shall be deemed to be given one (1) business day following deposit with the courier.

12.3 PENN, PNGI and GTECH agree jointly to the respective press releases set forth as Exhibit D hereto respecting this Agreement and the termination of the June 1997 Agreement. PENN, PNGI and GTECH each agree not to issue any other press or other releases, or otherwise make any disclosure to any third party concerning this Agreement or performance under or termination of the June 1997 Agreement except with the prior written approval of the other Parties hereto, it being expressly understood and agreed in such connection that no Party shall disparage or speak negatively of the other Parties to any third party.

13. Headings.

13.1 Section headings of this Agreement are for convenience only and shall neither form a part nor affect the interpretation hereof.

14. Counterparts.

14.1. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute but one instrument. This Agreement shall become effective when such counterparts have been executed and delivered by the Parties to each other.

14.2. This Agreement may be executed and delivered by facsimile transmission and any such facsimile copy shall have the same force and effect as if an original had been executed and delivered.

15. Scope of Agreement-, Amendments.

15.1 This Agreement constitutes the entire agreement and understanding of the Parties with respect to its subject matter, and supersedes all prior agreements and understandings of the Parties, written and oral, related thereto.

15.2 This Agreement may not be amended, supplemented or modified except by a written agreement signed by the Parties.

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

PENN NATIONAL GAMING, INC. ATTEST

BY: \s\Petter M. Carlino
- - ------------------------
Title: Chairman \s\Susan Montgomery

PNGI CHARLES TOWN GAMING, LLC ATTEST

By:\s\William J. Bork
- - ---------------------
Title: \s\ Vice President \s\Joe Lashinger

GTECH CORPORATION ATTEST

By:Steven Nowick
- - --------------------
Title: Chief Operating Officer \s\Brendan Radigan

ASSIGNMENT AND ASSUMPTION OF LEASE AGREEMENT

This Assignment and Assumption of Lease Agreement (this "Assignment") is made as of the 31st day of December, 1998 by and between LADBROKE RACING MANAGEMENT-PENNSYLVANIA, a general partnership organized under the laws of the Commonwealth of Pennsylvania, having an address of P.O. Box 499, Racetrack Road, Meadow Lands, Pennsylvania 15347 ("Assignor"), and MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION, a Pennsylvania corporation, having an address of 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610 ("Assignee").

Recitals

A. Assignor is the holder of the Tenant's interest under a Lease dated as of October 4, 1991 (the "Lease") by and between Assignor and UNIVERSITY PARK ASSOCIATES, a Pennsylvania general partnership ("Landlord"), with respect to certain Premises located in Richland Township, Cambria County, Pennsylvania, more particularly described in the Lease (the "Premises"). B. Assignor desires to assign its rights and delegate its obligations under the Lease to Assignee and Assignee desires to assume such rights and obligations thereunder.

Agreement

In consideration of the foregoing, the mutual covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Assignor and Assignee, intending to, be legally bound hereby, agree as follows:

Assignment. Assignor hereby transfers, conveys, assigns and sets over to Assignee all of Assignor's right, title and interest in, to and under the Lease, together with all of fixtures and improvements erected on the Premises and the appurtenances thereto (collectively, the "Improvements") and represents and warrants to Assignee that (a) Assignor's execution and delivery of this Agreement have been duly authorized, (b) the persons executing this Assignment on behalf of Assignor are fully authorized to execute it, (c) there are no uncured defaults under the Lease, (d) Assignor has paid all rents and performed all duties of Tenant under the Lease accruing through the date hereof, (e) the Lease is in full force and effect, and there are no amendments, oral or written, to the Lease, and (f) Assignor has not waived or relinquished any option or right granted to Assignor by the terms of the Lease.

Acceptance and Assumption. Assignee expressly accepts the assignment to it of Assignor's right, title and interest in and to the Lease and the Improvements and assumes and agrees to be bound by the Lease and to keep, perform and fulfill each and all of the obligations required to be kept, performed and fulfilled by Assignor as tenant under the Lease accruing or arising on or after the date hereof, and to make all payments accruing or due on or after the date hereof due to Landlord or third parties under the Lease as and when the same are due and payable. Assignee hereby represents and warrants to Assignor that (a) Assignee's execution and delivery of this Assignment have been duly authorized, and (b) the persons executing this Assignment on behalf of Assignee are fully authorized to execute it. Indemnification of Assignor. Assignee hereby agrees to indemnify and save Assignor harmless from any and all claims, demands, actions, causes of action, suits, proceedings, damages, liabilities and costs and expenses of every nature whatsoever, including, without limitation, reasonable attorneys' fees and disbursements, arising out of or relating to any breach of Assignee's covenants and agreements contained herein or relating to the Lease or the Premises arising out of events or transactions occurring on or after the date hereof.

Indemnification of Assignee. Assignor hereby agrees to indemnify and save Assignee harmless from any and all claims, demands, actions, causes of action, suits, proceedings, damages, liabilities and costs and expenses of every nature whatsoever including, without limitation, reasonable attorneys' fees and disbursements, arising out of or relating to any breach of Assignor's covenants and agreements contained herein or relating to the Lease or the Premises arising out of events or transactions occurring before the date hereof.

Further Assurances. Promptly upon request from time to time of the other party, each party shall do, execute, acknowledge and deliver, or cause to be done, executed, acknowledged or delivered, to or at the direction of such party, all further acts, transfers, assignments, powers and other documents and instruments as may be s reasonably requested to give effect to the transactions contemplated hereby.

Successors and Assigns. This Assignment shall bind the parties and their respective successors and assigns.

(Signatures appear on the following page)

IN WITNESS WHEREOF, the parties have executed this Assignment of the date and year first set forth above.

ASSIGNOR:

LADBROKE RACING MANAGEMENT-PENNSYLVANIA

By: Washington Trotting Association, Inc.,
a General Partner

By: /s/Michael E. Jeannot

Title: Vice President

By: Mountain Laurel Racing, Inc., a General Partner

By: /s/Michael E. Jeannot

Title: Vice President

ASSIGNEE:

MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION

By: /s/Peter M. Carlino

Peter M. Carlino, Chairman and CEO

LANDLORD'S RELEASE

The undersigned hereby releases Ladbroke Racing Management-Pennsylvania from all liability under the Lease from and after the effective date hereof.

LANDLORD:

UNIVERSITY PARK ASSOCIATES

By: /s/Stephen B. Zauers
General Partner

COMMONWEALTH OF PENNSYLVANIA)
) SS:
COUNTY OF Washington)

On this the _28__ day of _December__, 1998, before me, a Notary Public, the undersigned officer, personally appeared ___Michael E. Jeannot___, the __Vice President____ of Washington Trotting Association, Inc., a General Partner of Ladbroke Racing Management-Pennsylvania, and acknowledged that [s]he as such officer, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing the name of the partnership by [him][her]self as such officer.
IN WITNESS WHEREOF, I hereunto set my hand and official seal.

___\s\Deborah Howells_____
Notary Public
My commission expires:

COMMONWEALTH OF PENNSYLVANIA)
) SS:
COUNTY OF)

On this the __28__ day of ___December_, 1998, before me, a Notary Public, the undersigned officer, personally appeared _____Michael Jeannot _____, the _Vice President_____ of Mountain Laurel Racing, Inc., a General Partner of Ladbroke Racing Management-Pennsylvania, and acknowledged that [s]he as such officer, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing the name of the partnership by [him][her]self as such officer.
IN WITNESS WHEREOF, I hereunto set my hand and official seal.

\s\Deborah Howwell

Notary Public
My commission expires:

COMMONWEALTH OF PENNSYLVANIA)
) SS:
COUNTY OF)

On this the _29_ day of _December_____, 1998, before me, a Notary Public, the undersigned officer, personally appeared Peter M. Carlino, the Chairman and CEO of MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION and acknowledged that he as such officer, being authorized to do so, executed the foregoing instrument for the purposes therein contained by signing the name of the corporation by himself as such officer. IN WITNESS WHEREOF, I hereunto set my hand and official seal.

\s\ Susan Montgomery

Notary Public

My commission expires:

SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

This SUBORDINATION, NON-DISTURBANCE AND AT'TORNMENT AGREEMENT (this "Agreement") is entered into as of December 31, 1998 (the "Effective Date"), between CRIIMI MAE Services Limited Partnership, a Maryland Limited Partnership ("Mortgagee"), and Mountainview Thoroughbred Racing Association, a Pennsylvania corporation ("Tenant").

A. University Park Associates ("Landlord"), owns the real property located at University Park Shopping Center (such real property, including all buildings. improvements, structures and fixtures located thereon, shall be hereinafter referred to as the "Landlord's Premises"), as more particularly described on Exhibit A attached hereto.

B. Mortgagee is the holder of a loan (the "Loan") to Landlord, which Loan is secured, in part, by that certain Mortgage, Assignment of Rents and Security Agreement dated February 21, 1998, in favor of Mortgagee (as amended, increased, renewed, extended, spread, consolidated, severed, restated or otherwise changed from time to time, the "Mortgage").

C. Pursuant to that certain Johnstown OTB Lease, dated as of October ___, 1991, (the "Lease") Landlord demised to Ladbroke Racing Management - Pennsylvania a portion of Landlord's Premises as described in the Lease (the "Tenant's Premises"). D. Pursuant to that certain Assignment and Assumption of Lease Agreement, dated as of December 31, 1998, Ladbroke Racing Management - Pennsylvania assigned its rights and delegated its obligations under the Lease to Tenant, and Tenant assumed such rights and obligations thereunder. E. Tenant and Mortgagee desire to agree upon the relative priorities of their interests in Landlord's Premises and their rights and obligations if certain events occur. NOW, THEREFORE, for good and sufficient consideration, Tenant and Mortgagee agree:

DEFINITIONS

The following terms shall have the following meanings for purposes of this Agreement.

Construction-Related Obligation. A "Construction-Related Obligation" means any obligation of Landlord under Section 14(a) and (b) of the Lease to make, pay for or reimburse Tenant for any alterations, demolitions or other improvements or work at Landlord's Premises, including Tenant's Premises. "Construction-Related Obligations" shall not include: (a) reconstruction or repair following fire, casualty or condemnation to the extent of insurance proceeds or condemnation awards actually received by Lender or (b) day-to-day maintenance and repairs.

Foreclosure Event. A "Foreclosure Event" means: (a) foreclosure under the Mortgage; (b) any other exercise by Mortgagee of rights and remedies (whether under the Mortgage or under applicable law, including bankruptcy law) as holder of the Loan and/or the Mortgage, as a result of which Successor Landlord becomes owner of Landlord's Premises; or (c) delivery by Landlord to Mortgagee (or its designee or nominee) of a deed or other conveyance of Landlord's interest in Landlord's Premises in lieu of any of the foregoing.

Former Landlord. A "Former Landlord" means Landlord and any other party that was landlord under the Lease at any time before the occurrence of any attornment under this Agreement.

Offset Right. An "Offset Right" means any right or alleged right of Tenant to any offset, defense claim, counterclaim, reduction, deductions or abatement against Tenant's payment of Rent or performance of Tenant's other obligations under the Lease, arising (whether under the Lease or other applicable law) from Landlord's breach or default under the Lease.

Rent. The "Rent" means any fixed rent, base rent or additional rent under the Lease.

Successor Landlord. A "Successor Landlord" means any party that becomes owner of Landlord's Premises as the result of a Foreclosure Event.

Termination Right. A 'Termination Right" means any right of Tenant to cancel or terminate the Lease or to claim a partial or total eviction, arising (whether under the Lease or under applicable law) from Landlord's breach or default under the Lease.

SUBORDINATION.

The Lease shall be, and shall at all times remain, subject and subordinate to the Mortgage, the lien imposed by the Mortgages and all advances made under the Mortgage.

NON-DISTURBANCE, RECOGNITION AAD ATTORNMENT

No Exercise of Mortgage Remedies Against Tenant. So long as the Tenant is not in default of the Lease, as defined at Section 21 thereof, Mortgagee shall not name or join Tenant as a defendant in any exercise of Mortgagee's rights and remedies arising upon a default under the Mortgage, unless applicable law requires Tenant to be made a party thereto as a condition to proceeding against Landlord or prosecuting such rights and remedies. In the latter case, Mortgagee may join Tenant as a defendant in such action only for such purpose and not to terminate the Lease or otherwise adversely affect Tenant's rights under the Lease or this Agreement in such action.

Non-Disturbance and Attornment. If Tenant is not in default of the Lease, as defined at Section 21 thereof, when Successor Landlord takes title to the Landlord's Premises: (a) Successor Landlord shall not terminate or disturb Tenant's possession of Tenant's Premises under the Lease, except in accordance with the terms of the Lease and this Agreement; (b) Successor Landlord shall be bound to Tenant under all of the terms and conditions of the Lease (except as provided in this Agreement);
(c) Tenant shall-recognize and attorn to Successor Landlord as Tenant's direct landlord under the Lease as modified by this Agreement; and (d) the Lease shall continue in full force and effect as a direct lease in accordance with its terms (except as provided in this Agreement) between
Successor Landlord and Tenant.
Further Documentation. The provisions of this Article shall be effective and self-operative without any need for Successor Landlord or Tenant to execute any further documents. Tenant and Successor Landlord shall, however, confirm the provisions of this Article in writing upon written request by either of them.

PROTECTION OF SUCCESSOR LANDLORD.

Notwithstanding anything to the contrary in the Lease or the Mortgage, Successor Landlord shall not be liable for or bound by any of the following matters:

Claims Against Former Landlord. Any Offset Right that Tenant may have against any Former Landlord relating to any event or occurrence before the date of attornment, including any claim for damages of any kind whatsoever as the result of any breach by Former Landlord that occurred before the date of attornment. Prepayments. Any payment of Rent that Tenant may have made to Former Landlord more than thirty (30) days before the date such Rent was first due and payable under the Lease.

Payment; Security Deposit. Any obligation: (a) to pay Tenant any sum(s) that any Former Landlord owed to Tenant or (b) with respect to any security deposited with Former Landlord, unless such security was actually delivered to Mortgagee.

Modification, Amendment or Waiver. Any modification or amendment of Sections 2, 5, 6 or 7 of the Lease, or any waiver of any terms of Sections 2, 5, 6 or 7 of the Lease, made without Mortgagee's prior written consent.

Surrender,Etc. Any consensual or negotiated surrender, cancellations or termination of the Lease, in whole or in part, agreed upon between Landlord and Tenant, unless effected unilaterally by Tenant pursuant to the express terms of the Lease.

Construction-Related Obligations. Any Construction-Related Obligation of Former Landlord.

Casualty; Condemnation. Any obligation of Former Landlord to restore the Landlord's Premises, including the Tenant's Premises, except to the extent of insurance proceeds or condemnation awards actually received by Mortgagee after the deduction of all costs and expenses incurred in obtaining such proceeds or awards, and subject to the terms of the Mortgage with respect to the disposition of such proceeds or awards.

EXCLUSION OF SUCCESSOR LANDLORD.

Notwithstanding anything to the contrary in this Agreement or the Lease, upon any attornment pursuant to this Agreement, the Lease shall be deemed to have been automatically amended to provide that Successor Landlord's obligations and liability under the Lease shall never extend beyond Successor Landlord's (or its successors' or assigns') interest, if any, in Landlord's Premises from time to time, Successor Landlord's interest in the Lease and the proceeds from any sale or other disposition of Landlord's Premises by Successor Landlord (collectively, "Successor Landlord's Interest"). Tenant shall look exclusively to Successor Landlord's Interest (or that of its successors and assigns) for payment or discharge of any obligations of Successor Landlord under the Lease as modified by this Agreement.

MORTGAGEE'S RIGHT TO CURE.

Notice to Mortgagee. Notwithstanding anything to the contrary in the Lease, the sole exception being Section 19 of the Lease, before exercising any Termination Right or Offset Right, Tenant shall provide Mortgagee with notice of the breach or default by Landlord giving rise to same (the "Default Notice") and, thereafter, the opportunity to cure such breach or default as provided for below.

Mortgagee's Cure Period. After Mortgagee receives a Default Notice, Mortgagee shall have a period of thirty (30) days beyond any cure period provided to Landlord under the Lease in which to cure the breach or default by Landlord. Mortgagee shall have no obligation to cure any breach or default by Landlord, except to the extent that Mortgagee agrees or undertakes otherwise in writing.

Extended Cure Period. In addition, as to any breach or default by Landlord the cure of which requires possession and control of Landlord's Premises, Mortgagee's cure period shall contlnu6 for such additional time as Mortgagee may reasonably require to either (a) obtain possession and control of Landlord's Premises and thereafter cure the breach or default with reasonable diligence and continuity or (b) obtain the appointment of a receiver and give such receiver a reasonable period of time in which to cure the default.

RENT PAYMENT NOTICES.

From and after Tenant's receipt of written notice from Mortgagee (a "Rent Payment Notice"), Tenant shall pay all Rent to Mortgagee or as Mortgagee shall direct in writing, until such time as Mortgagee directs otherwise in writing- Tenant shall comply with any Rent Payment Notice, notwithstanding any contrary instruction, direction or assertion from Landlord. Mortgagee's delivery to Tenant of a Rent Payment Notice, or Tenant's compliance therewith, shall not be deemed to: (a) cause Mortgagee to succeed to or to assume any obligations or responsibilities as Landlord under the Lease, all of which shall continue to be per-formed and discharged solely by Landlord unless and until any attornment has occurred pursuant to this Agreement; or (b) relieve Landlord of any obligations under the Lease.

CONFIRMATION OF FACTS.

Tenant represents to Mortgagee and to any Successor Landlord, in each case as of the Effective Date:

Effectiveness of Lease. The Lease is in full force and effect, has not been modified and constitutes the entire agreement between Landlord and Tenant relating to Tenant's Premises. Tenant has no interest in Landlord's Premises except pursuant to the Lease. No unfulfilled conditions exist to Tenant's obligations under the Lease.

Rent. Tenant has not paid any Rent that is first due and payable under the Lease after the Effective Date.

No Landlord Default. To the best of Tenant's knowledge, no breach or default by Landlord exists and no event has occurred that, with the giving of notice, the passage of time or both, would constitute such a breach or default.

No Tenant Default. Tenant is not in default under the Lease and has not received any uncured notice of any default by Tenant under the Lease.

No Termination . Tenant has not commenced any action nor sent or received any notice to terminate the Lease. Tenant has no presently exercisable Termination Right(s) or Offset Right(s).

Commencement Date. The "Commencement Date" of the Lease was _____, 199_.

Acceptance. Tenant has accepted possession of Tenant's Premises and Landlord has performed all Construction-Related Obligations related to Tenant's initial occupancy of Tenant's Premises and Tenant has accepted such performance by Landlord.

No Transfer. Tenant has not transferred, encumbered, mortgaged, assigned, conveyed or otherwise disposed of the Lease or any interest therein.

Due Authorization. Tenant has full authority to enter into this Agreement, which has been duly authorized by all necessary actions.

MISCELLANEOUS.

Notices. All notices or other communications required or permitted under this Agreement shall be in writing and given by certified mail (return receipt requested) or by nationally recognized overnight courier service that regularly maintains records of items and shall be delivered to Mortgagee or Tenant (applicable) at the addresses set forth below. Notices shall be effective upon receipt.

If to Tenant: Mountainview Thoroughbred Racing Association
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Attn: William J. Bork, President

With a copy to: Mesirov Gelman Jaffe Cramer & Jamieson, LLP
1735 Market Street
38th Floor
Philadelphia, PA 19103
Attn: Robert P. Krauss, Esquire

If to Mortgagee: Norwest Bank Minnesota, National Association,
as indenture trustee for the CRIIMI MAE CMBS
Corp., Commercial Mortgage Loan Trust
Certificates, Series 1998-1
11000 Broken Land Parkway
Columbia, MD 21044-3562
Attn: Corporate Trust Services, CRIIMI MAE 1998-1

With a copy to: CRIIMI MAE Services Limited Partnership,
as special servicer for the CRIIMI MAE CMBS
Corp., Commercial
Mortgage Loan Trust Certificates, Series 1998-1
11200 Rockville Pike
Rockville, MD 20852
Attn: David B. Iannarone, Esquire

Successors and Assigns. This Agreement shall bind and benefit the parties, their successors and assigns, any Successor Landlord and its successors and assigns. If Mortgagee assigns the Mortgage, upon delivery to Tenant of written notice thereof all liability of the assignor shall terminate.

Entire Agreement. This Agreement constitutes the entire agreement between Mortgagee and Tenant regarding the subordination of the Lease to the Mortgage and the rights and obligations of Tenant and Mortgagee as to the subject matter of this Agreement.

Interaction with Lease. If this Agreement conflicts with the Lease, then this Agreement shall govern as between the parties and any Successor Landlord, including upon an), attornment pursuant to this Agreement.

Mortgagee's Rights and Obligations. Except as expressly provided for in this Agreement, Mortgagee shall have no obligations to Tenant with respect to the Lease. If an attornment occurs pursuant to this Agreement, all rights and obligations of Mortgagee under this Agreement shall terminate, without thereby affecting in any way the rights and obligations of Successor Landlord provided for in this Agreement.

Interpretation; Governing Law. The interpretation, validity and enforcement of this Agreement shall be governed by and construed under the internal laws of the state where the Landlord's Premises is located excluding its principles of conflict of laws.

Amendments. This Agreement may be amended, discharged or terminated, or any of its provisions waived, only by a written instrument executed by the party to be charged.

Execution. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original and all of which together shall constitute one and the-same instrument.

Mortgagee's Authority. Mortgagee represents that Mortgagee has full authority to enter into this Agreement, and Mortgagee's entry into this Agreement has been duly authorized by all necessary actions.

[intentionally left blank]

IN WITNESS WHEREOF, this Agreement has been duly executed by Mortgagee and Tenant as of the Effective Date.

MORTGAGEE	TENANT
CRIIMI MAE Services Limited Partnership, as special servicer for the CRIIMI MAE CMBS Corp., Commercial Mortgage Loan Trust certificates Series 1998-1	Mountainview Thoroughbred Racing Association
By: CRIIMI MAE Services, Inc., its general partner	By:\s\William J. Bork__
Name:__\s\Kathryn C. Parks_____	Name: William J. Bork
Title:___Vice President_____	Title: Vice President

Landlord consents and agrees to the terms of the foregoing Agreement, which was entered into at Landlord's request. The foregoing Agreement shall not alter, waive or diminish any of Landlord's obligations under the Mortgage or the Lease. The above Agreement discharges any obligations of Mortgagee under the Mortgage and related loan documents to enter into a non-disturbance agreement with Tenant.

Landlord irrevocably directs Tenant to comply with any Rent Payment Notice, notwithstanding any contrary direction, instructions, or assertion by Landlord. Tenant shall be entitled to rely on any Rent Payment Notice. Tenant shall be under no duty to controvert or challenge any Rent Payment Notice. Tenant's compliance with a Rent Payment Notice shall not be deemed to violate the Lease.

LANDLORD

By:_____

Name:_____
Title:_____

Dated: _____, 19__

Each of the undersigned, a guarantor of Tenant's obligations under the Lease (a "Guarantor"), consents to Tenant's execution, delivery and performance of the foregoing Agreement. From and after any attornment pursuant to the foregoing Agreement, that certain Guaranty dated _____, 199_ (the "Guaranty") executed by Guarantor in favor of shall automatically benefit and be enforceable by Successor Landlord with respect to Tenant's obligations under the Lease as affected by the foregoing Agreement. Successor Landlord's rights under the Guaranty shall not be subject to any defense, offset, claim, counterclaim, reduction or abatement of any kind resulting from any act, omission or waiver by any Former Landlord for which Successor Landlord would, -pursuant to the foregoing Agreement, not be liable or answerable after an attornment. Guarantor confirms that the Guaranty is in full force and effect and Guarantor currently has no offset, defense (other than any arising from actual payment or performance by Tenant, which payment or performance would bind a Successor Landlord under the foregoing Agreement), claim, counterclaim, reduction. deduction or abatement against Guarantor's obligations under the Guaranty.

GUARANTOR

By:_____

Name:_____
Title:_____

Dated: _____, 19__

SECOND AMENDED AND RESTATED

CREDIT AGREEMENT

among

PENN NATIONAL GAMING, INC.,

VARIOUS BANKS,

and

FIRST UNION NATIONAL BANK,

as AGENT

Dated January 28, 1999

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THIS SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this ACredit Agreement@) is made this 28th day of January, 1999 among PENN NATIONAL GAMING, INC., a Pennsylvania corporation (the ABorrower@), the Banks party hereto from time to time, and FIRST UNION NATIONAL BANK, a national banking association and successor by merger to CoreStates Bank, N.A., as Agent (all capitalized terms used herein and defined in Section 10 are used herein as therein defined).

W I T N E S S E T H :

WHEREAS, the Borrower, the Original Banks, CoreStates Bank, N.A., as Co-Agent, and Bankers Trust Company, as Agent, are parties to an Amended and Restated Credit Agreement, dated as of December 17, 1997 (as amended and modified to, but not including, the Restatement Effective Date, the AOriginal Credit Agreement@); and

WHEREAS, the Borrower has requested that the Original Credit Agreement be amended and restated in its entirety, and the Banks and the Agent hereunder are willing to amend and restate the same, upon the terms and conditions set forth herein;

NOW, THEREFORE, the parties hereto, intending to be legally bound, hereby agree that the Original Credit Agreement shall be and is hereby amended and restated in its entirety on and after the Restatement Effective Date as follows:

Amount and Terms of Credit.

21 The Commitments. Subject to and upon the terms and conditions set forth herein, each Bank severally agrees to make the following loans to Borrower:

22 Revolving Loan(s). At any time and from time to time after the Restatement Effective Date and prior to the Final Maturity Date, a revolving loan or revolving loans (each a ARevolving Loan@ and collectively, the ARevolving Loans@) to the Borrower, which Revolving Loans (i) shall, at the option of the Borrower, be incurred and maintained as, and/or converted into, Base Rate Loans or Eurodollar Loans, provided that, except as otherwise specifically provided in Section 1.10(b), all Revolving Loans comprising the same Borrowing shall at all times be of the same Type, (ii) may be repaid and reborrowed in accordance with the provisions hereof, (iii) shall not exceed for any Bank at any time outstanding that aggregate principal amount which, when added to the product of such Bank=s Percentage and the aggregate amount of all Letters of Credit Outstanding (exclusive of Unpaid Drawings which are repaid with the proceeds of, and simultaneously with the incurrence of, the respective incurrence of Revolving Loans) at such time, equals the Commitment of such Bank at such time and (iv) shall not exceed for all Banks at any time outstanding that aggregate principal amount which, when added to the amount of all Letters of Credit Outstanding (exclusive of Unpaid Drawings which are repaid with the proceeds of, and simultaneously with the incurrence of, the respective incurrence of Revolving Loans) at such time, equals the Total Commitment at such time; and

23 Term Loan. On the Restatement Effective Date, a term loan (the ATerm Loan@) to Borrower in the original principal amount of Five Million Dollars ($5,000,000) from First Union, in its individual capacity.

24 Minimum Amount of Each Borrowing. The aggregate principal amount of each Borrowing of Revolving Loans shall not be less than the Minimum Borrowing Amount applicable thereto. More than one Borrowing may occur on the same date, but at no time shall there be outstanding more than five Borrowings of Eurodollar Loans.

25 Notice of Borrowing. (a) Whenever the Borrower desires to incur (x) Eurodollar Loans hereunder, the Borrower shall give the Agent at the Notice Office at least three Business Days= prior notice of each Eurodollar Loan to be incurred hereunder and (y) Base Rate Loans hereunder, the Borrower shall give the Agent at the Notice Office notice thereof no later than the date on which each Base Rate Loan is to be incurred hereunder, provided that (in each case) any such notice shall be deemed to have been given on a certain day only if given before 11:00 a.m. (Philadelphia time) on such day. Each such notice (each a ANotice of Borrowing@), except as otherwise expressly provided in Section 1.10, shall be irrevocable and shall be given by the Borrower in writing, or by telephone promptly confirmed in writing on the same day, in the form of Exhibit A, appropriately completed to specify the aggregate principal amount of the Revolving Loans to be incurred pursuant to such Borrowing, the date of such Borrowing (which shall be a Business Day), and whether the Revolving Loans being incurred pursuant to such Borrowing are to be initially maintained as Base Rate Loans or, to the extent permitted hereunder, Eurodollar Loans and, if Eurodollar Loans, the initial Interest Period to be applicable thereto. The Agent shall promptly give each Bank notice of such proposed Borrowing, of such Bank=s proportionate share thereof (if any) and of the other matters required by the immediately preceding sentence to be specified in the Notice of Borrowing.

26 Without in any way limiting the obligation of the Borrower to confirm in writing any telephonic notice of any Borrowing or prepayment of Loans, the Agent may act without liability upon the basis of telephonic notice of such Borrowing or prepayment, believed by the Agent in good faith to be from the Chairman of the Board, the President, the Chief Financial Officer, the Treasurer, any Assistant Treasurer or the Controller of the Borrower, or from any other authorized officer of the Borrower designated in writing by the Borrower to the Agent as being authorized to give such notices, prior to receipt of written confirmation. In each such case, the Borrower hereby waives the right to dispute the Agent=s record of the terms of such telephonic notice of such Borrowing or prepayment of Loans, absent manifest error.

27 Disbursement of Funds. No later than 12:00 noon (Philadelphia time) (or 2:00 p.m. (Philadelphia time) in the case of Base Rate Loans made on same day notice) on the date specified in each Notice of Borrowing, each Bank will make available its Percentage of each such Borrowing requested to be made on such date. All such amounts will be made available in Dollars and in immediately available funds at the Payment Office, and the Agent will make available to the Borrower at the Payment Office the aggregate of the amounts so made available by the Banks. Unless the Agent shall have been notified by any Bank prior to the date of Borrowing that such Bank does not intend to make available to the Agent such Bank=s portion of any Borrowing to be made on such date, the Agent may assume that such Bank has made such amount available to the Agent on such date of Borrowing and the Agent may (but shall not be obligated to), in reliance upon such assumption, make available to the Borrower a corresponding amount. If such corresponding amount is not in fact made available to the Agent by such Bank, the Agent shall be entitled to recover such corresponding amount on demand from such Bank. If such Bank does not pay such corresponding amount forthwith upon the Agent=s demand therefor, the Agent shall promptly notify the Borrower, and the Borrower shall immediately pay such corresponding amount to the Agent. The Agent shall also be entitled to recover on demand from such Bank or the Borrower, as the case may be, interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Agent to the Borrower until the date such corresponding amount is recovered by the Agent, at a rate per annum equal to (i) if recovered from such Bank, at the overnight Federal Funds Rate and (ii) if recovered from the Borrower, the rate of interest applicable to the respective Borrowing, as determined pursuant to Section 1.08. Nothing in this Section 1.04 shall be deemed to relieve any Bank from its obligation to make Loans hereunder or to prejudice any rights which the Borrower may have against any Bank as a result of any failure by such Bank to make Loans hereunder.

28 Notes.

29 Amended and Restated Revolving Notes. The Borrower=s obligation to pay the principal of, and interest on, the Revolving Loans made by each Bank shall be evidenced by an amended and restated promissory note duly executed and delivered by the Borrower substantially in the form of Exhibit B-1, with blanks appropriately completed in conformity herewith (each a ARevolving Note@ and collectively, the ARevolving Notes@). The Revolving Note issued to each Bank that has a Commitment or outstanding Revolving Loans shall (i) be executed by the Borrower, (ii) be payable to such Bank or its registered assigns and be dated the Restatement Effective Date (or, if issued after the Restatement Effective Date, be dated the date of the issuance thereof), (iii) be in a stated principal amount equal to the Commitment of such Bank (or, if issued after the termination thereof, be in a stated principal amount equal to the outstanding Revolving Loans of such Bank at such time) and be payable in the outstanding principal amount of the Revolving Loans evidenced thereby, (iv) mature on the Final Maturity Date, (v) bear interest as provided in the appropriate clause of Section 1.08 in respect of the Base Rate Loans and Eurodollar Loans, as the case may be, evidenced thereby, (vi) be subject to voluntary prepayment as provided in Section 4.01, and mandatory repayment as provided in Section 4.02, and (vii) be entitled to the benefits of this Agreement and the other Credit Documents.

30 Amendment and Restatement. This Agreement amends and restates, replaces and supersedes the Original Credit Agreement; provided, however, that the execution and delivery of this Agreement shall not in any circumstance be deemed to have terminated, extinguished, or discharged the Borrower=s Indebtedness under the Original Credit Agreement, all of which Indebtedness and the guaranties and security therefor shall continue under and be governed by this Agreement and the other Credit Documents. This Agreement IS NOT A NOVATION.

31 Term Note. The Borrower=s obligation to pay the principal of, and interest on, the Term Loan made by First Union shall be evidenced by a promissory note duly executed and delivered by the Borrower to First Union substantially in the form of Exhibit B-2, with blanks appropriately completed in conformity herewith (the ATerm Note@). The Term Note shall (i) be executed by the Borrower, (ii) be payable to First Union or its registered assigns and be dated the Restatement Effective Date (or, if issued after the Restatement Effective Date, be dated the date of the issuance thereof), (iii) be in an original principal amount of $5,000,000, (iv) mature on the Term Loan Maturity Date, (v) bear interest as provided in such Term Note, (vi) be subject to voluntary prepayment as provided in Section 4.01(b), and (vii) be entitled to the benefits of this Agreement and the other Credit Documents to the extent set forth therein.

32 Each Bank will note on its internal records the amount of each Loan made by it and each payment in respect of each Loan and will prior to any transfer of any of its Notes, endorse on the reverse side thereof the outstanding principal amount of the Loans evidenced thereby. Failure to make any such notation or any error in such notation shall not affect the Borrower=s obligations in respect of such Loans.

33 Conversions. The Borrower shall have the option to convert, on any Business Day, all or a portion equal to at least the Minimum Borrowing Amount of the outstanding principal amount of Loans made pursuant to one or more Borrowings of one or more Types of Loans into a Borrowing of another Type of Loan, provided that, (i) except as otherwise provided in Section 1.10(b), Eurodollar Loans may be converted into Base Rate Loans only on the last day of an Interest Period applicable to the Loans being converted and no such partial conversion of Eurodollar Loans shall reduce the outstanding principal amount of such Eurodollar Loans made pursuant to a single Borrowing to less than the Minimum Borrowing Amount applicable thereto, (ii) Base Rate Loans may be converted into Eurodollar Loans only if no Default or Event of Default is in existence on the date of the conversion and (iii) no conversion pursuant to this Section 1.06 shall result in a greater number of Borrowings of Eurodollar Loans than is permitted under Section 1.02. Each such conversion shall be effected by the Borrower by giving the Agent at the Notice Office prior to 11:00 a.m. (Philadelphia time) at least three Business Days= prior notice (each a ANotice of Conversion@) specifying the Loans to be so converted, the Borrowing or Borrowings pursuant to which such Loans were made and, if to be converted into Eurodollar Loans, the Interest Period to be initially applicable thereto. The Agent shall give each Bank prompt notice of any such proposed conversion affecting any of its Loans. Upon any such conversion the proceeds thereof will be deemed to be applied directly on the day of such conversion to prepay the outstanding principal amount of the Loans being converted.

34 Percentages. All Borrowings under this Agreement shall be incurred from the Banks based on their Percentages. It is understood that no Bank shall be responsible for any default by any other Bank of its obligation to make Revolving Loans hereunder and that each Bank shall be obligated to make the Revolving Loans provided to be made by it hereunder, regardless of the failure of any other Bank to make its Revolving Loans hereunder.

35 Interest. (a) The Borrower agrees to pay interest in respect of the unpaid principal amount of each Base Rate Loan from the date of Borrowing thereof until the earlier of (i) the maturity thereof (whether by acceleration or otherwise) and (ii) the conversion of such Base Rate Loan to a Eurodollar Loan pursuant to Section 1.06 or 1.09, as applicable, at a rate per annum which shall be equal to the sum of the Applicable Margin plus the Base Rate in effect from time to time.

36 The Borrower agrees to pay interest in respect of the unpaid principal amount of each Eurodollar Loan from the date of Borrowing thereof until the earlier of (i) the maturity thereof (whether by acceleration or otherwise) and (ii) the conversion of such Eurodollar Loan to a Base Rate Loan pursuant to Section 1.06, 1.09 or 1.10, as applicable, at a rate per annum which shall, during each Interest Period applicable thereto, be equal to the sum of the Applicable Margin plus the Eurodollar Rate for such Interest Period.

37 Overdue principal and, to the extent permitted by law, overdue interest in respect of each Loan and any other overdue amount payable hereunder shall, in each case, bear interest at a rate per annum equal to the rate which is 2% per annum in excess of the rate then borne by such Loans, in each case, with such interest to be payable on demand.

38 Accrued (and theretofore unpaid) interest shall be payable (i) in respect of each Base Rate Loan, quarterly in arrears on each Quarterly Payment Date, (ii) in respect of each Eurodollar Loan, on the last day of each Interest Period applicable thereto and, in the case of an Interest Period in excess of three months, on each date occurring at three month intervals after the first day of such Interest Period and (iii) in respect of each Revolving Loan, on any repayment or prepayment (on the amount repaid or prepaid), at maturity (whether by acceleration or otherwise) and, after such maturity, on demand.

39 Upon each Interest Determination Date, the Agent shall determine the Eurodollar Rate for each Interest Period applicable to Eurodollar Loans and shall promptly notify the Borrower and the Banks thereof. Each such determination shall, absent manifest error, be final and conclusive and binding on all parties hereto.

40 Interest Periods. At the time the Borrower gives any Notice of Borrowing or Notice of Conversion in respect of the making of, or conversion into, any Eurodollar Loan (in the case of the initial Interest Period applicable thereto) or on the third Business Day prior to the expiration of an Interest Period applicable to such Eurodollar Loan (in the case of any subsequent Interest Period), the Borrower shall have the right to elect, by giving the Agent notice thereof, the interest period (each an AInterest Period@) applicable to such Eurodollar Loan, which Interest Period shall, at the option of the Borrower, be a one, two, three or six-month period, provided that:

41 all Eurodollar Loans comprising a Borrowing shall at all times have the same Interest Period;

42 the initial Interest Period for any Eurodollar Loan shall commence on the date of Borrowing of such Eurodollar Loan (including the date of any conversion thereto from a Base Rate Loan) and each Interest Period occurring thereafter in respect of such Eurodollar Loan shall commence on the day on which the next preceding Interest Period applicable thereto expires;

43 if any Interest Period for a Eurodollar Loan begins on a day for which there is no numerically corresponding day in the calendar month at the end of such Interest Period, such Interest Period shall end on the last Business Day of such calendar month;

44 if any Interest Period for a Eurodollar Loan would otherwise expire on a day which is not a Business Day, such Interest Period shall expire on the next succeeding Business Day; provided, however, that if any Interest Period for a Eurodollar Loan would otherwise expire on a day which is not a Business Day but is a day of the month after which no further Business Day occurs in such month, such Interest Period shall expire on the next preceding Business Day;

45 no Interest Period may be selected at any time when a Default or an Event of Default is then in existence; and

46 no Interest Period in respect of any Borrowing of any Eurodollar Loan shall be selected which extends beyond the Final Maturity Date.

If upon the expiration of any Interest Period applicable to a Borrowing of Eurodollar Loans, the Borrower has failed to elect, or is not permitted to elect, a new Interest Period to be applicable to such Eurodollar Loans as provided above, the Borrower shall be deemed to have elected to convert such Eurodollar Loans into Base Rate Loans effective as of the expiration date of such current Interest Period.

47 Increased Costs, Illegality, etc. (a) In the event that any Bank shall have determined (which determination shall, absent manifest error, be final and conclusive and binding upon all parties hereto but, with respect to clause (i) below, may be made only by the Agent):

48 on any Interest Determination Date that, by reason of any changes arising after the date of this Agreement affecting the interbank Eurodollar market, adequate and fair means do not exist for ascertaining the applicable interest rate on the basis provided for in the definition of Eurodollar Rate; or

49 at any time, that such Bank shall incur increased costs or reductions in the amounts received or receivable hereunder with respect to any Eurodollar Loan because of (x) any change since the date of this Agreement in any applicable law or governmental rule, regulation, order, guideline or request (whether or not having the force of law) or in the interpretation or administration thereof and including the introduction of any new law or governmental rule, regulation, order, guideline or request, such as, for example, but not limited to: (A) a change in the basis of taxation of payment to any Bank of the principal of or interest on the Revolving Notes or any other amounts payable hereunder (except for changes in the rate of tax on, or determined by reference to, the net income or profits of such Bank pursuant to the laws of the jurisdiction in which it is organized or in which its principal office or applicable lending office is located or any subdivision thereof or therein) or (B) a change in official reserve requirements, but, in all events, excluding reserves required under Regulation D to the extent included in the computation of the Eurodollar Rate and/or (y) other circumstances since the date of this Agreement affecting the interbank Eurodollar market; or

50 at any time, that the making or continuance of any Eurodollar Loan has been made (x) unlawful by any law or governmental rule, regulation or order, (y) impossible by compliance by any Bank in good faith with any governmental request (whether or not having force of law) or (z) impracticable as a result of a contingency occurring after the date of this Agreement which materially and adversely affects the interbank Eurodollar market;

then, and in any such event, such Bank (or the Agent, in the case of clause (i) above) shall promptly give notice (by telephone promptly confirmed in writing) to the Borrower and, except in the case of clause (i) above, to the Agent of such determination (which notice the Agent shall promptly transmit to each of the other Banks). Thereafter (x) in the case of clause (i) above, Eurodollar Loans shall no longer be available until such time as the Agent notifies the Borrower and the Banks that the circumstances giving rise to such notice by the Agent no longer exist, and any Notice of Borrowing or Notice of Conversion given by the Borrower with respect to Eurodollar Loans which have not yet been incurred (including by way of conversion) shall be deemed rescinded by the Borrower, (y) in the case of clause (ii) above, the Borrower shall pay to such Bank, upon such Bank=s written request therefor, such additional amounts (in the form of an increased rate of, or a different method of calculating, interest or otherwise as such Bank in its sole discretion shall determine) as shall be required to compensate such Bank for such increased costs or reductions in amounts received or receivable hereunder (a written notice as to the additional amounts owed to such Bank, showing in reasonable detail the basis for the calculation thereof, submitted to the Borrower by such Bank shall, absent manifest error, be final and conclusive and binding on all the parties hereto) and (z) in the case of clause (iii) above, the Borrower shall take one of the actions specified in Section 1.10(b) as promptly as possible and, in any event, within the time period required by law.

51 At any time that any Eurodollar Loan is affected by the circumstances described in Section 1.10(a)(ii) or (iii), the Borrower may (and in the case of a Eurodollar Loan affected by the circumstances described in Section 1.10(a)(iii) shall) either (x) if the affected Eurodollar Loan is then being made initially or pursuant to a conversion, by giving the Agent telephonic notice (confirmed in writing) on the same date that the Borrower was notified by the affected Bank or the Agent pursuant to Section 1.10(a)(ii) or (iii) or (y) if the affected Eurodollar Loan is then outstanding, upon at least three Business Days= written notice to the Agent, require the affected Bank to convert such Eurodollar Loan into a Base Rate Loan, provided that, if more than one Bank is affected at any time, then all affected Banks must be treated the same pursuant to this Section 1.10(b).

52 If any Bank determines that after the date of this Agreement the introduction of or any change in any applicable law or governmental rule, regulation, order, guideline, directive or request (whether or not having the force of law) concerning capital adequacy, or any change in interpretation or administration thereof by any governmental authority, central bank or comparable agency, will have the effect of increasing the amount of capital required or expected to be maintained by such Bank or any corporation controlling such Bank based on the existence of such Bank=s Commitment hereunder or its obligations hereunder, then the Borrower shall pay to such Bank, upon its written demand therefor, such additional amounts as shall be required to compensate such Bank or such other corporation for the increased cost to such Bank or such other corporation or the reduction in the rate of return to such Bank or such other corporation as a result of such increase of capital. In determining such additional amounts, each Bank will act reasonably and in good faith and will use averaging and attribution methods which are reasonable, provided that such Bank=s determination of compensation owing under this Section 1.10(c) shall, absent manifest error, be final and conclusive and binding on all the parties hereto. Each Bank, upon determining that any additional amounts will be payable pursuant to this Section 1.10(c), will give prompt written notice thereof to the Borrower, which notice shall show in reasonable detail the basis for calculation of such additional amounts.

53 Compensation. The Borrower shall compensate each Bank, upon its written request (which request shall set forth in reasonable detail the basis for requesting such compensation), for all reasonable losses, expenses and liabilities (including, without limitation, any loss, expense or liability incurred by reason of the liquidation or reemployment of deposits or other funds required by such Bank to fund its Eurodollar Loans but excluding loss of anticipated profits which such Bank may sustain: (i) if for any reason (other than a default by such Bank or the Agent) a Borrowing of, or conversion from or into, Eurodollar Loans does not occur on a date specified therefor in a Notice of Borrowing or Notice of Conversion (whether or not withdrawn by the Borrower or deemed withdrawn pursuant to Section 1.10(a)); (ii) if any repayment (including any repayment made pursuant to Section 4.01, 4.02 or as a result of an acceleration of the Loans pursuant to Section 9) or conversion of any of its Eurodollar Loans occurs on a date which is not the last day of an Interest Period with respect thereto; (iii) if any prepayment of any of its Eurodollar Loans is not made on any date specified in a notice of prepayment given by the Borrower; or (iv) as a consequence of (x) any other default by the Borrower to repay its Loans when required by the terms of this Agreement or the Note held by such Bank or (y) any election made pursuant to Section 1.10(b).

54 Change of Lending Office. Each Bank agrees that on the occurrence of any event giving rise to the operation of Section 1.10(a)(ii) or (iii), Section 1.10(c), Section 2.06 or Section 4.04 with respect to such Bank, it will, if requested by the Borrower, use reasonable efforts (subject to overall policy considerations of such Bank) to designate another lending office for any Loans or Letters of Credit affected by such event, provided that such designation is made on such terms that such Bank and its lending office suffer no economic, legal or regulatory disadvantage, with the object of avoiding the consequence of the event giving rise to the operation of such Section. Nothing in this Section 1.12 shall affect or postpone any of the obligations of the Borrower or the right of any Bank provided in Sections 1.10, 2.06 and 4.04.

55 Replacement of Banks. (x) If any Bank becomes a Defaulting Bank or otherwise defaults in its obligations to make Revolving Loans or fund Unpaid Drawings, (y) upon the occurrence of an event giving rise to the operation of Section 1.10(a)(ii) or (iii), Section 1.10(c), Section 2.06 or Section 4.04 with respect to any Bank which results in such Bank charging to the Borrower increased costs in excess of those being generally charged by the other Banks or (z) in the case of a refusal by a Bank to consent to certain proposed changes, waivers, discharges or terminations with respect to this Agreement which have been approved by the Required Banks as (and to the extent) provided in Section 12.12(b), the Borrower shall have the right, if no Default or Event of Default then exists (or, in the case of preceding clause (z), no Default or Event of Default will exist immediately after giving effect to such replacement), to replace such Bank (the AReplaced Bank@) with one or more other Eligible Transferees, none of whom shall constitute a Defaulting Bank at the time of such replacement (collectively, the AReplacement Bank@) and each of whom shall be required to be reasonably acceptable to the Agent, provided that (i) at the time of any replacement pursuant to this Section 1.13, the Replacement Bank shall enter into one or more Assignment and Assumption Agreements pursuant to

Section 12.04(b) (and with all fees payable pursuant to said Section 12.04(b) to be paid by the Replacement Bank) pursuant to which the Replacement Bank shall acquire the entire Commitment and all outstanding Loans of, and, in each case, participations in Letters of Credit by, the Replaced Bank and, in connection therewith, shall pay to (x) the Replaced Bank in respect thereof an amount equal to the sum of (I) an amount equal to the principal of, and all accrued interest on, all outstanding Loans of the Replaced Bank, (II) an amount equal to all Unpaid Drawings that have been funded by (and not reimbursed to) such Replaced Bank, together with all then unpaid interest with respect thereto at such time and (III) an amount equal to all accrued, but theretofore unpaid, Fees owing to the Replaced Bank pursuant to Section 3.01 and (y) each Issuing Bank an amount equal to such Replaced Bank=s Percentage of any Unpaid Drawing (which at such time remains an Unpaid Drawing) to the extent such amount was not theretofore funded by such Replaced Bank to such Issuing Bank and (ii) all obligations of the Borrower due and owing to the Replaced Bank at such time (other than those specifically described in clause (i) above in respect of which the assignment purchase price has been, or is concurrently being, paid) shall be paid in full to such Replaced Bank concurrently with such replacement. Upon the execution of the respective Assignment and Assumption Agreement, the payment of amounts referred to in clauses (i) and (ii) above and, if so requested by the Replacement Bank, delivery to the Replacement Bank of the appropriate Notes executed by the Borrower, the Replacement Bank shall become a Bank hereunder and the Replaced Bank shall cease to constitute a Bank hereunder, except with respect to indemnification provisions under this Agreement (including, without limitation, Sections 1.10, 1.11, 2.06, 4.04, 11.06 and 12.01), which shall survive as to such Replaced Bank. It is understood and agreed that replacements pursuant to this Section 1.13 shall be effected by means of assignments which otherwise meet the applicable requirements of Section 12.04(b).

Letters of Credit. (a) Subject to and upon the terms and conditions set forth herein, the Borrower may request that the Issuing Bank issue, at any time and from time to time on and after the Restatement Effective Date and prior to the Final Maturity Date, for the account of the Borrower and for the benefit of any holder (or any trustee, agent or other similar representative for any such holders) of L/C Supportable Obligations of the Borrower or any of its Subsidiaries, an irrevocable standby letter of credit, in a form customarily used by the Issuing Bank or in the other form as has been approved by the Issuing Bank (each such standby letter of credit, a ALetter of Credit@) in support of such L/C Supportable Obligations. It is hereby acknowledged and agreed that each of the letters of credit described in Schedule III (the AExisting Letters of Credit@) which were issued by Bankers Trust as the Issuing Bank under the Original Credit Agreement for the account of the Borrower prior to the Restatement Effective Date and which remain outstanding on the Restatement Effective Date shall, after completion of a Letter of Credit Request (as defined in Section 2.03) be substituted with a Letter of Credit from Agent as the Issuing Bank and shall constitute a ALetter of Credit@ for all purposes of this Agreement and shall be deemed issued for purposes of Sections 2.04(a), 3.01(b) and 3.01(c) on the Restatement Effective Date. All Letters of Credit shall be denominated in Dollars and shall be issued on a sight basis only.

Subject to and upon the terms and conditions set forth herein, the Issuing Bank hereby agrees that it will, at any time and from time to time on and after the Restatement Effective Date and prior to the Final Maturity Date, following its receipt of the respective Letter of Credit Request, issue for the account of the Borrower, one or more Letters of Credit in support of such L/C Supportable Obligations of the Borrower or any of its Subsidiaries as are permitted to remain outstanding without giving rise to a Default or an Event of Default, provided that the Issuing Bank shall be under no obligation to issue any Letter of Credit of the types described above if at the time of such issuance:

any order, judgment or decree of any governmental authority (including any Commission) or arbitrator shall purport by its terms to enjoin or restrain the Issuing Bank from issuing the Letter of Credit or any requirement of law applicable to the Issuing Bank or any request or directive (whether or not having the force of law) from any governmental authority (including any Commission) with jurisdiction over the Issuing Bank shall prohibit, or request that the Issuing Bank refrain from, the issuance of letters of credit generally or the Letter of Credit in particular or shall impose upon the Issuing Bank with respect to the Letter of Credit any restriction or reserve or capital requirement (for which the Issuing Bank is not otherwise compensated) not in effect on the date hereof, or any unreimbursed loss, cost or expense which was not applicable or in effect with respect to the Issuing Bank as of the date hereof and which the Issuing Bank reasonably and in good faith deems material to it; or

the Issuing Bank shall have received notice from the Required Banks prior to the issuance of such Letter of Credit of the type described in the second sentence of Section 2.03(b).

60 Maximum Letter of Credit Outstandings; Final Maturities. Notwithstanding anything to the contrary contained in this Agreement, (i) no Letter of Credit shall be issued the Stated Amount of which, when added to the Letter of Credit Outstandings (exclusive of Unpaid Drawings which are repaid on the date of, and prior to the issuance of, the respective Letter of Credit) at such time would exceed either (x) $3,000,000 or (y) when added to the aggregate principal amount of all Loans then outstanding, an amount equal to the Total Commitment at such time and (ii) each Letter of Credit shall by its terms terminate on or before the earlier of (x) the date which occurs 12 months after the date of the issuance thereof (although any such Letter of Credit may be extendible for successive periods of up to 12 months, but not beyond the third Business Day prior to the Final Maturity Date, on terms acceptable to the Issuing Bank) and (y) three Business Days prior to the Final Maturity Date.

61 Letter of Credit Requests; Minimum Stated Amount. (a) Whenever the Borrower desires that a Letter of Credit be issued for its account, the Borrower shall give the Agent and the Issuing Bank at least five Business Days= (or such shorter period as is acceptable to the Issuing Bank) written notice thereof. Each notice shall be in the form of Exhibit C (each a ALetter of Credit Request@). The Agent shall promptly transmit copies of each Letter of Credit Request to each Bank.

62 The making of each Letter of Credit Request shall be deemed to be a representation and warranty by the Borrower that such Letter of Credit may be issued in accordance with, and will not violate the requirements of, Section 2.02. Unless the Issuing Bank has received notice from the Required Banks before it issues a Letter of Credit that one or more of the conditions specified in Section 5 are not then satisfied, or that the issuance of such Letter of Credit would violate Section 2.02, then the Issuing Bank shall, subject to the terms and conditions of this Agreement, issue the requested Letter of Credit for the account of the Borrower in accordance with the Issuing Bank=s usual and customary practices. Upon its issuance of or amendment or modification to any Letter of Credit, the Issuing Bank shall promptly notify the Borrower, each Participant and the Agent of such issuance, amendment or modification and such notification shall be accompanied by a copy of the issued Letter of Credit or amendment or modification. Notwithstanding anything to the contrary contained in this Agreement, in the event that a Bank Default exists, the Issuing Bank shall not be required to issue any Letter of Credit unless the Issuing Bank has entered into an arrangement satisfactory to it and the Borrower to eliminate the Issuing Bank=s risk with respect the participation in Letters of Credit by the Defaulting Bank or Banks, including by cash collateralizing such Defaulting Bank=s or Banks= Percentage of the Letter of Credit Outstanding.

63 The initial Stated Amount of each Letter of Credit shall not be less than $50,000 or such lesser amount as is acceptable to the Issuing Bank.

64 Letter of Credit Participations. (a) Immediately upon the issuance by the Issuing Bank of any Letter of Credit, the Issuing Bank shall be deemed to have sold and transferred to each Bank, other than the Issuing Bank (each such Bank, in its capacity under this Section 2.04, a AParticipant@), and each such Participant shall be deemed irrevocably and unconditionally to have purchased and received from the Issuing Bank, without recourse or warranty, an undivided interest and participation, to the extent of such Participant=s Percentage, in such Letter of Credit, each drawing or payment made thereunder and the obligations of the Borrower under this Agreement with respect thereto, and any security therefor or guaranty pertaining thereto. Upon any change in the Commitments or Percentages of the Banks pursuant to Section 1.13 or 12.04, it is hereby agreed that, with respect to all outstanding Letters of Credit and Unpaid Drawings, there shall be an automatic adjustment to the participations pursuant to this Section 2.04 to reflect the new Percentages of the assignor and assignee Bank, as the case may be.

65 In determining whether to pay under any Letter of Credit, the Issuing Bank shall not have an obligation relative to the other Banks other than to confirm that any documents required to be delivered under such Letter of Credit appear to have been delivered and that they appear to substantially comply on their face with the requirements of such Letter of Credit. Any action taken or omitted to be taken by the Issuing Bank under or in connection with any Letter of Credit if taken or omitted in the absence of gross negligence or willful misconduct, shall not create for the Issuing Bank any resulting liability to the Borrower, any other Credit Party, any Bank or any other Person.

66 In the event that the Issuing Bank makes any payment under any Letter of Credit and the Borrower shall not have reimbursed such amount in full to the Issuing Bank pursuant to Section 2.05(a), the Issuing Bank shall promptly notify the Agent, which shall promptly notify each Participant of such failure, and each Participant shall promptly and unconditionally pay to the Issuing Bank the amount of such Participant=s Percentage of such unreimbursed payment in Dollars and in same day funds. If the Agent so notifies, prior to 11:00 a.m. (Philadelphia time) on any Business Day, any Participant required to fund a payment under a Letter of Credit, such Participant shall make available to the Issuing Bank in Dollars such Participant=s Percentage of the amount of such payment on such Business Day in same day funds. If and to the extent such Participant shall not have so made its Percentage of the amount of such payment available to the Issuing Bank, such Participant agrees to pay to the Issuing Bank, forthwith on demand such amount, together with interest thereon, for each day from such date until the date such amount is paid to the Issuing Bank at the overnight Federal Funds Rate for the first three days and at the interest rate applicable Base Rate Loans for each day thereafter. The failure of any Participant to make available to the Issuing Bank its Percentage of any payment under any Letter of Credit shall not relieve any other Participant of its obligation hereunder to make available to the Issuing Bank its Percentage of any Letter of Credit on the date required, as specified above, but no Participant shall be responsible for the failure of any other Participant to make available to the Issuing Bank such other Participant=s Percentage of any such payment.

Whenever the Issuing Bank receives a payment of a reimbursement obligation as to which it has received any payments from the Participants pursuant to clause (c) above, the Issuing Bank shall pay to each Participant which has paid its Percentage thereof, in Dollars and in same day funds, an amount equal to such Participant=s share (based upon the proportionate aggregate amount originally funded by such Participant to the aggregate amount funded by all Participants) of the principal amount of such reimbursement obligation and interest thereon accruing after the purchase of the respective participations.

Upon the request of any Participant, the Issuing Bank shall furnish to such Participant copies of any Letter of Credit issued by it and such other documentation as may reasonably be requested by such Participant.

The obligations of the Participants to make payments to the Issuing Bank with respect to Letters of Credit issued by it shall be irrevocable and not subject to any qualification or exception whatsoever and shall be made in accordance with the terms and conditions of this Agreement under all circumstances, including, without limitation, any of the following circumstances:

any lack of validity or enforceability of this Agreement or any of the other Credit Documents;

the existence of any claim, setoff, defense or other right which the Borrower or any of its Subsidiaries may have at any time against a beneficiary named in a Letter of Credit, any transferee of any Letter of Credit (or any Person for whom any such transferee may be acting), the Agent, any Participant, or any other Person, whether in connection with this Agreement, any Letter of Credit, the transactions contemplated herein or any unrelated transactions (including any underlying transaction between the Borrower or any Subsidiary of the Borrower and the beneficiary named in any such Letter of Credit);

any draft, certificate or any other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect;

73 the surrender or impairment of any security for the performance or observance of any of the terms of any of the Credit Documents; or

74 the occurrence of any Default or Event of Default.

75 Agreement to Repay Letter of Credit Drawings. (a) The Borrower hereby agrees to reimburse the Issuing Bank, by making payment to the Agent in immediately available funds at the Payment Office, for any payment or disbursement made by the Issuing Bank under any Letter of Credit issued by it (each such amount, so paid until reimbursed, an AUnpaid Drawing@), not later than two Business Days following receipt by the Borrower of notice of such payment or disbursement (provided that no such notice shall be required to be given if a Default or an Event of Default under Section 9.05 shall have occurred and be continuing, in which case the Unpaid Drawing shall be due and payable immediately without presentment, demand, protest or notice of any kind (all of which are hereby waived by the Borrower)), with interest on the amount so paid or disbursed by the Issuing Bank, to the extent not reimbursed prior to 12:00 Noon (Philadelphia time) on the date of such payment or disbursement, from and including the date paid or disbursed to but excluding the date the Issuing Bank was reimbursed by the Borrower therefor at a rate per annum which shall be the Base Rate in effect from time to time plus the Applicable Margin for Base Rate Loans; provided, however, to the extent such amounts are not reimbursed prior to 12:00 Noon (Philadelphia time) on the third Business Day following the receipt by the Borrower of notice of such payment or disbursement or following the occurrence of a Default or an Event of Default under Section 9.05, interest shall thereafter accrue on the amounts so paid or disbursed by such Issuing Bank (and until reimbursed by the Borrower) at a rate per annum which shall be the Base Rate in effect from time to time plus the Applicable Margin for Base Rate Loans plus 2%, in each such case, with interest to be payable on demand. The Issuing Bank shall give the Borrower prompt written notice of each Drawing under any Letter of Credit, provided that the failure to give any such notice shall in no way affect, impair or diminish the Borrower=s obligations hereunder.

76 The obligations of the Borrower under this Section 2.05 to reimburse the Issuing Bank with respect to Unpaid Drawings (including, in each case, interest thereon) shall be absolute and unconditional under any and all circumstances and irrespective of any setoff, counterclaim or defense to payment which the Borrower may have or have had against any Bank (including in its capacity as issuer of the Letter of Credit or as Participant), including, without limitation, any defense based upon the failure of any drawing under a Letter of Credit (each a ADrawing@) to conform to the terms of the Letter of Credit or any nonapplication or misapplication by the beneficiary of the proceeds of such Drawing; provided, however, that the Borrower shall not be obligated to reimburse the Issuing Bank for any wrongful payment made by the Issuing Bank under a Letter of Credit as a result of acts or omissions constituting willful misconduct or gross negligence on the part of the Issuing Bank.

77 Increased Costs. If at any time after the date of this Agreement, the introduction of or any change in any applicable law, rule, regulation, order, guideline or request or in the interpretation or administration thereof by any governmental authority (including any Commission) charged with the interpretation or administration thereof, or compliance by the Issuing Bank or any Participant with any request or directive by any such authority (whether or not having the force of law), shall either (i) impose, modify or make applicable any reserve, deposit, capital adequacy or similar requirement against letters of credit issued by the Issuing Bank or participated in by any Participant, or (ii) impose on the Issuing Bank or any Participant any other conditions relating, directly or indirectly, to this Agreement; and the result of any of the foregoing is to increase the cost to the Issuing Bank or any Participant of issuing, maintaining or participating in any Letter of Credit, or reduce the amount of any sum received or receivable by the Issuing Bank or any Participant hereunder or reduce the rate of return on its capital with respect to Letters of Credit (except for changes in the rate of tax on, or determined by reference to, the net income or profits of the Issuing Bank or such Participant pursuant to the laws of the jurisdiction in which it is organized or in which its principal office or applicable lending office is located or any subdivision thereof or therein), then, upon the delivery of the certificate referred to below to the Borrower by the Issuing Bank or any Participant (a copy of which certificate shall be sent by the Issuing Bank or such Participant to the Agent), the Borrower shall pay to the Issuing Bank or such Participant such additional amount or amounts as will compensate such Bank for such increased cost or reduction in the amount receivable or reduction on the rate of return on its capital. The Issuing Bank or any Participant, upon determining that any additional amounts will be payable pursuant to this Section 2.06, will give prompt written notice thereof to the Borrower, which notice shall include a certificate submitted to the Borrower by the Issuing Bank or such Participant (a copy of which certificate shall be sent by the Issuing Bank or such Participant to the Agent), setting forth in reasonable detail the basis for the calculation of such additional amount or amounts necessary to compensate the Issuing Bank or such Participant. The certificate required to be delivered pursuant to his Section 2.06 shall, absent manifest error, be final and conclusive and binding on the Borrower.

Commitment Commission; Fees; Reductions of Commitment.

78 Fees. (a) The Borrower agrees to pay to the Agent for distribution to each Non-Defaulting Bank a commitment commission (the ACommitment Commission@) for the period from and including the Restatement Effective Date to but excluding the Final Maturity Date (or such earlier date as the Total Commitment shall have been terminated), computed at a rate for each day equal to the appropriate percentage set forth under the column titled ACommitment Fee@ on Exhibit M hereto, of the daily average Unutilized Commitment of such Non-Defaulting Bank. Accrued Commitment Commission shall be due and payable quarterly in arrears on each Quarterly Payment Date and on the Final Maturity Date or such earlier date upon which the Total Commitment is terminated.

79 The Borrower agrees to pay to the Agent for distribution to each Bank (based on each such Bank=s respective Percentage) a fee in respect of each Letter of Credit issued hereunder (the ALetter of Credit Fee@) for the period from and including the date of issuance of such Letter of Credit to and including the date of termination or expiration of such Letter of Credit, computed at a rate per annum equal to the Eurodollar Spread on the daily Stated Amount of such Letter of Credit. Accrued Letter of Credit Fees shall be due and payable quarterly in arrears on each Quarterly Payment Date and on the first day after the termination of the Total Commitment upon which no Letters of Credit remain outstanding.

80 The Borrower agrees to pay to the Issuing Bank, for its own account, a facing fee in respect of each Letter of Credit issued by it (the AFacing Fee@), for the period from and including the date of issuance of such Letter of Credit to and including the date of the termination of such Letter of Credit, computed at a rate equal to 1/8 of 1% per annum of the daily Stated Amount of such Letter of Credit. Accrued Facing Fees shall be due and payable quarterly in arrears on each Quarterly Payment Date and upon the first day after the termination of the Total Commitment upon which no Letters of Credit remain outstanding.

81 The Borrower agrees to pay to the Issuing Bank, upon each payment under, issuance of, or amendment to, any Letter of Credit, such amount as shall at the time of such event be the administrative charge and the reasonable expenses which the Issuing Bank is generally imposing in connection with such occurrence with respect to letters of credit.

82 The Borrower agrees to pay to the Agent, for its own account, such other fees as have been agreed to in writing by the Borrower and the Agent.

83 Voluntary Termination of Unutilized Commitments. (a) Upon at least three Business Days= prior written notice to the Agent at the Notice Office (which notice the Agent shall promptly transmit to each of the Banks), the Borrower shall have the right, at any time or from time to time, without premium or penalty, (i) to terminate the Total Unutilized Commitment, in whole or in part, pursuant to this Section 3.02(a), in an integral multiple of $1,000,000, in the case of partial reductions to the Total Unutilized Commitment, provided that each such reduction shall apply proportionately to permanently reduce the Commitment of each Bank.

84 In the event of a refusal by a Bank to consent to certain proposed changes, waivers, discharges or terminations with respect to this Agreement which have been approved by the Required Banks as (and to the extent) provided in Section 12.12(b), the Borrower may, subject to its compliance with the requirements of Section 12.12(b), upon five Business Days= prior written notice to the Agent at the Notice Office (which notice the Agent shall promptly transmit to each of the Banks) terminate the entire Commitment of such Bank, so long as all Loans, together with accrued and unpaid interest, Fees and all other amounts, owing to such Bank are repaid concurrently with the effectiveness of such termination pursuant to Section 4.01(b) (at which time Schedule I shall be deemed modified to reflect such changed amounts), and at such time, such Bank shall no longer constitute a ABank@ for purposes of this Agreement, except with respect to indemnifications under this Agreement (including, without limitation, Sections 1.10, 1.11, 2.06, 4.04, 11.06 and 12.01), which shall survive as to such repaid Bank.

85 Certain Mandatory Prepayments. (a) The Total Commitment (and the Commitment of each Bank) shall terminate in its entirety on the earlier of (i) the date on which a Change of Control occurs; (ii) the Final Maturity Date; and (iii) the date on which the Agent terminates the Total Commitment pursuant to the last paragraph of Section 9 hereof.

86 In addition to any other mandatory prepayments pursuant to this Section 3.03, on each date on or after the Restatement Effective Date upon which the Borrower or any Credit Party receives any cash proceeds from any incurrence by the Borrower or any Credit Party of Indebtedness for borrowed money (other than Indebtedness for borrowed money permitted to be incurred pursuant to Section 8.04 (Indebtedness) as such Section is in effect on the Restatement Effective Date), the Borrower shall prepay the Loans on such date by an amount equal to 100% of the Net Debt Proceeds of the respective incurrence of Indebtedness, such prepayment to be applied pursuant to the terms of Section 3.03(e) hereof.

87 In addition to any other mandatory prepayments pursuant to this Section 3.03, on each date on or after the Restatement Effective Date upon which the Borrower or any Credit Party receives cash proceeds from any Asset Sale, the Borrower shall prepay the Loans on such date by an amount equal to 100% of the Net Sale Proceeds of such Asset Sale, such prepayment to be applied pursuant to the terms of Section 3.03(e) hereof; provided that no prepayment shall be required pursuant to this Section 3.03(c) so long as no Default or Event of Default then exists and the Borrower delivers a certificate to the Agent on or prior to such date stating that such Net Sale Proceeds shall be used to purchase replacement assets within 270 days following the date of such Asset Sale (which certificate shall set forth the estimates of the proceeds to be so expended), and provided further, that if all or any portion of such Net Sale Proceeds not giving rise to a mandatory prepayment are not so reinvested in replacement assets within such 270 day period, such remaining portion shall give rise to a mandatory prepayment on the last day of such period as set forth above in this Section 3.03(c).

88 In addition to any other mandatory prepayments pursuant to this Section 3.03, within 10 days following each date on or after the Restatement Effective Date upon which the Borrower or any Credit Party receives any cash proceeds from any Recovery Event, the Borrower shall prepay the Loans on such 10th day by an amount equal to 100% of the Net Insurance Proceeds of such Recovery Event, such prepayment to be applied pursuant to the terms of Section 3.03(e) hereof, provided that so long as no Default or Event of Default then exists and such proceeds do not exceed $10,000,000, no mandatory prepayment shall be required pursuant to this Section 3.03(d) to the extent that the Borrower has delivered a certificate to the Agent on or prior to such date stating that such proceeds shall be used to replace or restore any properties or assets in respect of which such proceeds were paid within 270 days following the date of the receipt of such proceeds (which certificate shall set forth the estimates of the proceeds to be so expended), and provided further, that (i) if the amount of such proceeds exceeds $10,000,000, then the Borrower shall make a mandatory prepayment equal to the entire amount and not just the portion in excess of $10,000,000 and (ii) if all or any portion of such proceeds not giving rise to a mandatory prepayment pursuant to the preceding proviso are not so used within 270 days after the date of the receipt of such proceeds, such remaining portion shall give rise to a mandatory prepayment on the last day of such period as set forth above in this Section 3.03(d).

89 In the absence of a Default or an Event of Default, Borrower shall allocate each mandatory prepayment pursuant to this Section 3.03 between the following options: (i) to prepay amounts outstanding under the Term Loan, including principal, interest on such payment to the date of prepayment, any associated funding losses as calculated pursuant to Exhibit D attached hereto and other fees, and (ii) to prepay amounts outstanding under the Revolving Loans, including principal, interest on such payment to the date of prepayment, any associated funding losses as calculated pursuant to Exhibit D attached hereto and other fees, such prepayment to be shared among the Banks pursuant to each Bank=s Percentage. During the continuance of a Default or an Event of Default, such allocation shall be applied pro rata between the Revolving Loans and the Term Loan. Prepayments of the Revolving Loan shall not reduce the Total Commitment and may be reborrowed in accordance with the terms hereof.

Prepayments; Payments; Taxes.

90 Voluntary Prepayments. (a) The Borrower shall have the right to prepay the Loans, without premium or penalty, in whole or in part at any time and from time to time (and, in the absence of a Default or Event of Default, Borrower may determine the allocation of such payments between the Term Loan and the Revolving Loans) on the following terms and conditions: (i) the Borrower shall give the Agent prior to 12:00 noon (Philadelphia time) at the Notice Office (x) at least one Business Day=s prior written notice (or telephonic notice promptly confirmed in writing) of its intent to prepay Base Rate Loans and (y) at least three Business Days= prior written notice (or telephonic notice promptly

confirmed in writing) of its intent to prepay Eurodollar Loans, the amount of such prepayment and the Types of Loans to be prepaid and, in the case of Eurodollar Loans, the specific Borrowing or Borrowings pursuant to which made, which notice the Agent shall promptly transmit to each of the Banks; (ii) each prepayment shall be in an aggregate principal amount of at least $500,000 and, if greater, in an integral multiple of $100,000, provided that if any partial prepayment of Eurodollar Loans made pursuant to any Borrowing shall reduce the outstanding principal amount of Eurodollar Loans made pursuant to such Borrowing to an amount less than the Minimum Borrowing Amount applicable thereto, then such Borrowing may not be continued as a Borrowing of Eurodollar Loans, and any election of an Interest Period with respect thereto given by the Borrower shall have no force or effect; (iii) prepayments of Eurodollar Loans made pursuant to this Section 4.01(a) other than on the last day of an Interest Period applicable thereto shall be accompanied by payment of associated funding losses as calculated pursuant to Exhibit D hereto; (iv) prepayments of Revolving Loans shall not reduce the Total Commitment and may be reborrowed in accordance with the terms hereof; and (v) each prepayment in respect of any Loans made pursuant to a Borrowing shall be applied pro rata among such Loans, provided that, at the Borrower=s election, such prepayment shall not be applied to any Loan of a Defaulting Bank.

(b) In the event of a refusal by a Bank to consent to certain proposed changes, waivers, discharges or terminations with respect to this Agreement which have been approved by the Required Banks as (and to the extent) provided in Section 12.12(b), the Borrower may, upon five Business Days= prior written notice to the Agent at the Notice Office (which notice the Agent shall promptly transmit to each of the Banks) repay all Loans, together with accrued and unpaid interest, Fees, and other amounts owing to such Bank in accordance with, and subject to the requirements of, said Section 12.12(b) so long as (A) the entire Commitment of such Bank is terminated concurrently with such repayment pursuant to Section 3.02(b) (at which time Schedule I shall be deemed modified to reflect the changed Commitments) and (B) the consents, if any, required by Section 12.12(b) in connection with the repayment pursuant to this clause (b) have been obtained.

91 Additional Mandatory Repayments. (a) On any day on which the sum of the aggregate outstanding principal amount of the Loans plus the Letter of Credit Outstandings exceeds the Total Commitment as then in effect, the Borrower shall prepay on such day the principal of Loans in an amount equal to such excess. If, after giving effect to the prepayment of all outstanding Loans, the aggregate amount of the Letter of Credit Outstandings exceeds the Total Commitment as then in effect, the Borrower shall pay to the Agent at the Payment Office on such day an amount of cash or Cash Equivalents equal to the amount of such excess (up to a maximum amount equal to the Letter of Credit Outstandings at such time), such cash or Cash Equivalents to be held as security for all obligations of the Borrower to the Issuing Banks and the Banks hereunder in a cash collateral account to be established by the Agent.

92 With respect to each repayment of Loans required by this Section 4.02, the Borrower may designate the Types of Loans which are to be repaid and, in the case of Eurodollar Loans, the specific Borrowing or Borrowings pursuant to which made, provided that: (i) repayments of Eurodollar Loans pursuant to this Section 4.02 may only be made on the last day of an Interest Period applicable thereto unless (a) all Eurodollar Loans with Interest Periods ending on such date of required repayment and all Base Rate Loans have been paid in full or (b) such repayment is accompanied by payment of funding losses calculated pursuant to Exhibit D hereto; (ii) if any repayment of Eurodollar Loans made pursuant to a single Borrowing shall reduce the outstanding Eurodollar Loans made pursuant to such Borrowing to an amount less than the Minimum Borrowing Amount applicable thereto, such Borrowing shall be converted at the end of the then current Interest Period into a Borrowing of Base Rate Loans; and (iii) each repayment of any Loans made pursuant to a Borrowing shall be applied pro rata among such Loans. In the absence of a designation by the Borrower as described in the preceding sentence, the Agent shall, subject to the above, make such designation in its sole discretion.

93 Notwithstanding anything to the contrary contained in this Agreement or in any other Credit Document, all then outstanding Loans shall be repaid in full on the earlier of (i) the date on which a Change of Control occurs; (ii) the Final Maturity Date or Term Loan Maturity Date, as applicable; and (iii) the date on which the Agent terminates the Commitment pursuant to the last paragraph of Section 9 hereof.

94 Method and Place of Payment. Except as otherwise specifically provided herein, all payments under this Agreement or under any Note shall be made to the Agent for the account of the Bank or Banks entitled thereto not later than 12:00 noon (Philadelphia time) on the date when due and shall be made in Dollars in immediately available funds at the Payment Office. Whenever any payment to be made hereunder or under any Note shall be stated to be due on a day which is not a Business Day, the due date thereof shall be extended to the next succeeding Business Day and, with respect to payments of principal, interest shall be payable at the applicable rate during such extension.

95 Net Payments. (a) All payments made by the Borrower hereunder or under any Note will be made without setoff, counterclaim or other defense. Except as provided in Section 4.04(b), all such payments will be made free and clear of, and without deduction or withholding for, any present or future taxes, levies, imposts, duties, fees, assessments or other charges of whatever nature now or hereafter imposed by any jurisdiction or by any political subdivision or taxing authority thereof or therein with respect to such payments (but excluding, except as provided in the second succeeding sentence, any tax imposed on or measured by the net income or profits of a Bank pursuant to the laws of the jurisdiction in which it is organized or the jurisdiction in which the principal office or applicable lending office of such Bank is

located or any subdivision thereof or therein) and all interest, penalties or similar liabilities with respect to such non-excluded taxes, levies, imposts, duties, fees, assessments or other charges (all such non-excluded taxes, levies, imposts, duties, fees, assessments or other charges being referred to collectively as ATaxes@). If any Taxes are so levied or imposed, the Borrower agrees to pay the full amount of such Taxes, and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement or under any Note, after withholding or deduction for or on account of any Taxes, will not be less than the amount provided for herein or in such Note. If any amounts are payable in respect of Taxes pursuant to the preceding sentence, the Borrower agrees to reimburse each Bank, upon the written request of such Bank, for taxes imposed on or measured by the net income or profits of such Bank pursuant to the laws of the jurisdiction in which such Bank is organized or in which the principal office or applicable lending office of such Bank is located or under the laws of any political subdivision or taxing authority of any such jurisdiction in which such Bank is organized or in which the principal office or applicable lending office of such Bank is located and for any withholding of taxes as such Bank shall determine are payable by, or withheld from, such Bank, in respect of such amounts so paid to or on behalf of such Bank pursuant to the preceding sentence and in respect of any amounts paid to or on behalf of such Bank pursuant to this sentence. The Borrower will furnish to the Agent within 45 days after the date the payment of any Taxes is due pursuant to applicable law certified copies of tax receipts evidencing such payment by the Borrower. The Borrower agrees to indemnify and hold harmless each Bank, and reimburse such Bank upon its written request, for the amount of any Taxes so levied or imposed and paid by such Bank.

96 Each Bank that is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) for U.S. Federal income tax purposes agrees to deliver to the Borrower and the Agent on or prior to the Restatement Effective Date, or in the case of a Bank that is an assignee or transferee of an interest under this Agreement pursuant to Section 1.13 or 12.04 (unless the respective Bank was already a Bank hereunder immediately prior to such assignment or transfer), on the date of such assignment or transfer to such Bank, (i) two accurate and complete original signed copies of Internal Revenue Service Form 4224 or 1001 (or successor forms) certifying to such Bank=s entitlement to a complete exemption from United States withholding tax with respect to payments to be made under this Agreement and under any Note, or (ii) if the Bank is not a Abank@ within the meaning of Section 881(c)(3)(A) of

the Code and cannot deliver either Internal Revenue Service Form 1001 or 4224 (or successor forms) pursuant to clause (i) above, (x) a certificate substantially in the form of Exhibit E (any such certificate, a ASection 4.04(b)(ii) Certificate@) and (y) two accurate and complete original signed copies of Internal Revenue Service Form W-8 (or successor form) certifying to such Bank=s entitlement to a complete exemption from United States withholding tax with respect to payments of interest to be made under this Agreement and under any Note. In addition, each Bank agrees that from time to time after the Restatement Effective Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, such Bank will deliver to the Borrower and the Agent two new accurate and complete original signed copies of Internal Revenue Service Form 4224 or 1001 (or successor form), or Form W-8 (or successor form) and a Section 4.04(b)(ii) Certificate, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Bank to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any Note, or such Bank shall immediately notify the Borrower and the Agent of its inability to deliver any such Form or Certificate, in which case such Bank shall not be required to deliver any such Form or Certificate pursuant to this Section 4.04(b). Notwithstanding anything to the contrary contained in Section 4.04(a), but subject to Section 12.04(b) and the immediately succeeding sentence, (x) the Borrower shall be entitled, to the extent it is required to do so by law, to deduct or withhold income or similar taxes imposed by the United States (or any political subdivision or taxing authority thereof or therein) from interest, Fees or other amounts payable hereunder for the account of any Bank which is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) for U.S. Federal income tax purposes to the extent that such Bank has not provided to the Borrower U.S. Internal Revenue Service Forms that establish a complete exemption from such deduction or withholding and (y) the Borrower shall not be obligated pursuant to Section 4.04(a) hereof to gross-up payments to be made to a Bank in respect of income or similar taxes imposed by the United States if (I) such Bank has not provided to the Borrower the Internal Revenue Service Forms required to be provided to the Borrower pursuant to this Section 4.04(b) or (II) in the case of a payment, other than interest, to a Bank described in clause (ii) above, to the extent that such Forms do not establish a complete exemption from withholding of such taxes. Notwithstanding anything to the contrary contained in the preceding sentence or elsewhere in this Section 4.04 and except as set forth in Section 12.04(b), the Borrower agrees to pay any additional amounts and to indemnify each Bank in the manner set forth in Section 4.04(a) (without regard to the identity of the jurisdiction requiring the deduction or withholding) in respect of any Taxes deducted or withheld by it as described in the immediately preceding sentence as a result of any changes after the Restatement Effective Date in any applicable law, treaty, governmental rule, regulation, guideline or order, or in the interpretation thereof, relating to the deducting or withholding of such Taxes.

Conditions Precedent. The occurrence of the Restatement Effective Date and the obligation of each Bank to make Loans on and after the Restatement Effective Date, and the obligation of the Issuing Bank to issue Letters of Credit on and after the Restatement Effective Date, are subject at the time of any such Credit Event to the satisfaction of any the following conditions (to the extent applicable to such Credit Event):

97 Execution of the Agreement. On or prior to the Restatement Effective Date, this Agreement shall have been executed and delivered in accordance with Section 12.11.

98 Notes. On or prior to the Restatement Effective Date, there shall have been delivered (i) to the Agent for the account of each of the Banks the appropriate Revolving Note and (ii) to First Union, the Term Note, executed by the Borrower, in the amounts, maturities and as otherwise provided herein.

99 Officer=s Certificate. On the Restatement Effective Date, the Agent shall have received a certificate, dated the Restatement Effective Date and signed on behalf of the Borrower by the Chairman of the Board, the President or any Vice President of the Borrower, stating that all of the conditions in Sections 5.08, 5.09, 5.10 and 5.13 have been satisfied on such date.

100 Opinions of Counsel. On the Restatement Effective Date, the Agent shall have received from (i) Bowles, Rice McDavid, Graff & Love, PLLC, West Virginia counsel to the Credit Parties, an opinion addressed to the Agent and each of the Banks and dated the Restatement Effective Date, covering the matters set forth in Exhibit F-1 and such other matters incident to the transactions contemplated herein as the Agent may reasonably request and (ii) Mesirov Gelman Jaffe Cramer & Jamieson, LLP counsel to the Credit Parties, an opinion addressed to the Agent and the Banks, dated the Restatement Effective Date, covering the matters set forth in Exhibit F-2 and such other matters incident to the transactions contemplated herein as the Agent may reasonably request.

101 Corporate Documents; Proceedings; etc. (a) On the Restatement Effective Date, the Agent shall have received a certificate from each Credit Party, dated the Restatement Effective Date, signed by the Chairman of the Board, the President or any Vice President of such Credit Party, and attested to by the Secretary or any Assistant Secretary of such Credit Party, in the form of Exhibit G with appropriate insertions, together with copies of the certificate of incorporation (or equivalent organizational document) and by-laws of such Credit Party and the resolutions of such Credit Party referred to in such certificate, and the foregoing resolutions shall be in form and substance reasonably acceptable to the Agent.

102 All corporate and legal proceedings and all instruments and agreements in connection with the transactions contemplated by this Agreement and the other Documents shall be satisfactory in form and substance to the Agent and the Required Banks, and the Agent shall have received all information and copies of all documents and papers, including records of corporate proceedings, governmental approvals, good standing certificates and bring-down telegrams or facsimiles, if any, which the Agent reasonably may have requested in connection therewith, such documents and papers where appropriate to be certified by proper corporate or governmental authorities.

103 On the Restatement Effective Date, the corporate, ownership and capital structure (including, without limitation, the terms of any capital stock, options, warrants or other securities issued by the Borrower or any of its Subsidiaries) of the Borrower and its Subsidiaries shall be in form and substance reasonably satisfactory to the Agent and the Required Banks.

104 Shareholders= Agreements; Tax Sharing Agreements; Existing Indebtedness Agreements. On or prior to the Restatement Effective Date, there shall have been delivered to (or there shall have been made available for review by) the Agent true and correct copies of the following documents:

105 all agreements entered into by the Borrower or any of its Subsidiaries governing the terms and relative rights of its capital stock and any agreements entered into by shareholders relating to any such entity with respect to its capital stock, including, without limitation, the Charles Town Joint Venture Agreement (collectively, the AShareholders= Agreements@);

106 all tax sharing, tax allocation and other similar agreements entered into by the Borrower or any of its Subsidiaries (collectively, the ATax Sharing Agreements@); and

107 all agreements evidencing or relating to Indebtedness of the Borrower or any of its Subsidiaries which is to remain outstanding after the Restatement Effective Date, including without limitation the Senior Note Documents (collectively, the AExisting Indebtedness Agreements@);

all of which Shareholders= Agreements, Tax Sharing Agreements and Existing Indebtedness Agreements shall be in form and substance satisfactory to the Agent and the Required Banks and shall be in full force and effect on the Restatement Effective Date.

108 The Transaction. (a) On or prior to the Restatement Effective Date, there shall have been delivered to the Agent true and correct copies of the following documents (the ATransaction Documents@) evidencing the joint venture between Borrower and Greenwood New Jersey, Inc. (the ATransaction@), in form and substance satisfactory to the Agent:

109 the Asset Purchase Agreement dated July 2, 1998 by and among Garden State Race Track, Inc., Freehold Raceway Association, Atlantic City Harness, Inc., Circa 1850, Inc. and International Thoroughbred Breeders, Inc. (the ANew Jersey Asset Purchase Agreement@);

First Amendment to Asset Purchase Agreement dated of even date herewith by and among the parties to the New Jersey Asset Purchase Agreement and Borrower;

Lease Agreement between Garden State Race Track Inc. and GSPRLP dated of even date herewith;

Joint Venture Agreement Relating to New Jersey Assets dated October 30, 1998 by and between Greenwood New Jersey, Inc. and Borrower (the AJV Agreement@);

First Amendment to Joint Venture Agreement Relating to New Jersey Assets dated of even date herewith between Greenwood New Jersey, Inc. and Borrower (collectively with the JV Agreement, the ANew Jersey Joint Venture Agreement@);

the New Jersey Shareholders= Agreement; and

any other document in connection with the Transaction requested by the Agent.

(b) On or prior to the Restatement Effective Date, Borrower shall assign the promissory note from FRPRLP to Borrower in the original principal amount of $11,250,000 to Agent on behalf of Banks, pursuant to the terms of the Pledge Agreement.

Original Credit Agreement, etc. (a) On the Restatement Effective Date (i) all loans under the Original Credit Agreement shall have been repaid in cash in full, (ii) there shall have been paid in cash in full all accrued but unpaid interest on the loans outstanding under the Original Credit Agreement and (iii) there shall have been paid in cash in full all accrued but unpaid fees (including, without limitation, commitment fees, letter of credit fees and facing fees) and other amounts, costs and expenses (including, without limitation, breakage costs, if any, with respect to Eurodollar rate loans) owing under the Original Credit Agreement, in each case regardless of whether or not any of the foregoing amounts would otherwise be due and payable at such time pursuant to the terms of the Original Credit Agreement.

(b) On the Restatement Effective Date, (i) all Interest Rate Protection Agreements entered into by the Borrower prior to the Restatement Effective Date shall have been terminated and (ii) all amounts, costs and expenses owing by the Borrower pursuant to such Interest Rate Protection Agreements as a result of the termination thereof shall have been paid in full.

(c) On the Restatement Effective Date, the Agent, the Continuing Banks and the Non-Continuing Banks shall have executed and delivered an acknowledgment letter in the form of Exhibit H.

117 Adverse Change, etc. (a) Since September 30, 1998, nothing shall have occurred (and neither the Agent nor any Bank shall have become aware of any facts or conditions not previously known) which the Agent or the Required Banks shall determine (a) has had, or could reasonably be expected to have, a material adverse effect on the rights or remedies of the Banks or the Agent, or on the ability of any Credit Party to perform its obligations to them hereunder or under any other Credit Document or (b) has had, or could reasonably be expected to have, a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower or any of its Subsidiaries.

118 All necessary governmental (domestic and foreign) and third party approvals and/or consents (including, without limitation, any approvals and/or consents of any Commission necessary, or in the reasonable opinion of the Agent desirable, to operate the businesses of the Borrower or any of its Subsidiaries permitted under Section 8.15) in connection with this Agreement, the Transaction and the Documents and otherwise referred to herein or therein shall have been obtained and remain in effect, and all applicable waiting periods with respect thereto shall have expired without any action being taken by any competent authority which restrains, prevents or imposes materially adverse conditions upon, this Agreement, the Transaction or the Documents or otherwise referred to herein or therein. Additionally, there shall not exist any judgment, order, injunction or other restraint issued or filed or a hearing seeking injunctive relief or other restraint pending or notified prohibiting or imposing materially adverse conditions upon this Agreement, the Transaction or the Documents or otherwise required to herein or therein.

119 Except for licenses in connection with the Transaction, the Borrower and each of its Subsidiaries shall have all licenses, including, without limitation, gaming, racing and alcohol licenses, necessary for the operation of its businesses.

120 Litigation. On the Restatement Effective Date, there shall be no actions, suits or proceedings pending or threatened (i) with respect to the Transaction, this Agreement or any other Document or (ii) which the Agent or the Required Banks shall determine could reasonably be expected to have a material adverse effect on (a) the Transaction or on the business, operations, property, assets, condition (financial or otherwise) or the prospects of the Borrower or any Credit Party, (b) the rights or remedies of the Banks or the Agent hereunder or under any other Credit Document or (c) the ability of any Credit Party to perform its respective obligations to the Banks or the Agent hereunder or under any other Credit Document.

121 Contribution and Indemnification Agreement. On the Restatement Effective Date, each Credit Party shall have duly authorized, executed and delivered a contribution and indemnification agreement in the form of Exhibit I (the AContribution and Indemnification Agreement@).

122 Mortgage Amendments. On the Restatement Effective Date, the Agent shall have received (i) fully executed counterparts of amendments (the AMortgage Amendments@), in form and substance satisfactory to the Agent, to each of the Existing Mortgages, and (ii) fully executed counterparts of any additional mortgages that may be requested by Agent (AAdditional Mortgages@) in form and substance satisfactory to Agent, together with evidence that counterparts of each of the Mortgage Amendments and Additional Mortgage have been delivered to the title company insuring the Lien on each of the Mortgaged Properties for recording in all places to the extent necessary or desirable, in the judgment of the Agent, effectively to maintain a valid and enforceable first priority mortgage lien on the Existing Mortgaged Properties, and create a valid and enforceable first priority mortgage lien on any and all properties referenced in the Additional Mortgages, (the AAdditional Mortgaged Properties@) in favor of the Agent for the benefit of the Secured Creditors, and the Agent shall have received either endorsements to the existing Mortgage Policies or new Mortgage Policies, in either case assuring the Agent that each Existing Mortgage is a valid and enforceable first priority mortgage lien on the respective Mortgaged Properties, free and clear of all defects and encumbrances except Permitted Encumbrances.

123 Projections; Balance Sheet; Financial Review. On or prior to the Restatement Effective Date, the Agent shall have received copies of historical financial statements, the financial statements and the Projections referred to in Sections 6.05(a) and (d), and the foregoing financial statements and Projections shall be in form and substance satisfactory to the Agent and the Required Banks.

124 Subsidiaries Guaranty. The Subsidiaries Guaranty, duly executed by each Subsidiary Guarantor.

125 Amended and Restated Security Agreement. The Security Agreement, in form and substance acceptable to Agent, together with any amendments to financing statements and any other related documents reasonably required by the Agent.

126 Pledge Agreement. The Pledge Agreement, duly executed by Borrower and each Subsidiary.

127 Assignment of Notes. The assignment to Agent, for the ratable benefit of Banks, of all existing promissory notes in favor of Borrower or any Credit Party: (i) by Bankers Trust Company, of all such notes previously assigned to it by Borrower or any Credit Party in its capacity as agent under the Original Credit Agreement, and (ii) all such notes not previously assigned by Borrower or a Credit Party to Agent or Bankers Trust Company.

128 Solvency Certificate; Insurance Certificates. On the Restatement Effective Date, the Borrower shall have delivered to the Agent:

129 a certificate in the form of Exhibit J executed by the Chief Financial Officer of the Borrower; and

130 certificates of insurance complying with the requirements of Section 7.03 for the business and properties of the Borrower and each Credit Party, in form and substance satisfactory to the Agent and the Required Banks and naming the Agent as an additional insured and as loss payee, and stating that such insurance shall not be canceled without at least 30 days prior written notice by the insurer to the Agent (or such shorter period of time as a particular insurance company generally provides).

131 Searches. On or prior to the Restatement Effective Date, Agent shall have received tax, Uniform Commercial Code and judgment searches against each Credit Party in those offices and jurisdictions as the Bank shall reasonably request.

132 Notice of Account Designation. On the Restatement Effective Date, the Borrower shall have delivered to Agent a duly executed notice of account designation, in form and substance acceptable to Agent.

133 No Default; Representations and Warranties. At the time of each Credit Event and also after giving effect thereto (i) there shall exist no Default or Event of Default and (ii) all representations and warranties contained herein and in the other Credit Documents shall be true and correct in all material respects with the same effect as though such representations and warranties had been made on the date of such Credit Event (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct in all material respects only as of such specified date).

134 Notice of Borrowing; Letter of Credit Request. (a) Prior to the making of each Loan, the Agent shall have received a Notice of Borrowing meeting the requirements of Section 1.03(a).

135 Prior to the issuance of each Letter of Credit, the Agent and the Issuing Bank shall have received a Letter of Credit Request meeting the requirements of Section 2.03.

136 Other Documents. Prior to the Restatement Effective Date and/or each Credit Event, Agent shall receive from Borrower and its Subsidiaries such additional documents as Agent may reasonably require.

The occurrence of the Restatement Effective Date and the acceptance of the proceeds of each Loan and the making of each Letter of Credit Request shall constitute a representation and warranty by the Borrower to the Agent and each of the Banks that all the applicable conditions specified in this Section 5 exist as of the date of each such Credit Event. All of the Notes, certificates, legal opinions and other documents and papers referred to in this Section 5, unless otherwise specified, shall be delivered to the Agent at the Notice Office for the account of each of the Banks and, except for the Notes, in sufficient counterparts or copies for each of the Banks and shall be in form and substance satisfactory to the Agent and the Required Banks.

Representations, Warranties and Agreements. In order to induce the Banks to enter into this Agreement and to make the Loans, and issue (or participate in) the Letters of Credit as provided herein, the Borrower makes the following representations, warranties and agreements, in each case after giving effect to the Transaction, all of which shall survive the execution and delivery of this Agreement and the Notes and the making of the Loans and issuance of the Letters of Credit, with the occurrence of the Restatement Effective Date and each other Credit Event on or after the Restatement Effective Date being deemed to constitute a representation and warranty that the matters specified in this Section 6 are true and correct on and as of the Restatement Effective Date and on the date of each such other Credit Event (it being understood and agreed that any representation or warranty which by its terms is made as of a specified date shall be required to be true and correct only as of such specified date).

137 Corporate and Other Status. Each Credit Party and each of their Subsidiaries (i) is a duly organized and validly existing corporation, limited liability company or partnership, as the case may be, in good standing under the laws of the jurisdiction of its organization, (ii) has the corporate, limited liability company or partnership power and authority, as the case may be, to own its property and assets and to transact the business in which it is engaged and presently proposes to engage and (iii) is duly qualified and is authorized to do business and is in good standing in each jurisdiction where the ownership, leasing or operation of its property or the conduct of its business requires such qualifications except for failures to be so qualified which, individually or in the aggregate, could not reasonably be expected to have a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole.

138 Corporate and Other Power and Authority. Each Credit Party has the corporate, limited liability company or partnership power and authority, as the case may be, to execute, deliver and perform the terms and provisions of each of the Documents to which it is party and has taken all necessary corporate, limited liability company or partnership action, as the case may be, to authorize the execution, delivery and performance by it of each of such Documents. Each Credit Party has duly executed and delivered each of the Documents to which it is party, and each of such Documents constitutes its legal, valid and binding obligation enforceable in accordance with its terms, except to the extent that the enforceability thereof may be limited by applicable bankruptcy, insolvency, reorganization, moratorium or other similar laws generally affecting creditors= rights and by equitable principles (regardless of whether enforcement is sought in equity or at law).

139 No Violation. Neither the execution, delivery or performance by any Credit Party of the Documents to which it is a party, nor compliance by it with the terms and provisions thereof, (i) will contravene any provision of any law, statute, rule or regulation or any order, writ, injunction or decree of any court or governmental instrumentality, including without limitation any Commission, (ii) will conflict with or result in any breach of any of the terms, covenants, conditions or provisions of, or constitute a default under, or result in the creation or imposition of (or the obligation to create or impose) any Lien (except pursuant to the Security Documents) upon any of the property or assets of the Borrower or any of its Subsidiaries pursuant to the terms of any indenture, mortgage, deed of trust, credit agreement or loan agreement, or any other material agreement, contract or instrument, including without limitation any license or authority issued or provided by any Commission, to which the Borrower or any of its Subsidiaries is a party or by which it or any of its property or assets is bound or to which it may be subject or (iii) will violate any provision of the certificate of incorporation, by-laws, limited liability company agreement or partnership agreement (or equivalent organizational documents) of the Borrower or any of its Subsidiaries.

140 Approvals. No order, consent, approval, license, authorization or validation of, or filing, recording or registration with (except for those that have otherwise been obtained or made on or prior to the Restatement Effective Date and which remain in full force and effect on the Restatement Effective Date), or exemption by, any governmental or public body or authority, including without limitation any Commission, or any subdivision thereof, is required to authorize, or is required in connection with, (i) the execution, delivery and performance of any Document or (ii) the legality, validity, binding effect or enforceability of any such Document.

141 Financial Statements; Financial Condition; Undisclosed Liabilities; Projections; etc. (a) The consolidated balance sheet of the Borrower and its Subsidiaries at December 31, 1997 and September 30, 1998 and the related consolidated statements of income, cash flows and shareholders= equity of the Borrower and its Subsidiaries for the fiscal year and nine-month period ended on such dates, as the case may be, copies of which have been furnished to the Banks prior to the Restatement Effective Date, present fairly the financial position of the Borrower and its Subsidiaries at the date of such balance sheets and the results of the operations of the Borrower and its Subsidiaries for the periods covered thereby. The consolidated balance sheet of the Borrower and its Subsidiaries as of September 30, 1998, a copy of which has been furnished to the Banks prior to the Restatement Effective Date, presents fairly the financial position of the Borrower and its Subsidiaries as of such date and after giving effect to the Transaction. All of the foregoing financial statements have been prepared in accordance with generally accepted accounting principles consistently applied, subject to normal year-end audit adjustments in the case of the nine-month and other interim financial statements referred to above. Since December 31, 1997, there has been no material adverse change in the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole.

142 On and as of the Restatement Effective Date and after giving effect to the Transaction and to all Indebtedness (including the Loans and the Senior Notes) incurred or assumed or being incurred or assumed and Liens created by the Credit Parties in connection therewith, (a) the sum of the assets, at a fair valuation, of each of the Borrower on a stand-alone basis and of the Borrower and its Subsidiaries taken as a whole will exceed its debts; (b) each of the Borrower on a stand-alone basis and the Borrower and its Subsidiaries taken as a whole has not incurred and does not intend to incur, and does not believe that they will incur, debts beyond their ability to pay such debts as such debts mature; and (c) each of the Borrower on a stand alone basis and the Borrower and its Subsidiaries taken as a whole will have sufficient capital with which to conduct its business. For purposes of this Section 6.05(b), Adebt@ means any liability on a claim, and Aclaim@ means (i) right to payment, whether or not such a right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured, or unsecured or (ii) right to an equitable remedy for breach of performance if such breach gives rise to a payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured, unmatured, disputed, undisputed, secured or unsecured. The amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability.

143 Except as fully disclosed in the financial statements delivered pursuant to Section 6.05(a), there were as of the Restatement Effective Date no liabilities or obligations with respect to the Borrower or any of its Subsidiaries of any nature whatsoever (whether absolute, accrued, contingent or otherwise and whether or not due) which, either individually or in aggregate, could reasonably be expected to be material to the Borrower and its Subsidiaries taken as a whole. As of the Restatement Effective Date, the Borrower does not know of any basis for the assertion against it or any of its Subsidiaries of any liability or obligation of any nature whatsoever that is not fully disclosed in the financial statements delivered pursuant to Section 6.05(a) which, either individually or in the aggregate, could reasonably be expected to be material to the Borrower and its Subsidiaries taken as a whole.

144 On and as of the Restatement Effective Date, the Projections delivered to the Agent and the Banks prior to the Restatement Effective Date have been prepared in good faith and are based on reasonable assumptions, and there are no statements or conclusions in the Projections which are based upon or include information known to the Borrower to be misleading in any material respect or which fail to take into account material information known to the Borrower regarding the matters reported therein. On the Restatement Effective Date, the Borrower believes that the Projections are reasonable and attainable.

145 Litigation. There are no actions, suits or proceedings pending or, to the best knowledge of the Borrower, threatened (i) with respect to any Document, (ii) with respect to any material Indebtedness of the Borrower or any of its Subsidiaries or (iii) that are reasonably likely to materially and adversely affect the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole.

146 True and Complete Disclosure. All factual information (taken as a whole) furnished by any Credit Party in writing to the Agent or any Bank (including, without limitation, all information contained in the Documents) for purposes of or in connection with this Agreement, the other Credit Documents or any transaction contemplated herein or therein is, and all other such factual information (taken as a whole) hereafter furnished by or on behalf of any Credit Party in writing to the Agent or any Bank will be, true and accurate in all material respects on the date as of which such information is dated or certified and not incomplete by omitting to state any fact necessary to make such information (taken as a whole) not misleading in any material respect at such time in light of the circumstances under which such information was provided.

147 Use of Proceeds; Margin Regulations. (a) All proceeds of the Loans shall be used for: (i) at closing, the financing of a loan by Borrower to FR Park Racing L.P. (which shall not exceed $11,250,000) pursuant to the terms of Transaction and which loan may be converted to a 50% equity interest in Pennwood and 49.95% limited partnership interest in each of FRPRLP, GSPRLP, FR Park Services and GS Park Services upon the Transaction Conversion; (ii) the refinancing of certain existing Indebtedness of Borrower (including under the Original Credit Agreement) and (iii) the working capital and general corporate purposes of the Borrower and its Subsidiaries. Letters of Credit shall be used for L/C Supportable Obligations.

148 No part of any Credit Event (or the proceeds thereof) will be used to purchase or carry any Margin Stock or to extend credit for the purpose of purchasing or carrying any Margin Stock. Neither the making of any Loan nor the use of the proceeds thereof nor the occurrence of any other Credit Event will violate or be inconsistent with the provisions of Regulation G, T, U or X of the Board of Governors of the Federal Reserve System.

149 Tax Returns and Payments. Each of the Borrower and each of its Subsidiaries has filed all federal and state income tax returns and all other material tax returns, domestic and foreign, required to be filed by it and has paid all taxes and assessments payable by it which have become due, except for those contested in good faith and adequately disclosed and fully provided for on the financial statements of the Borrower and its Subsidiaries in accordance with generally accepted accounting principles. The Borrower and each of its Subsidiaries have at all times paid, or have provided adequate reserves (in the good faith judgment of the management of the Borrower) for the payment of, all federal, state, local and foreign income taxes applicable for all prior fiscal years and for the current fiscal year to date. There is no material action, suit, proceeding, investigation, audit, or claim now pending or, to the knowledge of the Borrower threatened, by any authority, including without limitation any Commission, regarding any taxes relating to the Borrower or any of its Subsidiaries. As of the Restatement Effective Date, neither the Borrower nor any of its Subsidiaries has entered into an agreement or waiver or been requested to enter into an agreement or waiver extending any statute of limitations relating to the payment or collection of taxes of the Borrower or any of its Subsidiaries, or is aware of any circumstances that would cause the taxable years or other taxable periods of the Borrower or any of its Subsidiaries not to be subject to the normally applicable statute of limitations.

150 Compliance with ERISA. Each Plan (and each related trust, insurance contract or fund) is in substantial compliance with its terms and with all applicable laws, including, without limitation, ERISA and the Code; each Plan (and each related trust, if any) which is intended to be qualified under Section 401(a) of the Code has received a determination letter from the Internal Revenue Service to the effect that it meets the requirements of Sections 401(a) and 501(a) of the Code; no Reportable Event has occurred; no Plan which is a multiemployer plan (as defined in Section 4001(a)(3) of ERISA) is insolvent or in reorganization; no Plan has an Unfunded Current Liability; no Plan which is subject to Section 412 of the Code or Section 302 of ERISA has an accumulated funding deficiency, within the meaning of such sections of the Code or ERISA, or has applied for or received a waiver of an accumulated funding deficiency or an extension of any amortization period, within the meaning of Section 412 of the Code or Section 303 or 304 of ERISA; all contributions required to be made with respect to a Plan have been timely made; neither the Borrower nor any Subsidiary of the Borrower nor any ERISA Affiliate has incurred any material liability (including any indirect, contingent or secondary liability) to or on account of a Plan pursuant to Section 409, 502(i), 502(l), 515, 4062, 4063, 4064, 4069, 4201, 4204 or 4212 of ERISA or Section 401(a)(29), 4971 or 4975 of the Code or expects to incur any such material liability under any of the foregoing sections with respect to any Plan; no condition exists which presents a material risk to the

Borrower or any Subsidiary of the Borrower or any ERISA Affiliate of incurring a material liability to or on account of a Plan pursuant to the foregoing provisions of ERISA and the Code; no proceedings have been instituted to terminate or appoint a trustee to administer any Plan which is subject to Title IV of ERISA; no action, suit, proceeding, hearing, audit or investigation with respect to the administration, operation or the investment of assets of any Plan (other than routine claims for benefits) is pending, expected or threatened; using actuarial assumptions and computation methods consistent with Part 1 of subtitle E of Title IV of ERISA, the aggregate liabilities of the Borrower and its Subsidiaries and its ERISA Affiliates to all Plans which are multiemployer plans (as defined in Section 4001(a)(3) of ERISA) in the event of a complete withdrawal therefrom, as of the close of the most recent fiscal year of each such Plan ended prior to the date of the most recent Credit Event, would not exceed $500,000; each group health plan (as defined in Section 607(1) of ERISA or Section 4980B(g)(2) of the Code) which covers or has covered employees or former employees of the Borrower, any Subsidiary of the Borrower or any ERISA Affiliate has at all times been operated in compliance with the provisions of Part 6 of subtitle B of Title I of ERISA and Section 4980B of the Code; no lien imposed under the Code or ERISA on the assets of the Borrower or any Subsidiary of the Borrower or any ERISA Affiliate exists or is likely to arise on account of any Plan; and the Borrower and its Subsidiaries may cease contributions to or terminate any employee benefit plan maintained by any of them without incurring any material liability.

151 The Security Documents. (a) The provisions of the Security Agreement continue to create and are effective to create in West Virginia and from all Subsidiary Guarantors formed after the date of the Original Credit Agreement: (i) in favor of the Agent for the benefit of the Secured Creditors a legal, valid and enforceable security interest in all right, title and interest of the Credit Parties party thereto in the Security Agreement Collateral described therein, to secure Borrower=s Indebtedness solely under the Revolving Loans and (ii) in favor of First Union, a legal, valid and enforceable security interest in all right, title and interest of Borrower in the Security Agreement Term Loan Collateral described therein, to secure Borrower=s Indebtedness solely under the Term Loan. The Agent, for the benefit of the Secured Creditors, has a fully perfected first lien on, and security interest in, all right, title and interest in all of the Security Agreement Collateral as described therein, subject to no other Liens other than Permitted Liens, and First Union has a fully perfected first lien on, and security interest in, all right, title and interest in all of the Security Agreement Term Loan Collateral as described therein, subject to no other liens other than Permitted Liens. The recordation of the Assignment of Security Interest in U.S. Patents and Trademarks in the form attached to the Security Agreement in the United States Patent and Trademark Office, together with filings on Form UCC-1 made pursuant to the Security Agreement, created, as of November 27, 1996 and continue to create, as may be perfected by such filing and

recordation respectively, a perfected security interest granted to the Agent in the United States trademarks and patents covered by the Security Agreement, and the recordation of the Assignment of Security Interest in U.S. Copyrights in the form attached to the Security Agreement with the United States Copyright Office, together with filings on Form UCC-1 made pursuant to the Security Agreement, created, as of November 27, 1996 and continue to create, as may be perfected by such filing and recordation respectively, a perfected security interest granted to the Agent in the United States copyrights covered by the Security Agreement.

152 The security interests created as of November 27, 1996 in favor of the Agent, as Pledgee, for the benefit of the Secured Creditors, under the Pledge Agreement, constitute and continue to create first priority perfected security interests in the Pledged Securities described in the Pledge Agreement, subject to no security interests of any other Person. No filings or recordings are required in order to perfect (or maintain the perfection or priority of) the security interests created in the Pledged Securities under the Pledge Agreement, other than in connection with the pledge of the ownership interests of PNGI Charles Town Gaming LLC.

153 The Mortgages (as amended by the Mortgage Amendments in the case of the Existing Mortgages) created as of November 27, 1996 and continue to create, and the Additional Mortgages create, for the obligations purported to be secured thereby, a valid and enforceable perfected security interest in and mortgage lien on all of the Mortgaged Properties in favor of the Agent (or such other trustee as may be required or desired under local law) for the benefit of the Secured Creditors, superior to and prior to the rights of all third persons (except that the security interest and mortgage lien created in the Mortgaged Properties may be subject to the Permitted Encumbrances related thereto) and subject to no other Liens (other than Liens permitted under Section 8.01). Schedule IV contains a true and complete list of each parcel of Real Property owned or leased by the Borrower and the Credit Parties on the Restatement Effective Date, and the type of interest therein held by the Borrower or such Credit Party. The Borrower and each Credit Party have good and marketable title to all fee-owned Real Property and valid leasehold title to all Leaseholds, in each case free and clear of all Liens except those described in the first sentence of this subsection (c).

154 Representations and Warranties in the Documents. All representations and warranties set forth in the other Documents were true and correct in all material respects at the time as of which such representations and warranties were (or are) made (or deemed made).

155 Properties. The Borrower and each of its Subsidiaries have good and marketable title to all material properties and assets owned by them, including all property and assets reflected in the balance sheets referred to in Section 6.05(a) (except as sold or otherwise disposed of since the date of such balance sheet in the ordinary course of business or a permitted by the terms of this Agreement), free and clear of all Liens, other than Permitted Liens.

156 Capitalization. On the Restatement Effective Date, the authorized capital stock of the Borrower shall consist of (i) 20,000,000 shares of common stock, $.01 par value per share and (ii) 1,000,000 shares of preferred stock, $.01 par value per value, of which no shares of such preferred stock are issued or outstanding. All outstanding shares of capital stock of the Borrower have been duly and validly issued, are fully paid and nonassessable. The Borrower does not have outstanding any securities convertible into or exchangeable for its capital stock or outstanding any rights to subscribe for or to purchase, or any options for the purchase of, or any agreement providing for the issuance (contingent or otherwise) of, or any calls, commitments or claims of any character relating to, its capital stock, except for options or warrants to purchase shares of its common stock.

157 Subsidiaries; Investments. As of the Restatement Effective Date, neither the Borrower, nor any Subsidiary, has any Subsidiaries other than those Subsidiaries listed on Schedule V. Schedule V correctly sets forth, as of the Restatement Effective Date, the percentage ownership (direct or indirect) of the Borrower in each class of capital stock or other equity of each of its Subsidiaries and also identifies the direct owner thereof. Neither Borrower nor any Subsidiary has investments in or loans to any other individuals or business entities, except for: (i) those permitted by Section 8.05, (ii) set forth on Schedule IX or (iii) those to the New Jersey Joint Venture Entities and related entities.

158 Compliance with Statutes, etc. Each of the Borrower and each of its Subsidiaries is in compliance with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, in respect of the conduct of its business and the ownership of its property (including applicable statutes, regulations, orders and restrictions relating to environmental standards and controls and the Commissions), except such noncompliances as could not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole.

159 Investment Company Act. Neither the Borrower nor any of its Subsidiaries is an Ainvestment company@ or a company Acontrolled@ by an Ainvestment company,@ within the meaning of the Investment Company Act of 1940, as amended.

160 Public Utility Holding Company Act. Neither the Borrower nor any of its Subsidiaries is a Aholding company,@ or a Asubsidiary company@ of a Aholding company,@ or an Aaffiliate@ of a Aholding company@ or of a Asubsidiary company@ of a Aholding company@ within the meaning of the Public Utility Holding Company Act of 1935, as amended.

161 Environmental Matters. (a) The Borrower and each of its Subsidiaries have complied with, and on the date of each Credit Event are in compliance with, all applicable Environmental Laws and the requirements of any permits issued under such Environmental Laws. Other than as disclosed on Schedule XI, there are no pending or threatened Environmental Claims against the Borrower or any of its Subsidiaries (including any such claim arising out of the ownership or operation by the Borrower or any of its Subsidiaries of any Real Property no longer owned or operated by the Borrower or any of its Subsidiaries) or any Real Property owned or operated by the Borrower or any of its Subsidiaries. There are no facts, circumstances, conditions or occurrences with respect to any Real Property owned or operated by the Borrower or any of its Subsidiaries (including any Real Property formerly owned or operated by the Borrower or any of its Subsidiaries but no longer owned or operated by the Borrower or any of its Subsidiaries) or any property adjoining or adjacent to any such Real Property that could be expected (i) to form the basis of an Environmental Claim against the Borrower or any of its Subsidiaries or any Real Property owned or operated by the Borrower or any of its Subsidiaries or (ii) to cause any Real Property owned or operated by the Borrower or any of its Subsidiaries to be subject to any restrictions on the ownership, occupancy or transferability of such Real Property by the Borrower or any of its Subsidiaries under any applicable Environmental Law.

162 Hazardous Materials have not at any time been generated, used, treated or stored on, or transported to or from, any Real Property owned or operated by the Borrower or any of its Subsidiaries where such generation, use, treatment or storage has violated or could be expected to violate any Environmental Law. Hazardous Materials have not at any time been Released on or from any Real Property owned or operated by the Borrower or any of its Subsidiaries where such Release has violated or could be expected to violate any applicable Environmental Law.

163 Notwithstanding anything to the contrary in this Section 6.19, the representations made in this Section 6.19 shall not be untrue unless the aggregate effect of all violations, claims, restrictions, failures and noncompliances of the types described above could reasonably be expected to have a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole.

164 Labor Relations. Other than as disclosed on Schedule XII, neither the Borrower nor any of its Subsidiaries is engaged in any unfair labor practice that could reasonably be expected to have a material adverse effect on the Borrower or on the Borrower and its Subsidiaries taken as a whole. Other than as disclosed on Schedule XII, there is (i) no unfair labor practice complaint pending against the Borrower or any of its Subsidiaries or threatened against any of them before the National Labor Relations Board, and no grievance or arbitration proceeding arising out of or under any collective bargaining agreement is so pending against the Borrower or any of its Subsidiaries or threatened against any of them, (ii) no strike, labor dispute, slowdown or stoppage pending against the Borrower or any of its Subsidiaries or threatened against the Borrower or any of its Subsidiaries and (iii) no union representation question exists with respect to the employees of the Borrower or any of its Subsidiaries, except (with respect to any matter specified in clause (i), (ii) or (iii) above, either individually or in the aggregate) such as could not reasonably be expected to have a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole.

165 Patents, Licenses, Franchises and Formulas. Each of the Borrower and each of its Subsidiaries owns all the patents, trademarks, permits, service marks, trade names, copyrights, licenses (including, but not limited to, gaming and alcohol licenses), franchises, proprietary information (including but not limited to rights in computer programs and databases) and formulas, or rights with respect to the foregoing, and has obtained assignments of all leases and other rights of whatever nature, necessary for the present conduct of its business, without any known conflict with the rights of others which, or the failure to obtain which, as the case may be, could reasonably be expected to result in a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole.

166 Licenses. (a) The Penn National Licenses and the Pocono Downs Licenses are in full force and effect, have not been subject to any suspension at any time within the last five years and there are no grounds to suspend or revoke any of such Licenses, nor has any notice been received with respect to such Licenses at any time within the last five years from the Pennsylvania Horse Racing Commission or the Pennsylvania Harness Racing Commission that the Pennsylvania Horse Racing Commission or the Pennsylvania Harness Racing Commission believes there are grounds for suspending or revoking any of such Licenses or indicating that any inquiry is or may be conducted with respect to any such suspension or revocation or the fitness of any shareholder of the Borrower or any of its Subsidiaries to hold any capital stock therein.

167 The Charles Town Licenses are in full force and effect, have not been subject to any suspension at any time and there are no grounds to suspend or revoke any of such Licenses, nor has any notice been received with respect to such Licenses from the West Virginia Racing Commission or the West Virginia Lottery Commission that the West Virginia Racing Commission or the West Virginia Lottery Commission believes there are grounds for suspending or revoking any of such Licenses or indicating that any inquiry is or may be conducted with respect to any such suspension or revocation or the fitness of any shareholder of the Borrower or any of its Subsidiaries to hold any capital stock or other equity interest therein.

168 Other than licenses reasonably expected to be obtained in connection with the Transaction, all other licenses or grants of authority from any other Commission or governmental authority that are required for the conduct of Borrower=s or any Subsidiary=s business are in full force and effect, have not been subject to any suspension at any time and there are no grounds to suspend or revoke any such licenses or grants of authority.

169 Indebtedness. Schedule VI sets forth a true and complete list of all Indebtedness (including Contingent Obligations) of the Borrower and its Subsidiaries as of the Restatement Effective Date and which is to remain outstanding after giving effect to the Transaction (excluding the Senior Notes, the Loans, and the Letters of Credit, the AExisting Indebtedness@), in each case showing the aggregate principal amount thereof and the name of the respective borrower and any Credit Party or any of its Subsidiaries which directly or indirectly guarantees such debt.

170 The Senior Notes. The Senior Notes are unsecured obligations of the Borrower. There exists no default or event of default under the Senior Notes Documents. There does not exist any judgment, order or injunction prohibiting or imposing material adverse conditions upon the performance by the Borrower or any of its Subsidiaries of their obligations under the Senior Note Documents.

171 Year 2000 Compliance. Borrower and its Subsidiaries are conducting a comprehensive review and assessment of their computer systems and applications, micro-processor based goods and equipment owned or used by them in their business and all products currently sold by them, and are making inquiry of their material suppliers, vendors and customers, with respect to functionality before, during and after the year 2000 (the AYear 2000 Problem@). Borrower and its Subsidiaries are preparing a plan to ensure that all such systems, goods, equipment and products owned or used by them and material to the conduct of their business will be Year 2000 Compliant in a timely manner, will provide a copy of such plan to Agent no later than May 31, 1999. Borrower and its Subsidiaries reasonably believe, based on the foregoing review, assessment and inquiry, that the Year 2000 Problem will not result in a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of Borrower and its Subsidiaries taken as a whole.

172 Material Contracts. Neither Borrower nor any of its Subsidiaries is a party to or in any manner obligated under any contracts material to its respective business under which there exists a material default.

173 Management Agreements. Except as set forth on Schedule X hereto, neither Borrower nor any of its Subsidiaries is a party to any management or consulting agreement for the provision of services to such entity, including without limitation agreements between and among Affiliates.

174 Transaction Documents.

(a) Validity. Borrower has the power and authority under laws of Borrower=s state of incorporation and under its articles of incorporation and by-laws to enter into and perform the Transaction Documents; and all actions (corporate or otherwise) necessary or appropriate for Borrower=s execution and performance of the Transaction Documents and all actions required thereunder have been taken, and, upon their execution, the Transaction Documents will constitute the valid and binding obligation of Borrower, enforceable in accordance with their respective terms.

(b) No Violations. The making and performance of the Transaction Documents and all actions required thereunder will not violate any provision of any law or regulation, federal, state or local, including without limitation all state corporate laws and judicial precedents of Borrower=s state of incorporation and Commission regulations, and will not violate any provisions of the articles of incorporation and by-laws of Borrower, or constitute a default under any agreement by which Borrower or its property may be bound.

175 Inactive Subsidiaries. There does not exist, by virtue of statute, common law, contract or otherwise, any liability of, or any activity or condition relating to, any Inactive Subsidiary, including, without limitation, with respect to any environmental condition, taxes, employee benefit plan, program or statutory obligation, tort claim or contract dispute, which may survive the liquidation of any such Inactive Subsidiary (whether by operation of law, express assumption or otherwise), except for those liabilities which (a) are reserved for or otherwise reflected in the financial statements of the Borrower and its consolidated Subsidiaries or (b) do not in the aggregate as to all Inactive Subsidiaries exceed $50,000.

Affirmative Covenants. The Borrower hereby covenants and agrees that on and after the Restatement Effective Date and until the Total Commitment, and all Letters of Credit have terminated and the Loans, Notes and Unpaid Drawings, together with interest, Fees and all other Obligations incurred hereunder and thereunder, are paid in full:

176 Information Covenants. The Borrower will furnish to each Bank:

177 Monthly Reports. Within 35 days after the end of each fiscal month of the Borrower, the consolidated and consolidating balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal month and the related consolidated and consolidating statements of income and retained earnings and statement of cash flows for such fiscal month and for the elapsed portion of the fiscal year ended with the last day of such fiscal month, in each case setting forth comparative figures for the corresponding fiscal month in the prior fiscal year and comparable budgeted figures for such fiscal month.

178 Quarterly Financial Statements. Within 50 days after the close of the first three quarterly accounting periods in each fiscal year of the Borrower, (i) the consolidated and consolidating balance sheets of the Borrower and its Subsidiaries as at the end of such quarterly accounting period and the related consolidated and consolidating statements of income and retained earnings and statement of cash flows for such quarterly accounting period and for the elapsed portion of the fiscal year ended with the last day of such quarterly accounting period, in each case setting forth comparative figures for the related periods in the prior fiscal year, all of which shall be certified by the Chief Financial Officer of the Borrower, subject to normal year-end audit adjustments and (ii) management=s discussion and analysis of the important operational and financial developments during the quarterly and year-to-date periods.

179 Annual Financial Statements. Within 95 days after the close of each fiscal year of the Borrower, (i) the consolidated and consolidating balance sheets of the Borrower and its Subsidiaries as at the end of such fiscal year and the related consolidated and consolidating statements of income and retained earnings and of cash flows for such fiscal year setting forth comparative figures for the preceding fiscal year and certified (x) in the case of the consolidated financial statements, by BDO Seidman, LLP or such other independent certified public accountants of recognized national standing reasonably acceptable to the Agent, together with a report of such accounting firm stating that in the course of its regular audit of the financial statements of the Borrower and its Subsidiaries, which audit was conducted in accordance with generally accepted auditing standards, such accounting firm obtained no knowledge of any Default or an Event of Default which has occurred and is continuing or, if in the opinion of such accounting firm such a Default or Event of Default has occurred

and is continuing, a statement as to the nature thereof and (y) in the case of the consolidating financial statements, by the Chief Financial Officer of the Borrower and (ii) management=s discussion and analysis of the important operational and financial developments during the respective fiscal year.

180 Management Letters. Promptly after the Borrower=s or any of its Subsidiaries= receipt thereof, a copy of any Amanagement letter@ received from its certified public accountants and management=s response thereto.

181 Budgets and Projections. No later than thirty days following the first day of each fiscal year of the Borrower, a budget in form satisfactory to the Agent (including budgeted statements of income and sources and uses of cash and balance sheets) prepared by the Borrower for each of the months of such fiscal year prepared in detail.

182 Officer=s Certificates. At the time of the delivery of the financial statements provided for in Sections 7.01(b) and (c), a certificate of the Chief Financial Officer of the Borrower in the form of Exhibit N to the effect that, to the best of such officer=s knowledge, no Default or Event of Default has occurred and is continuing or, if any Default or Event of Default has occurred and is continuing, specifying the nature and extent thereof, which certificate shall (x) set forth in reasonable detail the calculations required to establish whether the Borrower and its Subsidiaries were in compliance with the provisions of Sections 3.03(d), 3.03(e), 8.04, 8.05 and 8.07 through 8.11, inclusive, at the end of such fiscal quarter or year, as the case may be.

183 Notice of Default, Litigation or Non-Compliance. Promptly upon, and in any event within three Business Days after, an officer of any Credit Party obtains knowledge thereof, notice of (i) the occurrence of any event which constitutes a Default or an Event of Default; (ii) any litigation or governmental investigation or proceeding (including without limitation any Commission investigation or proceeding) pending (x) against the Borrower or any of its Subsidiaries which could reasonably be expected to materially and adversely affect the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole, (y) with respect to any material Indebtedness of the Borrower or any of its Subsidiaries or (z) with respect to the Transaction or any Document; and (iii) any actual or alleged failure of Borrower or any Subsidiary to fail to comply with or perform, breach, violate or suffer a default under any local, state or federal law or regulation, or under the terms of any franchise, license or grant of authority, or the occurrence or existence of any facts or circumstances which, with the passage of time, the giving of notice or otherwise could create such a breach, violation or default or could occasion the termination of any franchise, license or grant of authority.

184 Other Reports and Filings. Promptly after the filing or delivery thereof, copies of all financial information, proxy materials and reports, if any, which the Borrower or any of its Subsidiaries shall publicly file with the Securities and Exchange Commission or any successor thereto (the ASEC@) or deliver to holders of its Indebtedness pursuant to the terms of the documentation governing such Indebtedness (or any trustee, agent or other representative therefor).

185 Management Personnel. Notice in writing within 30 days after any change of Borrower=s senior management personnel.

186 Environmental Matters. Promptly after an officer of any Credit Party obtains knowledge thereof, notice of one or more of the following environmental matters, unless such environmental matters could not, individually or when aggregated with all other such environmental matters, be reasonably expected to materially and adversely affect the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole:

187 any pending or threatened Environmental Claim against the Borrower or any of its Subsidiaries or any Real Property owned or operated by the Borrower or any of its Subsidiaries;

188 any condition or occurrence on or arising from any Real Property owned or operated by the Borrower or any of its Subsidiaries that (a) results in noncompliance by the Borrower or any of its Subsidiaries with any applicable Environmental Law or (b) could be expected to form the basis of an Environmental Claim against the Borrower or any of its Subsidiaries or any such Real Property;

189 any condition or occurrence on any Real Property owned or operated by the Borrower or any of its Subsidiaries that could be expected to cause such Real Property to be subject to any restrictions on the ownership, occupancy, use or transferability by the Borrower or any of its Subsidiaries of such Real Property under any Environmental Law; and

190 the taking of any removal or remedial action in response to the actual or alleged presence of any Hazardous Material on any Real Property owned or operated by the Borrower or any of its Subsidiaries as required by any Environmental Law or any governmental or other administrative agency; provided, that in any event the Borrower shall deliver to each Bank all notices received by the Borrower or any of its Subsidiaries from any government or governmental agency under, or pursuant to, CERCLA which identify the Borrower or any of its Subsidiaries as potentially responsible parties for remediation costs or which otherwise notify the Borrower or any of its Subsidiaries of potential liability under CERCLA.

All such notices shall describe in reasonable detail the nature of the claim, investigation, condition, occurrence or removal or remedial action and the Borrower=s or such Subsidiary=s response thereto.

191 Regulatory Matters. Promptly after (i) the Borrower or any of its Subsidiaries receives any correspondence or other written communication from any Commission (other than correspondence relating to routine operating matters of the Borrower or any of its Subsidiaries in the ordinary course of business) or (ii) the Borrower or any of its Subsidiaries delivers any correspondence or other written communication to any Commission (other than correspondence relating to routine operating matters of the Borrower or any of its Subsidiaries), the Borrower shall deliver copies of any such correspondence or other written communication to each of the Banks.

192 Other Information. From time to time, such other information or documents (financial or otherwise) with respect to the Borrower or any of its Subsidiaries as the Agent or any Bank may reasonably request.

193 Books, Records and Inspections; Annual Meeting with Banks. (a) The Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and accounts in which full, true and correct entries in conformity with generally accepted accounting principles and all requirements of law shall be made of all dealings and transactions in relation to its business and activities. The Borrower will, and will cause each of its Subsidiaries to, permit officers and designated representatives of the Agent or any Bank to visit and inspect, under guidance of officers of the Borrower or such Subsidiary, any of the properties of the Borrower or such Subsidiary, and to examine the books of account of the Borrower or such Subsidiary and discuss the affairs, finances and accounts of the Borrower or such Subsidiary with, and be advised as to the same by, its and their officers and independent accountants, all at such reasonable times and intervals and to such reasonable extent as the Agent or such Bank may reasonably request.

194 At a date to be mutually agreed upon between the Agent and the Borrower occurring on or prior to the 120th day after the close of each fiscal year of the Borrower, the Borrower will hold a meeting with all of the Banks at which meeting shall be reviewed the financial results of the previous fiscal year and the financial condition of the Borrower and its Subsidiaries and the budgets presented for the current fiscal year of the Borrower.

195 Maintenance of Property; Insurance. (a) Schedule VII sets forth a true and complete listing of all insurance maintained by the Borrower and its Subsidiaries as of the Restatement Effective Date. The Borrower will, and will cause each of its Subsidiaries to, (i) keep all property necessary to the business of the Borrower and its Subsidiaries in reasonably good working order and condition, ordinary wear and tear excepted, (ii) maintain insurance (including hazard and business interruption coverage) on all such property in at least such amounts and against at least such risks as is consistent and in accordance with industry practice for companies similarly situated owning similar properties in the same general areas in which the Borrower or any of its Subsidiaries operates, and (iii) furnish to the Agent or any Bank, upon written request, full information as to the insurance carried. At any time that insurance at levels described on Schedule VII is not being maintained by the Borrower or any Subsidiary of the Borrower, the Borrower will, or will cause one of its Subsidiaries to, promptly notify the Agent in writing and, if thereafter notified by the Agent or the Required Banks to do so, the Borrower or any such Subsidiary, as the case may be, shall obtain such insurance at such levels and coverage which are at least as great as to the extent such insurance is reasonably available.

196 The Borrower will, and will cause each of the other Credit Parties to, at all times keep its property insured in favor of the Agent, and all policies (including Mortgage Policies) or certificates (or certified copies thereof) with respect to such insurance (and any other insurance maintained by the Borrower and/or such other Credit Parties) (i) shall be endorsed to the Agent=s satisfaction for the benefit of the Agent (including, without limitation, by naming the Agent as loss payee and/or additional insured), (ii) shall state that such insurance policies shall not be canceled without at least 30 days= prior written notice thereof by the respective insurer to the Agent (or such shorter period of time as a particular insurance company policy generally provides), (iii) shall provide that the respective insurers irrevocably waive any and all rights of subrogation with respect to the Agent and the Secured Creditors, (iv) shall contain the standard non-contributing mortgage clause endorsement in favor of the Agent with respect to hazard liability insurance, (v) shall, except in the case of public liability insurance, provide that any losses shall be payable notwithstanding (A) any act or neglect of the Borrower or any such other Credit Party, (B) the occupation or use of the properties for purposes more hazardous than those permitted by the terms of the respective policy if such coverage is obtainable at commercially reasonable rates and is of the kind from time to time customarily insured against by Persons owning or using similar property and in such amounts as are customary, (C) any foreclosure or other proceeding relating to the insured properties or (D) any change in the title to or ownership or possession of the insured properties and (vi) shall be deposited with the Agent.

197 If the Borrower or any of its Subsidiaries shall fail to insure its property in accordance with this Section 7.03, or if the Borrower or any of its Subsidiaries shall fail to so endorse and deposit all policies or certificates with respect thereto, the Agent shall have the right (but shall be under no obligation) to procure such insurance and the Borrower agrees to reimburse the Agent for all costs and expenses of procuring such insurance.

198 Corporate Existence; Corporate Franchises. (a) The Borrower will, and will cause each of its Subsidiaries to, preserve and maintain its existence as a corporation, limited partnership or limited liability corporation, as applicable, and its good standing in all states in which it conducts business.

(b) The Borrower will, and will cause each of its Subsidiaries to, do or cause to be done, all things necessary to preserve and keep in full force and effect its existence and its material rights, franchises, licenses, permits, grants of authority and patents; provided, however, that nothing in this Section 7.04 shall prevent (i) sales of assets and other transactions by the Borrower or any of its Subsidiaries in accordance with Section 8.02 or (ii) the withdrawal by the Borrower or any of its Subsidiaries of its qualification as a foreign corporation in any jurisdiction where such withdrawal could not reasonably be expected to have a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole.

199 Compliance with Statutes, etc. The Borrower will, and will cause each of its Subsidiaries to, comply with all applicable statutes, regulations and orders of, and all applicable restrictions imposed by, all governmental bodies, domestic or foreign, including any Commission, in respect of the conduct of its business and the ownership of its property (including applicable statutes, regulations, orders and restrictions relating to environmental standards and controls), except such noncompliances as could not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and its Subsidiaries taken as a whole.

200 Compliance with Environmental Laws. (a) The Borrower will comply, and will cause each of its Subsidiaries to comply, in all material respects with all Environmental Laws applicable to the ownership or use of its Real Property now or hereafter owned or operated by the Borrower or any of its Subsidiaries, will promptly pay or cause to be paid all costs and expenses incurred in connection with such compliance, and will keep or cause to be kept all such Real Property free and clear of any Liens imposed pursuant to such Environmental Laws. Neither the Borrower nor any of its Subsidiaries will generate, use, treat, store, release or dispose of, or permit the generation, use, treatment, storage, release or disposal of Hazardous Materials on any Real Property now or hereafter owned or operated by the Borrower or any of its Subsidiaries, or transport or permit the transportation of Hazardous Materials to or from any such Real Property, except for Hazardous Materials generated, used, treated, stored, released or disposed of at any such Real Properties in compliance in all material respects with all applicable Environmental Laws and reasonably required in connection with the operation, use and maintenance of the business or operations of the Borrower or any of its Subsidiaries.

201 Borrower shall deliver to Agent on or before June 30, 1999 a copy of a Phase I environmental report with respect to each Mortgaged Property (other than the Mortgaged Properties described on Schedule XIII) and Additional Mortgaged Property in form and substance satisfactory to Required Banks and prepared by a qualified environmental professional acceptable to Required Banks, together with any additional environmental assessments of such properties deemed necessary by Required Banks by a qualified environmental professional acceptable to Required Banks, and Borrower shall and shall cause its Subsidiaries to take such reasonable actions as may be recommended in any Phase I or other environmental assessment to Required Banks= satisfaction.

202 ERISA. As soon as possible and, in any event, within ten (10) days after the Borrower, any Subsidiary of the Borrower or any ERISA Affiliate knows or has reason to know of the occurrence of any of the following, the Borrower will deliver to each of the Banks a certificate of the Chief Financial Officer of the Borrower setting forth the full details as to such occurrence and the action, if any, that the Borrower, such Subsidiary or such ERISA Affiliate is required or proposes to take, together with any notices required or proposed to be given to or filed with or by the Borrower, the Subsidiary, the ERISA Affiliate, the PBGC, a Plan participant or the Plan administrator with respect thereto: that a Reportable Event has occurred; that an accumulated funding deficiency, within the meaning of Section 412 of the Code or Section 302 of ERISA, has been incurred or an application may be or has been made for a waiver or modification of the minimum funding standard (including any required installment payments) or an extension of any amortization period under Section 412 of the Code or Section 303 or 304 of ERISA with respect to a Plan; that any contribution required to be made with respect to a Plan or Foreign Pension Plan has not been timely made; that a Plan has been or may be terminated, reorganized, partitioned or declared insolvent under Title IV of ERISA; that a Plan has an Unfunded Current Liability; that proceedings may be or have been instituted to terminate or appoint a trustee to administer a Plan which is subject to Title IV of ERISA; that a proceeding has been instituted pursuant to Section 515 of ERISA to collect a delinquent contribution to a Plan; that the Borrower, any Subsidiary of the Borrower or any ERISA Affiliate will or may incur any liability (including any indirect, contingent, or secondary liability) to or on account of the termination of or withdrawal from a Plan under Section 4062, 4063, 4064, 4069, 4201, 4204 or 4212 of ERISA or with respect to a Plan under Section 401(a)(29), 4971, 4975 or 4980 of the Code or Section 409 or 502(i) or 502(l) of ERISA or with respect to a group health plan (as defined in Section 607(1) of ERISA or Section 4980B(g)(2) of the Code) under Section 4980B of the Code; or that the Borrower or any Subsidiary of the Borrower may incur any material liability pursuant to any employee welfare benefit plan (as defined in Section 3(1) of ERISA) that provides benefits to retired employees or other former employees (other than as required by Section 601 of ERISA) or any Plan or any Foreign Pension Plan. The Borrower will deliver to each of the Banks a complete copy of the annual report (on Internal Revenue Service Form 5500-series) of each Plan (including, to the extent required, the related financial and actuarial statements and opinions and other supporting statements, certifications, schedules and information) required to be filed with the Internal Revenue Service. In addition to any certificates or notices delivered to the Banks pursuant to the first sentence hereof, copies of annual reports and any material

notices received by the Borrower, any Subsidiary of the Borrower or any ERISA Affiliate with respect to any Plan shall be delivered to the Banks no later than ten (10) days after the date such report has been filed with the Internal Revenue Service or such notice has been received by the Borrower, the Subsidiary or the ERISA Affiliate, as applicable.

203 End of Fiscal Years; Fiscal Quarters. The Borrower will cause (i) each of its, and each Credit Party=s, fiscal years to end on December 31, and (ii) each of its, and each of Credit Party=s, fiscal quarters to end on March 31, June 30, September 30 and December 31, provided that with respect to any Subsidiary Guarantor acquired after the Restatement Effective Date in accordance with (and to the extent permitted by) this Agreement which has a different fiscal year end or fiscal quarter end from those set forth above, the Borrower shall change such Subsidiary Guarantor=s fiscal year end and/or fiscal quarter end to the dates set forth above within 60 days after the date of such acquisition. The Borrower will maintain and will cause each of its Subsidiaries to maintain its accounting method currently in effect.

204 Performance of Obligations; Conduct of Business. The Borrower will, and will cause each Credit Party to, perform all of its obligations under the terms of each mortgage, indenture, security agreement, loan agreement or credit agreement and each other material agreement, contract or instrument by which it is bound, except such non-performances as could not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and Credit Party taken as a whole. The Borrower will, and will cause each Credit Party to, continue to conduct its business in such a manner as could not, individually or in the aggregate, reasonably be expected to have a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) or prospects of the Borrower and the Credit Parties taken as a whole.

205 Payment of Taxes. The Borrower will pay and discharge, and will cause each Credit Party to pay and discharge, all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits, or upon any properties belonging to it, prior to the date on which penalties attach thereto, and all lawful claims for sums that have become due and payable which, if unpaid, might become a Lien not otherwise permitted under Section 8.01(i); provided, that neither the Borrower nor any Credit Party shall be required to pay any such tax, assessment, charge, levy or claim which is being contested in good faith and by proper proceedings if it has maintained adequate reserves with respect thereto in accordance with generally accepted accounting principles.

206 Additional Security; Further Assurances. (a) The Borrower will, and will cause each of the Subsidiary Guarantors to, grant to the Agent security interests and mortgages in such assets and properties of the Borrower and such Subsidiary Guarantors as are not covered by the original Security Documents, as amended and restated pursuant to the terms of this Agreement, and as may be requested from time to time by the Agent or the Required Banks, together with the execution of any reasonably requested financing statements (collectively, the

Additional Security Documents@). All such security interests and mortgages shall be granted pursuant to documentation reasonably satisfactory in form and substance to the Agent and shall constitute valid and enforceable perfected security interests and mortgages superior to and prior to the rights of all third Persons and subject to no other Liens except for Permitted Liens. The Additional Security Documents or instruments related thereto shall have been duly recorded or filed in such manner and in such places as are required by law to establish, perfect, preserve and protect the Liens in favor of the Agent required to be granted pursuant to the Additional Security Documents and all taxes, fees and other charges payable in connection therewith shall have been paid in full.

207 The Borrower will, and will cause each of the Subsidiary Guarantors to, at the expense of the Borrower, make, execute, endorse, acknowledge, file and/or deliver to the Agent from time to time such vouchers, invoices, schedules, confirmatory assignments, conveyances, financing statements, transfer endorsements, powers of attorney, certificates, real property surveys, reports and other assurances or instruments and take such further steps relating to the collateral covered by any of the Security Documents as the Agent may reasonably require. Furthermore, the Borrower will cause to be delivered to the Agent such opinions of counsel, title insurance and other related documents as may be reasonably requested by the Agent to assure itself that this Section 7.11 has been complied with.

208 The Borrower agrees that each action required above by this Section 7.11 shall be completed as soon as possible, but in no event later than 90 days after such action is either requested to be taken by the Agent or the Required Banks or required to be taken by the Borrower and the Subsidiary Guarantors pursuant to the terms of this Section 7.11; provided that in no event will the Borrower be required to take any action, other than using its best efforts, to obtain consents from third parties with respect to its compliance with this Section 7.11.

209 New Jersey Licenses. Borrower shall use its best efforts to obtain, on or before September 30, 1999, all Licenses required in connection with the Transaction from the necessary regulatory authorities in the State of New Jersey.

210 Year 2000 Compliance. The Borrower and its Subsidiaries shall take all action necessary to assure that Borrower=s and its Subsidiaries= computer systems and applications, micro-processor based goods and equipment owned or used by them in their business, and all products sold by them will be Year 2000 Compliant in a timely manner; and use reasonable best efforts to assure the Year 2000 Compliance of their material vendors and suppliers or to assure that failures to be Year 2000 Compliant by such vendors and suppliers will not have a material adverse effect on the business or operations of Borrower and its Subsidiaries. Borrower shall provide to Agent by May 31, 1999 its plan for Year 2000 Compliance referenced in Section 6.25, together with any later material updates or revisions, and notice of any material

increase in the estimated costs to Borrower and its Subsidiaries of achieving Year 2000 Compliance in accordance with such plan; and, at the request of Agent, Borrower and its Subsidiaries shall provide Agent assurances acceptable to Agent regarding the Year 2000 Compliance and/or contingency plans related thereto, of Borrower and its Subsidiaries and their material vendors and suppliers.

211 Successor Agent. In the event of the appointment of any successor Agent pursuant to the terms of this Agreement, Borrower and the Credit Parties shall execute and deliver any documents reasonably requested by Banks to effectuate and confirm the transfer to such successor Agent of all rights, powers, duties, obligations and property vested in its predecessor Agent hereunder.

212 Transactions Among Affiliates. The Borrower and the Credit Parties shall cause all transactions between and among Affiliates to be on an arms-length basis and on such terms and conditions as are customary in the applicable industry between and among unrelated entities.

213 Other Information. The Borrower shall and shall cause its subsidiaries to provide Banks with any other documents and information, financial or otherwise, reasonably requested by Banks from time to time.

Negative Covenants. The Borrower hereby covenants and agrees that on and after the Restatement Effective Date and until the Total Commitment, the Term Loan and all Letters of Credit have terminated and the Loans, Term Loan, Revolving Notes, Term Notes and Unpaid Drawings, together with interest, Fees and all other Obligations incurred hereunder and thereunder, are paid in full:

214 Liens. The Borrower will not, and will not permit any Credit Party to, create, incur, assume or suffer to exist any Lien upon or with respect to any property or assets (real or personal, tangible or intangible) of the Borrower or any Credit Party whether now owned or hereafter acquired, or sell any such property or assets subject to an understanding or agreement, contingent or otherwise, to repurchase such property or assets (including sales of accounts receivable with recourse to the Borrower or any Credit Party), or assign any right to receive income or permit the filing of any financing statement under the UCC or any other similar notice of Lien under any similar recording or notice statute; provided that the provisions of this Section 8.01 shall not prevent the creation, incurrence, assumption or existence of the following (Liens described below are herein referred to as APermitted Liens@):

215 inchoate Liens for taxes, assessments or governmental charges or levies not yet due or Liens for taxes, assessments or governmental charges or levies being contested in good faith and by appropriate proceedings for which adequate reserves have been established in accordance with generally accepted accounting principles;

216 Liens in respect of property or assets of the Borrower or any Credit Party imposed by law, which were incurred in the ordinary course of business and do not secure Indebtedness for borrowed money, such as carriers=, warehousemen=s, materialmen=s and mechanics= liens and other similar Liens arising in the ordinary course of business, and (x) which do not in the aggregate materially detract from the value of the Borrower=s or such Credit Party=s property or assets or materially impair the use thereof in the operation of the business of the Borrower or such Credit Party=s or (y) which are being contested in good faith by appropriate proceedings, which proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien;

217 Liens in existence on the Restatement Effective Date which are listed, and the property subject thereto described, in Schedule VIII, but only to the respective date, if any, set forth in such Schedule VIII for the removal, replacement and termination of any such Liens, plus renewals, replacements and extensions of such Liens to the extent set forth on Schedule VIII, provided that (x) the aggregate principal amount of the Indebtedness, if any, secured by such Liens does not increase from that amount outstanding at the time of any such renewal, replacement or extension and (y) any such renewal, replacement or extension does not encumber any additional assets or properties of the Borrower or any Credit Party;

218 Permitted Encumbrances;

219 Liens created pursuant to the Security Documents;

220 leases or subleases granted to other Persons not materially interfering with the conduct of the business of the Borrower or any Credit Party;

221 Liens upon assets of the Borrower or any Credit Party subject to Capitalized Lease Obligations to the extent such Capitalized Lease Obligations are permitted by Section 8.04(iv), provided that (x) such Liens only serve to secure the payment of Indebtedness arising under such Capitalized Lease Obligation and (y) the Lien encumbering the asset giving rise to the Capitalized Lease Obligation does not encumber any other asset of the Borrower or any Credit Party;

222 Liens placed upon equipment or machinery used in the ordinary course of business of the Borrower or any Credit Party at the time of the acquisition thereof by the Borrower or any such Credit Party or within 90 days thereafter to secure Indebtedness incurred to pay all or a portion of the purchase price thereof or to secure Indebtedness incurred solely for the purpose of financing the acquisition of any such equipment or machinery or extensions, renewals or replacements of any of the foregoing for the same or a lesser amount, provided that (x) the aggregate outstanding principal amount of all Indebtedness secured by Liens permitted by this clause (viii); shall not at any time exceed $250,000 and (y) in all events, the Lien encumbering the equipment or machinery so acquired does not encumber any other asset of the Borrower or such Credit Party; provided further that Liens may be placed upon the Charles Town Video Lottery Terminals only pursuant to clause (xiv) below.

223 easements, rights-of-way, restrictions, encroachments and other similar charges or encumbrances, and minor title deficiencies, in each case not securing Indebtedness and not materially interfering with the conduct of the business of the Borrower or any Credit Party;

224 Liens arising from precautionary UCC financing statement filings regarding operating leases permitted under Section 8.07;

225 Liens arising out of the existence of judgments or awards in respect of which the Borrower or any Credit Party shall in good faith be prosecuting an appeal or proceedings for review in respect of which there shall have been secured a subsisting stay of execution pending such appeal or proceedings, provided that the aggregate amount of any cash and the fair market value of any property subject to such Liens do not exceed $500,000 at any time outstanding;

226 statutory and common law landlords= liens under leases to which the Borrower or any Credit Party is a party;

227 Liens (other than Liens imposed under ERISA) incurred in the ordinary course of business in connection with workers compensation claims, unemployment insurance and social security benefits and Liens securing the performance of bids, tenders, leases and contracts in the ordinary course of business, statutory obligations, surety bonds, performance bonds and other obligations of a like nature incurred in the ordinary course of business (exclusive of obligations in respect of the payment for borrowed money), provided that the aggregate outstanding amount of obligations secured by Liens permitted by this clause (xiv) (and the value of all cash and property encumbered by Liens permitted pursuant to this clause (xiv)) shall not at any time exceed $500,000;

228 after payment in full in cash to First Union of all amounts outstanding under the Term Loan, Liens placed upon the Charles Town Video Lottery Terminals to secure Indebtedness for the purpose of continuing the financing of the acquisition of such Terminals, or extensions, renewals or replacements of such Terminals for the same or a lesser amount, provided that (x) the aggregate outstanding principal amount of all Indebtedness secured by Liens permitted by this clause (xiv) shall not at any time exceed $5,000,000 and (y) in all events, the Lien encumbering the equipment or machinery so acquired does not encumber any other asset of the Borrower or any Subsidiary; and

229 Liens which may secure Indebtedness of Tennessee Downs, Inc. to the extent such Indebtedness is permitted by Section 8.04(vii)(B) hereof.

In connection with the granting of Liens of the type described in clauses (vii), (viii) and (ix) of this Section 8.01 by the Borrower or any Credit Party, the Agent shall be authorized to take any actions deemed appropriate by it in connection therewith (including, without limitation, by executing appropriate lien releases or lien subordination agreements in favor of the holder or holders of such Liens, in each case solely with respect to the item or items of equipment or other assets subject to such Liens.

230 Consolidation, Merger, Purchase or Sale of Assets, etc. The Borrower will not, and will not permit any Credit Party to, wind up, liquidate or dissolve its affairs or enter into any transaction of merger or consolidation, or convey, sell, lease or otherwise dispose of all or any part of its property or assets, or enter into any sale-leaseback transactions, or purchase or otherwise acquire (in one or a series of related transactions) any part of the property or assets (other than purchases or other acquisitions of inventory, materials and equipment in the ordinary course of business) of any Person (or agree to do any of the foregoing at any future time), except that:

231 Capital Expenditures by the Borrower and the Credit Parties shall be permitted to the extent not in violation of Section 8.08;

232 each of the Borrower and the Credit Parties may sell assets (other than the capital stock of any Subsidiary Guarantor, the equity interest in the Charles Town Joint Venture, any Mortgaged Property or the Charles Town Race Track), so long as (x) no Default or Event of Default then exists or would result therefrom, (y) each such sale is in an arm=s-length transaction and the Borrower or the respective Credit Party receives at least fair market value (as determined in good faith by the Borrower or such Credit Party, as the case may be), (iii) at least 85% of the total consideration received by the Borrower or such Credit Party is cash and is paid at the time of the closing of such sale, (iv) the Total Commitment is reduced in an amount equal to the Net Sale Proceeds therefrom as (and to the extent) required by Section 3.03(c) and (v) the aggregate amount of the proceeds received from all assets sold pursuant to this clause (ii) shall not exceed $3,000,000 in any fiscal year of the Borrower;

233 Investments may be made to the extent permitted by Section 8.05 (Advances, Investments and Loans);

234 each of the Borrower and the Credit Parties may lease (as lessee) real or personal property (so long as any such lease does not create a Capitalized Lease Obligation except to the extent permitted by Section 8.04(iv) (Indebtedness; Capitalized Lease Obligations));

235 each of the Borrower and the Credit Parties may make sales of inventory in the ordinary course of business;

236 each of the Borrower and the Credit Parties may sell obsolete or worn-out equipment or materials in the ordinary course of business;

237 each of the Borrower and the Credit Parties may grant leases or subleases to other Persons not materially interfering with the conduct of the business of the Borrower or any of the Credit Parties;

238 each of the Borrower and the Credit Parties may, in the ordinary course of business, license, as licensor or licensee, patents, trademarks, copyrights and know-how to and/or from third Persons and to and/or from one another so long as any such license by the Borrower or any other Credit Party in its capacity as licensor is permitted to be assigned pursuant to the Security Agreement (to the extent that the security interest in such patents, trademarks, copyrights and know-how is granted thereunder) and does not otherwise prohibit the granting of a Lien by the Borrower or any other Credit Party pursuant to the Security Agreement in the intellectual property covered by such license; and

239 so long as no Default or Event of Default then exists, any Wholly-Owned Subsidiary of the Borrower may merge with and into any other Wholly-Owned Subsidiary of the Borrower, so long as in the case of any merger involving a Subsidiary Guarantor, the Subsidiary Guarantor shall be the surviving corporation of such merger.

To the extent the Required Banks waive the provisions of this Section 8.02 with respect to the sale of any Collateral, or any Collateral is sold as permitted by this Section 8.02 (other than to the Borrower or a Subsidiary thereof), such Collateral shall be sold free and clear of the Liens created by the Security Documents, and the Agent shall be authorized to take any actions deemed appropriate in order to effect the foregoing.

240 Restricted Payments. The Borrower will not, and will not permit any Credit Party to, make any Restricted Payments, except that:

241 (A) any Credit Party may pay cash Dividends to the Borrower or any Wholly-Owned Subsidiary of the Borrower; (B) long as no Default or Event of Default then exists or would result therefrom, any non-Wholly-Owned Subsidiary of the Borrower may pay cash Dividends to its shareholders or partners generally so long as the Borrower or the Credit Party which owns the equity interest or interests in the Credit Party paying such Dividends receives at least its proportionate share thereof (based upon its relative holdings of equity interests in the Credit Party paying such Dividends and taking into account the relative preferences, if any, of the various classes of equity interests in such Credit Party, including the preferences in favor of the Borrower in respect of Dividends paid by the Charles Town Joint Venture); and (C) so long as there shall exist no Default or Event of Default (both before and after giving effect to the payment thereof), the Borrower may repurchase outstanding shares of its common stock (or options to purchase such common stock) following the death, disability or termination of employment of employees of the Borrower or any Credit Party; provided that the aggregate amount of Dividends and other Restricted Payments paid by the Borrower pursuant to clauses (i) (A-C) hereof shall not exceed $250,000 in the aggregate for the fiscal year ending December 31, 1999 and for each fiscal year thereafter shall not exceed the amount approved by Required Banks for such fiscal year.

242 so long as there is no Default or Event of Default hereunder and no Default or Event of Default would be caused thereby, the Borrower may pay regularly scheduled interest and principal on the Senior Notes.

243 Indebtedness. The Borrower will not, and will not permit any Credit Party to, contract, create, incur, assume or suffer to exist any Indebtedness, except:

244 Indebtedness incurred pursuant to this Agreement and the other Credit Documents;

245 Existing Indebtedness outstanding on the Restatement Effective Date and listed on Schedule VI, without giving effect to any subsequent extension, renewal or refinancing thereof except to the extent set forth on Schedule VI, provided that the aggregate principal amount of the Indebtedness to be extended, renewed or refinanced does not increase from that amount outstanding at the time of any such extension, renewal or refinancing;

246 Indebtedness under Interest Rate Protection Agreements entered into with respect to other Indebtedness permitted under this Section 8.04 so long as all of the terms and conditions of such Interest Rate Protection Agreements are satisfactory to the Agent;

247 Indebtedness subject to Liens permitted under Section 8.01(viii) (purchase money security interests);

248 intercompany Indebtedness among the Borrower and the Credit Parties to the extent permitted by Section 8.05(vii) (intercompany loans evidenced by pledged Intercompany Notes) and (ix) (Charles Town Joint Venture Indebtedness);

249 Indebtedness of the Borrower and the Subsidiary Guarantors under the Senior Note Documents in an aggregate principal amount not to exceed $150,000,000 (as reduced by any repayments of principal thereof); and

250 (A) additional unsecured Indebtedness of the Borrower and the Credit Parties, which Indebtedness shall not mature until after the Final Maturity Date and (B) so long as there is no Default or Event of Default and no Default or Event would be caused thereby, additional Indebtedness of Tennessee Downs, Inc., which Indebtedness may be secured and which Indebtedness shall not mature until after the Final Maturity Date; provided that the Indebtedness described in clauses (vii) (A) and (B) hereof shall not exceed, in the aggregate, $16,000,000 in aggregate principal amount at any time outstanding.

Notwithstanding anything to the contrary contained in this Section 8.04 or in Section 8.01 (Liens), until such time as the Charles Town Joint Venture is a Wholly-Owned Subsidiary of the Borrower, Penn National Gaming of West Virginia, Inc. shall not permit the Charles Town Joint Venture to incur any Indebtedness other than existing Indebtedness of the Charles Town Joint Venture which is also listed on Schedule VI and intercompany loans evidenced by pledged Intercompany Notes (but no refinancings thereof).

251 Advances, Investments and Loans. The Borrower will not, and will not permit any Credit Party to, directly or indirectly, lend money or credit or make advances to any Person, or purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any other Person, or purchase or own a futures contract or otherwise become liable for the purchase or sale of currency or other commodities at a future date in the nature of a futures contract, or hold any cash or Cash Equivalents (each of the foregoing an AInvestment@ and, collectively, AInvestments@), except that the following shall be permitted:

252 the Borrower and each Credit Party may acquire and hold accounts receivables owing to any of them, if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms of the Borrower or such Credit Party;

253 the Borrower and each Credit Party may acquire and hold cash and Cash Equivalents;

254 the Borrower and each Credit Party may hold the Investments held by them on the Restatement Effective Date and described on Schedule IX (excluding any Investments previously made in the Charles Town Joint Venture), provided that any additional Investments made with respect thereto shall be permitted only if independently justified under the other provisions of this Section 8.05;

255 the Borrower and each Credit Party may receive non-cash consideration in connection with any asset sale permitted by Section 8.02(ii) but only to the extent set forth in Section 8.02(ii);

256 the Borrower and each Credit Party may make loans and advances in the ordinary course of business to their respective employees so long as the aggregate principal amount thereof at any time outstanding (determined without regard to any write-downs or write-offs of such loans and advances) shall not exceed $100,000;

257 the Borrower may enter into Interest Protection Agreements to the extent permitted by Section 8.04(iii);

258 the Borrower and the Subsidiary Guarantors may make intercompany loans and advances between or among one another (collectively, AIntercompany Loans@), so long as each Intercompany Loan shall be evidenced by an Intercompany Note that is pledged to the Agent pursuant to the Pledge Agreement;

259 the Borrower and the Credit Parties may make cash capital contributions to Subsidiaries of the Borrower which are Subsidiary Guarantors; and

260 the Borrower and the Credit Parties may make Investments in the Charles Town Joint Venture in an aggregate amount not to exceed $47,566,007 plus accrued interest.

261 (a) Prior to the date of the Transaction Conversion, the Borrower or a wholly-owned Subsidiary may make a loan to FRPRLP not exceeding $11,250,000 pursuant to the terms of the Transaction, which loan shall be evidenced by a note that is pledged to the Agent pursuant to the Pledge Agreement; (b) on the date of the Transaction Conversion, the Borrower or a wholly-owned Subsidiary may invest an amount not in excess of an additional $11,750,000 in the New Jersey Joint Venture Entities; and (c) in the absence of a Default or an Event of Default and if such payment shall not create a Default or an Event of Default, Borrower may (i) make payments of up to $8,750,000 to effect the Put (as defined in the New Jersey Joint Venture Agreement) obligation required of the Borrower pursuant to Paragraph 5 of the New Jersey Joint Venture Agreement and (ii) may make payments required to be made under the Contingent Guaranty (as defined in the New Jersey Joint Venture Agreement) entered into pursuant to the New Jersey Joint Venture Agreement; provided, however, that neither the Borrower nor any Credit Party shall permit the Transaction Documents to include any provision which requires Borrower or any Credit Party to, nor shall Borrower or any Credit Party, loan, advance, guaranty or invest in any New Jersey Joint Venture Entity; provided, further, however, that Borrower or a wholly-owned Subsidiary may: (i) loan or invest up to $23,000,000 in the New Jersey Joint Venture; (ii) subject to Section 8.05(x), expend up to $8,750,000 in connection with the exercise of the Put; (iii) subject to Section 8.05(x), expend up to $5,000,000 under Borrower=s Contingent Guaranty of the Contingent Notes (as defined in the New Jersey Joint Venture Agreement); and (iii) expend up to $1,250,000 on transaction expenses related to the New Jersey Joint Venture.

262 Transactions with Affiliates. The Borrower will not, and will not permit any Credit Party to, enter into any transaction or series of related transactions, whether or not in the ordinary course of business, with any Affiliate of the Borrower or any Credit Party, other than in the ordinary course of business and on terms and conditions substantially as favorable to the Borrower or such Credit Party as would reasonably be obtained by the Borrower or such Credit Party at that time in a comparable arm=s-length transaction with a Person other than an Affiliate, except that the following in any event shall be permitted:

263 Dividends may be paid to the extent provided in Section 8.03 (Dividends; Subordinated Debt);

264 loans may be made and other transactions may be entered into by the Borrower and each Credit Party to the extent permitted by Sections 8.02 (Consolidation, Merger, Purchase or Sale of Assets, etc.), 8.04 (Indebtedness) and 8.05 (Advances, Investments and Loans);

265 customary fees may be paid to non-officer directors of the Borrower and the Credit Parties; and

266 Credit Parties may pay management fees to the Borrower.

267 Leases. The Borrower will not permit the aggregate payments (including, without limitation, any property taxes paid as additional rent or lease payments) made by the Borrower and each Credit Party on a consolidated basis under any agreement to rent or lease any real or personal property (or any extension or renewal thereof) (excluding Capitalized Lease Obligations) to exceed: (x) for the fiscal year of Borrower ending December 31, 1999, $1,400,000 and (y) for any fiscal year of the Borrower ending after December 31, 1999, the amount approved by Required Banks for such fiscal year in excess of $1,400,000.

268 Capital Expenditures. (a) The Borrower will not, and will not permit any Credit Party to, make any Capital Expenditures, except that (x) during the fiscal year of the Borrower ending December 31, 1999, the Borrower and the Credit Parties may make Capital Expenditures so long as the aggregate amount of all such Capital Expenditures does not exceed in such fiscal year of the Borrower $9,000,000 and (y) during any fiscal year of the Borrower ending after December 31, 1999 the Borrower and each Credit Party may make Capital Expenditures that do not exceed the amount approved by Required Banks for such fiscal year.

269 In addition to the foregoing, the Borrower and each Credit Party may make Capital Expenditures with the amount of Net Insurance Proceeds received by the Borrower or any Credit Party from any Recovery Event so long as such Net Insurance Proceeds are used to replace or restore any properties or assets in respect of which such Net Insurance Proceeds were paid within 270 days following the date of receipt of such Net Insurance Proceeds from such Recovery Event to the extent such Net Insurance Proceeds do not give rise to a reduction in the Total Commitment pursuant to Section 3.03(e).

270 From and after such time as Tennessee Downs obtains all necessary licenses, permits and approvals to conduct harness racing in the State of Tennessee, Tennessee Downs may make up to $16,000,000 of Capital Expenditures to purchase and/or develop a harness race track and related facilities in the State of Tennessee.

271 Minimum Consolidated Net Worth. The Borrower will not permit Consolidated Net Worth at any time to be less than the Minimum Consolidated Net Worth at such time.

272 Consolidated Cash Interest Coverage Ratio. The Borrower will not permit the Consolidated Cash Interest Coverage Ratio of the Borrower and its consolidated Subsidiaries at any time during a period set forth below for any Test Period ending on the last day set forth below to be less than the ratio set forth opposite such period below:

Period	Ratio
Restatement Effective Date through September 30, 1999	2.50:1.00
October 1, 1999 and thereafter	3.00:1.00

273 Maximum Leverage Ratio. The Borrower will not permit the Leverage Ratio of the Borrower and its consolidated Subsidiaries at any time during a period set forth below to be greater than the ratio set forth opposite such period below:

Period	Ratio
Restatement Effective Date through and including December 31, 1999	4.00:1.00
January 1, 2000 through and including December 31, 2000	3.50:1.00
January 1, 2001 and thereafter	3.00:1.00

274 Limitation on Modifications of Certificate of Incorporation, By-Laws and Certain Other Agreements; etc. The Borrower will not, and will not permit any Credit Party to, (i) amend, modify or change its certificate of incorporation (including, without limitation, by the filing or modification of any certificate of designation) or by-laws (or the equivalent organizational documents) or any agreement entered into by it with respect to its capital stock (including any Shareholders= Agreement), or enter into any new agreement with respect to its capital stock, other than any such amendment, modification, change or other action contemplated by this clause (i) which could not reasonably be expected to be adverse to the interests of the Banks in any material respect, or (ii) amend, modify or change the Charles Town Joint Venture Agreement, other than any such amendment, modification or change which could not reasonably be expected to be adverse to the interests of the Banks in any material respect (it being understood and agreed, however, that in any event the Borrower or a Wholly-Owned Subsidiary thereof shall at all times be the managing member of the Charles Town Joint Venture and shall own at least 89% of the equity interest therein), (iii) amend, modify or change the Transaction Documents other than any such amendment, modification or change which could not reasonably be expected to be adverse to the interests of the Banks in any material respect, or (iv) amend, modify or change any provision of any Tax Sharing Agreement or enter into any new tax sharing agreement, tax allocation agreement or similar agreements, other than any such amendment, modification, change or other action contemplated by this clause (iv) which could not reasonably be expected to adversely effect the interests of the Banks in any material respect.

275 Limitation on Certain Restrictions on Subsidiaries. Subject to Section 8.16, the Borrower will not, and will not permit any Credit Party to, directly or indirectly, create or otherwise cause or suffer to exist or become effective any encumbrance or restriction on the ability of any such Subsidiary to (a) pay dividends or make any other distributions on its capital stock or any other interest or participation in its profits owned by the Borrower or any Credit Party, or pay any Indebtedness owed to the Borrower or any Credit Party, (b) make loans or advances to the Borrower or any Subsidiary of the Borrower or (c) transfer any of its properties or assets to the Borrower or any Credit Party, except for such encumbrances or restrictions existing under or by reason of (i) applicable law, (ii) this Agreement and the other Credit Documents, (iii) customary provisions restricting subletting or assignment of any lease governing a leasehold interest of the Borrower or any Credit Party, (iv) customary provisions restricting assignment of any licensing agreement entered into by the Borrower or any Credit Party in the ordinary course of business and (v) restrictions on the transfer of any asset subject to a Lien permitted by this Agreement.

276 Limitation on Issuance of Capital Stock. (a) The Borrower will not, and will not permit any Credit Party to, issue (i) any preferred stock (subject to Section 8.14(b) or (ii) any redeemable common stock (other than, in the absence of a Default or Event of Default and if such issuance will not cause a Default or Event of Default, common stock that is redeemable after the Final Maturity Date or at the sole option of the Borrower).

277 The Borrower will not permit any Subsidiary Guarantor to issue any capital stock (other than, in the absence of a Default or Event of Default and if such issuance will not cause a Default or Event of Default, preferred stock that is redeemable after the Final Maturity Date and including by way of sales of treasury stock) or any options or warrants to purchase, or securities convertible into, capital stock, except (i) for transfers and replacements of then outstanding shares of capital stock, (ii) for stock splits, stock dividends and issuances which do not decrease the percentage ownership of the Borrower or any Credit Party in any class of the capital stock of such Credit Party, (iii) to qualify directors to the extent required by applicable law or (iv) for issuances by newly created or acquired Subsidiaries in accordance with the terms of this Agreement.

278 Business. The Borrower will not, and will not permit any Credit Party to, engage (directly or indirectly) in any business other than the businesses in which the Borrower and Credit Parties are engaged on the Restatement Effective Date and reasonable extensions thereof, it being understood and agreed that, except as provided below, in no event shall the Borrower or any Credit Party engage in any business or enter into any agreement which requires the Borrower or any Credit Party to make any payments under Section 4 of the Plains Company Acquisition Agreement; provided, however, the Borrower and the Credit Parties may operate slot machines at the Penn National Race Track, the Pocono Downs Race Track and at any Non-Primary Location operated by the Borrower and the Credit Parties and may make the required payments pursuant to Section 4 of the Plains Company Acquisition Agreement in connection therewith.

279 Guaranties. The Borrower will not and will not permit any Credit Party to guarantee or assume to agree to become liable in any way, either directly or indirectly, for any additional Indebtedness or liabilities of others except to endorse checks or drafts in the ordinary course of business; provided, however, that with the written approval of Required Banks, the Borrower or a Credit Party may guarantee Indebtedness of a New Jersey Joint Venture Entity (in addition to the Contingent Guaranty referred to in Paragraph 8.05 hereof) on terms and conditions satisfactory to Required Banks.

280 Limitation on Creation of Subsidiaries. Notwithstanding anything to the contrary contained in this Agreement, the Borrower will not, and will not permit any Credit Party to, establish, create or acquire after the Restatement Effective Date any Subsidiary, provided that the Borrower and its Wholly-Owned Subsidiaries shall be permitted to establish or create Wholly-Owned Subsidiaries so long as (i) the capital stock of such new Wholly-Owned Subsidiary is pledged pursuant to, and to the extent required by, the Pledge Agreement and the certificates representing such stock, together with stock powers duly executed in blank, are delivered to the Agent for the benefit of the Secured Creditors, (ii) the partnership interests or limited liability company interests, as the case may be, of such new Wholly-Owned Subsidiary (to the extent that same is a partnership or a limited liability company, as the case may be) are pledged and assigned pursuant to, and to the extent required by, the Pledge Agreement, (iii) such new Wholly-Owned Subsidiary executes a counterpart of the Subsidiaries Guaranty, the Pledge Agreement and the Security Agreement, and (iv) such new Wholly-Owned Subsidiary, to the extent requested by the Agent or the Required Banks, takes all actions required pursuant to Section 7.11. In addition, (x) each new Wholly-Owned Subsidiary shall execute and deliver, or cause to be executed and delivered, all other relevant documentation of the type described in Section 5 as such new Wholly-Owned Subsidiary would have had to deliver if such new Wholly-Owned Subsidiary were a Credit Party on the Restatement Effective Date (including without limitation a joinder to: this Agreement, the Notes, the Subsidiaries Guaranty and the Security Documents) and (y) at such time as the Charles Town Joint Venture becomes a Wholly-Owned Subsidiary of the Borrower, or at such time as the Charles Town Joint Venture Agreement permits the Charles Town Joint Venture to become a Subsidiary Guarantor hereunder (or the Charles Town Minority Owners otherwise consent thereto), the Borrower shall cause the Charles Town Joint Venture (A) to execute a counterpart of the Subsidiaries Guaranty, the Pledge Agreement and the Security Agreement, (B) to the extent requested by the Agent or the Required Banks, to take all actions required pursuant to Section 7.11 and (C) to deliver all of the relevant documentation described in preceding clause (x) of this sentence.

Events of Default. Upon the occurrence of any of the following specified events (each an AEvent of Default@):

281 Payments. The Borrower shall (i) default in the payment when due of any principal of any Loan or any Note (ii) default, and such default shall continue unremedied for three or more Business Days, in the payment when due of any interest on any Loan or Note, any Unpaid Drawing or any Fees or any other amounts owing hereunder or thereunder; or

282 Representations, etc. Any representation, warranty or statement made (or deemed made) by any Credit Party herein or in any other Credit Document or in any certificate delivered to the Agent or any Bank pursuant hereto or thereto shall prove to be untrue in any material respect on the date as of which made or deemed made; or

283 Covenants. Any Credit Party shall (i) default in the due performance or observance by it of any term, covenant or agreement contained in Section 7.01(g)(i) or 7.08 or Section 8 or (ii) default in the due performance or observance by it of any other term, covenant or agreement contained in this Agreement or any other Credit Document (other than those set forth in Sections 9.01 and 9.02) and such default shall continue unremedied for a period of 30 days after written notice thereof to the defaulting party by the Agent or the Required Banks; or

284 Default Under Other Agreements. (i) The Borrower or any of its Subsidiaries shall (x) default in any payment of any Indebtedness (other than the Notes) beyond the period of grace, if any, provided in the instrument or agreement under which such Indebtedness was created or (y) default in the observance or performance of any agreement or condition relating to any Indebtedness (other than the Notes) or contained in any instrument or agreement evidencing, securing or relating thereto, or any other event shall occur or condition exist, the effect of which default or other event or condition is to cause, or to permit the holder or holders of such Indebtedness (or a trustee or agent on behalf of such holder or holders) to cause (determined without regard to whether any notice is required), any such Indebtedness to become due prior to its stated maturity; (ii) any Indebtedness (other than the Notes) of the Borrower or any Credit Party shall be declared to be (or shall become) due and payable, or required to be prepaid other than by a regularly scheduled required prepayment, prior to the stated maturity thereof, provided that it shall not be a Default or an Event of Default under this Section 9.04 unless the aggregate principal amount of all Indebtedness as described in preceding clauses (i) and (ii) is at least $500,000; or (iii) the Borrower or any Credit Party shall default in the performance of its obligations under any material contract (other than contracts for Indebtedness); or

285 Bankruptcy, etc. The Borrower or any of its Subsidiaries shall commence a voluntary case concerning itself under Title 11 of the United States Code entitled ABankruptcy,@ as now or hereafter in effect, or any successor thereto (the ABankruptcy Code@); or an involuntary case is commenced against the Borrower or any of its Subsidiaries, and the petition is not controverted within 10 days, or is not dismissed within 60 days, after commencement of the case; or a custodian (as defined in the Bankruptcy Code) is appointed for, or takes charge of, all or substantially all of the property of the Borrower or any of its Subsidiaries, or the Borrower or any of its Subsidiaries commences any other proceeding under any reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar law of any jurisdiction whether now or hereafter in effect relating to the Borrower or any of its Subsidiaries, or there is commenced against the Borrower or any of its Subsidiaries any such proceeding which remains undismissed for a period of 60 days, or the Borrower or any of its Subsidiaries is adjudicated insolvent or bankrupt; or any order of relief or other order approving any such case or proceeding is entered; or the Borrower or any of its Subsidiaries suffers any appointment of any custodian or the like for it or any substantial part of its property to continue undischarged or unstayed for a period of 60 days; or the Borrower or any of its Subsidiaries makes a general assignment for the benefit of creditors; or any corporate action is taken by the Borrower or any of its Subsidiaries for the purpose of effecting any of the foregoing; or

286 ERISA. (a) Any Plan shall fail to satisfy the minimum funding standard required for any plan year or part thereof under Section 412 of the Code or Section 302 of ERISA or a waiver of such standard or extension of any amortization period is sought or granted under Section 412 of the Code or Section 303 or 304 of ERISA, a Reportable Event shall have occurred, any Plan which is subject to Title IV of ERISA shall have had or is likely to have a trustee appointed to administer such Plan, any Plan which is subject to Title IV of ERISA is, shall have been or is likely to be terminated or to be the subject of termination proceedings under ERISA, any Plan shall have an Unfunded Current Liability, a contribution required to be made with respect to a Plan or a Foreign Pension Plan has not been timely made, the Borrower or any Subsidiary of the Borrower or any ERISA Affiliate has incurred or is likely to incur any liability to or on account of a Plan under Section 409, 502(i), 502(l), 515, 4062, 4063, 4064, 4069, 4201, 4204 or 4212 of ERISA or Section 401(a)(29), 4971 or 4975 of the Code or on account of a group health plan (as defined in Section 607(1) of ERISA or Section 4980B(g)(2) of the Code) under Section 4980B of the Code, or the Borrower or any Subsidiary of the Borrower has incurred or is likely to incur liabilities pursuant to one or more employee welfare benefit plans (as defined in Section 3(1) of ERISA) that provide benefits to retired employees or other former employees (other than as required by Section 601 of ERISA) or Plans; (b) there shall result from any such event or events the imposition of a lien, the granting of a security interest, or a liability or a material risk of incurring a liability; and (c) such lien, security interest or liability, individually, and/or in the aggregate, in the opinion of the Required Banks, has had, or could reasonably be expected to have, a material adverse effect on the business, operations, property, assets, liabilities, condition (financial or otherwise) o prospects of the Borrower and its Subsidiaries taken as a whole; or

287 Security Documents. At any time after the execution and delivery thereof, any of the Security Documents, as amended, shall cease to be in full force and effect, or shall cease to give the Agent for the benefit of the Secured Creditors the Liens, rights, powers and privileges purported to be created thereby (including, without limitation, a perfected security interest in, and Lien on, all of the Collateral, in favor of the Agent, superior to and prior to the rights of all third Persons (except Permitted Liens), and subject to no other Liens (except Permitted Liens); or

288 Subsidiaries Guaranty. At any time after the execution and delivery thereof, the Subsidiaries Guaranty or any provision thereof shall cease to be in full force or effect as to any Subsidiary Guarantor, or any Subsidiary Guarantor or any Person acting by or on behalf of such Subsidiary Guarantor shall deny or disaffirm such Subsidiary Guarantor=s obligations under the Subsidiaries Guaranty or any Subsidiary Guarantor shall default in the due performance or observance of any term, covenant or agreement on its part to be performed or observed pursuant to the Subsidiaries Guaranty; or

289 Judgments. One or more judgments or decrees shall be entered against the Borrower or any Subsidiary of the Borrower involving in the aggregate for the Borrower and its Subsidiaries a liability (not paid or fully covered by a reputable and solvent insurance company) and such judgments and decrees either shall be final and non-appealable or shall not be vacated, discharged or stayed or bonded pending appeal for any period of 30 consecutive days, and the aggregate amount of all such judgments exceeds $500,000; or

290 Change of Control. A Change of Control shall occur; or

291 Governmental Authorities; Licenses. If custody or control of any substantial part of the property of Borrower or any Credit Party shall be assumed by any governmental agency, including without limitation any Commission, or any court of competent jurisdiction at the instance of any governmental agency, including without limitation any Commission; the termination, suspension or revocation of any License, or the existence of any circumstance, event, matter or condition which under any Act would permit any Commission to terminate, revoke or suspend any such License, or any Commission shall require the Borrower or any Credit Party to divest any License or its equity interest in any Subsidiary owning or holding any License; or if any governmental regulatory authority or judicial body, including without limitation any Commission, shall make any other final non-appealable determination, the effect of which would be to affect materially and adversely the operations of Borrower or any Credit Party as now conducted; or

292 Applications. If in any year the Borrower does not, or does not cause one Credit Party to, submit all appropriate applications to the Pennsylvania Horse Racing Commission and the Pennsylvania Harness Racing Commission to conduct live horse racing at the Penn National Race Track and the Pocono Downs Race Track, or to conduct full card simulcasting at any such Track, in each case in the immediately following calendar year; or if in any year the Borrower does not, or does not cause one Credit Party to, submit all appropriate applications to the West Virginia Racing Commission to conduct live horse racing at the Charles Town Race Track in the immediately following calendar year; or if in any year the Borrower does not, or does not cause one Credit Party to, submit all appropriate applications to the West Virginia Lottery Commission for a license to operate at least 1000 video lottery terminals in the immediately following fiscal year of the license (or such higher number of video lottery terminals as the Borrower or such Subsidiary may have previously been granted a license to operate);

293 Legality. At any time the conduct of live thoroughbred racing, live harness racing or full card simulcasting in Pennsylvania cannot legally be conducted at the Pocono Downs Race Track or the Penn National Race Track or off-track wagering cannot legally be conducted at the Non-Primary Locations operated by the holders of the Penn National Licenses or the Plains Company Licenses, in each case under applicable Pennsylvania or federal law; or the conduct of live horse racing, televised racing or operation of video lottery terminals in West Virginia cannot legally be conducted at the Charles Town Race Track under applicable West Virginia or federal law;

then, and in any such event, and at any time thereafter, if any Event of Default shall then be continuing, the Agent may, and upon the written request of the Required Banks shall, by written notice to the Borrower, take any or all of the following actions, without prejudice to the rights of the Agent, any Bank or the holder of any Note to enforce its claims against any Credit Party (provided, that, if an Event of Default specified in Section 9.05 shall occur with respect to the Borrower, the result which would occur upon the giving of written notice by the Agent as specified in clauses (i) and (ii) below shall occur automatically without the giving of any such notice): (i) declare the Total Commitment terminated, whereupon the Commitment of each Bank shall forthwith terminate immediately and any Commitment Commission shall forthwith become due and payable without any other notice of any kind; (ii) declare the principal of and any accrued interest in respect of all Loans and Notes, and all Obligations owing hereunder and thereunder to be, whereupon the same shall become, forthwith due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by each Credit Party; (iii) terminate any Letter of Credit which may be terminated in accordance with its terms; (iv) direct the Borrower to pay (and the Borrower agrees that upon receipt of such notice, or upon the occurrence of an Event of Default specified in Section 9.05 with respect to the Borrower, it will pay) to the Agent at the Payment Office such additional amount of cash or Cash Equivalents, to be held as security by the Agent, as is equal to the aggregate Stated Amount of all Letters of Credit issued for the account of the Borrower and then outstanding; (v) enforce, as Agent, all of the Liens and security interests created pursuant to the Security Documents and (vi) apply any cash collateral held by the Borrower pursuant to Section 4.02(a) to the repayment of the Obligations.

Definitions and Accounting Terms.

294 Defined Terms. As used in this Agreement, the following terms shall have the following meanings (such meanings to be equally applicable to both the singular and plural forms of the terms defined):

AAct@ shall mean (i) the Pennsylvania Horse Race Industry Reform Act, as amended, (ii) the West Virginia Racetrack Video Lottery Act, as amended, or (iii) the West Virginia Code " 19-23-1 et. seq., as amended, as applicable and including, in each case, any successor thereto.

AAdditional Mortgages@ shall have the meaning provided in Section 5.12.

AAdditional Security Documents@ shall have the meaning provided in Section 7.11.

AAffiliate@ shall mean, with respect to any Person, any other Person directly or indirectly controlling, controlled by, or under direct or indirect common control with, such Person. A Person shall be deemed to control another Person if such Person possesses, directly or indirectly, the power (i) to vote 5% or more of the securities having ordinary voting power for the election of directors of such corporation or (ii) to direct or cause the direction of the management and policies of such other Person, whether through the ownership of voting securities, by contract or otherwise.

AAgent@ shall mean First Union National Bank, successor by merger to CoreStates Bank, N.A., in its capacity as Agent for the Banks hereunder, and shall include any successor to the Agent appointed pursuant to Section 11.09.

AAgreement@ shall mean this Credit Agreement, as modified, supplemented, amended, restated (including any amendment and restatement hereof), extended, renewed, refinanced or replaced from time to time.

AApplicable Margin@ shall mean a percentage per annum equal to (i) in the case of Base Rate Loans, the applicable percentage set forth in the column titled AApplicable Base Rate Margin@ on Exhibit M hereto, and (ii) in the case of Eurodollar Loans, the applicable percentage set forth in the column titled AApplicable Eurodollar Margin@ on Exhibit M hereto. The initial Applicable Margin shall be determined on the Restatement Effective Date by reference to the Leverage Ratio of Borrower and its consolidated Subsidiaries as reported on the officer=s certificate in the form of Exhibit N delivered by Borrower to Agent on the Restatement Effective Date; provided, however, that the calculations on such certificate are preliminary calculations, and if final calculations at a later date shall result in an increase of the Applicable Margin, the Applicable Margin shall be readjusted retroactively to the Restatement Effective Date. Adjustments, if any, in the Applicable Margin shall be made by the Agent on the tenth (10th) Business Day after receipt by the Agent of the quarterly financial statements of Borrower and its consolidated Subsidiaries required by Section 7.01(b) and the accompanying officer=s certificate required by Section 7.01(f), setting forth the Leverage Ratio of Borrower and its consolidated Subsidiaries as of the most recent fiscal quarter end. In the event the Borrower fails to deliver such financial statements and certificate within the time required by Sections 7.01(b) and 7.01(f), the Applicable Margin shall be at Level I until the delivery of such financial statements and certificate; provided, further, however, that the Applicable Margin shall readjust retroactively to the date such financial statements and certificate were required to be delivered by Section 7.01(f) if the Applicable Margin shall increase based on such financial statements and certificate and shall readjust on the day after delivery of such delinquent financial statements or certificate if the Applicable Margin shall decrease or remain the same based on the ratio set forth in such certificate.

AAsset Sale@ shall mean any sale, transfer or other disposition by the Borrower or any Credit Party to any Person (including by-way-of redemption by such Person) other than to the Borrower or a Wholly-Owned Subsidiary of the Borrower of any asset (including, without limitation, any capital stock or other securities of, or equity interests in, another Person) other than sales of assets pursuant to Sections 8.02 (v), (vi), (vii) and (viii).

AAssignment and Assumption Agreement@ shall mean an Assignment and Assumption Agreement substantially in the form of Exhibit K (appropriately completed).

ABank@ shall mean each financial institution listed on Schedule I, as well as any Person which becomes a ABank@ hereunder pursuant to Section 1.13 or 12.04(b).

ABank Default@ shall mean (i) the refusal (which has not been retracted) or the failure of a Bank to make available its portion of any Borrowing or to fund its portion of any unreimbursed payment under Section 2.04(c) or (ii) a Bank having notified in writing the Borrower and/or the Agent that such Bank does not intend to comply with its obligations under Section 1.01 or 2, in the case of either clause (i) or (ii) as a result of any takeover or control (including, without limitation, as a result of the occurrence of any event of the type described in Section 9.05 with respect to such Bank) of such Bank by any Commission or agency.

ABankruptcy Code@ shall have the meaning provided in Section 9.05.

ABase Rate@ shall mean, at any time, the higher of (i) the Prime Lending Rate and (ii) 2 of 1% in excess of the Federal Funds Rate.

ABase Rate Loan@ shall mean each Loan designated or deemed designated as such by the Borrower at the time of the incurrence thereof or conversion thereto.

ABorrower@ shall have the meaning provided in the first paragraph of this Agreement.

ABorrowing@ shall mean the borrowing of one Type of Revolving Loan on a given date (or resulting from a conversion or conversions on such date) having in the case of Eurodollar Loans the same Interest Period, provided that Base Rate Loans incurred pursuant to Section 1.10(b) shall be considered part of the related Borrowing of Eurodollar Loans.

ABusiness Day@ shall mean (i) for all purposes other than as covered by clause (ii) below, any day other than a Saturday, Sunday or legal holiday on which banks in Charlotte, North Carolina and New York, New York, are open for the conduct of their commercial banking business and (ii) with respect to all notices and determinations in connection with, and payments of principal and interest on, any Eurodollar Loan, any day that is a Business Day described in clause (i) above and that is also a day for trading by and between banks in Dollar deposits in the London interbank market.

ACapital Expenditures@ shall mean, with respect to any Person, all expenditures by such Person which should be capitalized in accordance with generally accepted accounting principles and, without duplication, the amount of Capitalized Lease Obligations incurred by such Person.

ACapitalized Lease Obligations@ shall mean, with respect to any Person, all rental obligations of such Person which, under generally accepted accounting principles, are or will be required to be capitalized on the books of such Person, in each case taken at the amount thereof accounted for as indebtedness in accordance with such principles.

ACash Equivalents@ shall mean, as to any Person, (i) securities issued or directly and fully guaranteed or insured by the United States or any agency or instrumentality thereof (provided that the full faith and credit of the United States is pledged in support thereof) having maturities of not more than six months from the date of acquisition, (ii) Dollar denominated time deposits and certificates of deposit of any commercial bank having, or which is the principal banking subsidiary of a bank holding company having, a long-term unsecured debt rating of at least AA@ or the equivalent thereof from Standard & Poor=s Ratings Services or AA2@ or the equivalent thereof from Moody=s Investors Service, Inc. with maturities of not more than six months from the date of acquisition by such Person, (iii) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clause (i) above entered into with any bank meeting the qualifications specified in clause (ii) above, (iv) commercial paper issued by any Person incorporated in the United States rated at least A-1 or the equivalent thereof by Standard & Poor=s Ratings Services or at least P-1 or the equivalent thereof by Moody=s Investors Service, Inc. and in each case maturing not more than six months after the date of acquisition by such Person and (v) investments in money market funds substantially all of whose assets are comprised of securities of the types described in clauses (i) through (iv) above.

ACERCLA@ shall mean the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as the same may be amended from time to time, 42 U.S.C. ' 9601 et seq.

AChambersburg Property@ shall mean the real property of Borrower located in Chambersburg, Pennsylvania upon which the collateral agent under the Original Credit Agreement held a mortgage.

AChange of Control@ shall mean (i) any Person or Agroup@ (within the meaning of Rules 13d-3 or 13d-5 under the Securities Exchange Act (as in effect on the Restatement Effective Date)), other than the Permitted Holders, shall (A) have acquired beneficial ownership of 25% or more on a fully diluted basis of the voting and/or economic interest in the Borrower=s capital stock or (B) have obtained the power (whether or not exercised) to elect a majority of the Borrowers= directors, (ii) the Board of Directors of the Borrower shall cease to consist of a majority of Continuing Directors, (iii) the Permitted Holders shall cease to collectively own at least 25% on a fully diluted basis of the voting and/or economic interest in the Borrower=s capital stock or (iv) a Achange of control@ or similar event shall occur under, and as defined in, the Senior Note Documents.

ACharles Town Joint Venture@ shall mean PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company.

ACharles Town Joint Venture Agreement@ shall mean the Second Amended and Restated Operating Agreement of the Charles Town Joint Venture dated October 17, 1997.

ACharles Town Licenses@ shall mean the licenses to conduct horse racing issued to the Borrower or one Credit Party by the West Virginia Racing Commission and to conduct video lottery issued to the Borrower or one Credit Party by the West Virginia Lottery Commission.

ACharles Town Minority Owners@ shall mean the four individuals and one entity which hold, collectively, an 11% equity interest in the Charles Town Joint Venture as of the Restatement Effective Date.

ACharles Town Races@ shall mean Charles Town Races, Inc., a West Virginia corporation.

ACharles Town Race Track@ shall mean Charles Town Race Track located in Jefferson County, West Virginia.

ACharles Town Video Lottery Terminals@ shall mean the video lottery terminals used at the Charles Town Race Track acquired by Borrower through the purchase of the Gtech Contract in November, 1998 and from time to time after the date hereof, other video lottery terminals used at the Charles Town Race Track located in Jefferson County, West Virginia.

ACode@ shall mean the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder. Section references to the Code are to the Code, as in effect at the date of this Agreement and any subsequent provisions of the Code, amendatory thereof, supplemental thereto or substituted therefor.

ACollateral@ shall mean all property (whether real or personal) with respect to which any security interests have been granted (or purported to be granted) pursuant to any Security Document, including, without limitation, all Pledge Agreement Collateral, all Security Agreement Collateral, the Mortgaged Properties and all cash and Cash Equivalents delivered as collateral pursuant to Section 4.02(a) or 9.

ACommission@ shall mean each of the Pennsylvania Horse Racing Commission, the Pennsylvania Harness Racing Commission, the West Virginia Racing Commission and the West Virginia Lottery Commission.

ACommitment@ shall mean, for each Bank, the amount set forth opposite such Bank=s name in Schedule I directly below the column entitled ARevolving Loans Commitment,@ as same may be (x) reduced from time to time pursuant to Sections 3.02, 3.03 and/or 9 or (y) adjusted from time to time as a result of assignments to or from such Bank pursuant to Section 1.13 or 12.04(b).

ACommitment Commission@ shall have the meaning provided in Section 3.01(a), and shall be determined pursuant to the applicable percentage set forth under the column titled ACommitment Fee@ on Exhibit M hereto. The initial Commitment Commission shall be determined on the Restatement Effective Date by reference to the Leverage Ratio of Borrower and its consolidated Subsidiaries as reported on the officer=s certificate in the form of Exhibit N delivered by Borrower to Agent on the Restatement Effective Date; provided, however, that the calculations on such certificate are preliminary calculations, and if final calculations at a later date shall result in an increase of the Commitment Commission, the Commitment Commission shall be readjusted retroactively to the Restatement Effective Date. Adjustments, if any, in the Commitment Commission shall be made by the Agent on the tenth (10th) Business Day after receipt by the Agent of quarterly financial statements of the Borrower and its consolidated Subsidiaries required by Section 7.01(b) and the accompanying officer=s certificate required by Section 7.01(f) setting forth the Leverage Ratio of Borrower and its consolidated Subsidiaries as of the most recent fiscal quarter end. In the event the Borrower fails to deliver such financial statements and certificate within the time required by Sections 7.01(b) and 7.01(f), the Commitment Commission shall be at Level I until the delivery of such financial statements and certificate; provided, further, however, that the Commitment Commission shall readjust retroactively to the date such financial statements and certificates were required to be delivered by Sections 7.01(b) and 7.01(f) and shall readjust on the day after delivery of such delinquent financial statements or certificate if the Commitment Commission shall decrease or remain the same based on the ratio set forth in such certificate.

AConsolidated Cash Interest Coverage Ratio@ shall mean, for any period, the ratio of Consolidated EBITDA to Consolidated Cash Interest Expense for such period.

AConsolidated Cash Interest Expense@ shall mean, for any period, Consolidated Interest Expense for such period including net costs under any Interest Rate Protection Agreements, provided that there shall be excluded any non-cash interest expense for such period (other than any interest that has been capitalized) to the extent that same would otherwise have been included therein.

AConsolidated EBIT@ shall mean, for any period, Consolidated Net Income before Consolidated Interest Expense and provision for taxes for such period and without giving effect (x) to any cash extraordinary gains or losses not to exceed $1,000,000 in the most recent twelve month period and (y) to any gains or losses from sales of assets other than from sales of inventory sold in the ordinary course of business.

AConsolidated EBITDA@ shall mean, for any period, Consolidated EBIT for such period, adjusted by (x) adding thereto the amount of all amortization of intangibles and depreciation that were deducted in arriving at Consolidated EBIT for such period, and (y) subtracting therefrom the amount of any payments made by the Borrower or any Credit Party pursuant to Section 4 of the Plains Company Acquisition Agreement for such period (but only to the extent that such payments have not already reduced Consolidated Net Income for such period), it being understood and agreed, however, that for purposes of this clause (y), such payment will be treated as being paid in four equal consecutive quarterly installments, with the first such installment being treated as being paid in the fiscal quarter of the Borrower in which such payment is made.

AConsolidated Indebtedness@ shall mean, at any time, the principal amount of all Indebtedness of the Borrower and its Subsidiaries at such time (other than (x) Indebtedness in respect of Letters of Credit and (y) Indebtedness under Interest Rate Protection Agreements except to the extent of a payment default thereunder.

AConsolidated Interest Expense@ shall mean, for any period, the total consolidated interest expense of the Borrower and its Subsidiaries for such period (calculated without regard to any limitations on the payment thereof) plus, without duplication, that portion of Capitalized Lease Obligations of the Borrower and its Subsidiaries representing the interest factor for such period; provided that the amortization of deferred financing costs with respect to this Agreement or the Indebtedness incurred hereunder shall be excluded from Consolidated Interest Expense to the extent same would otherwise have been included therein.

AConsolidated Net Income@ shall mean, for any Person and period, the net income (or loss) of such Person and its Subsidiaries for such period, determined on a consolidated basis (after any deduction for minority interests), provided that (i) in determining Consolidated Net Income of the Borrower, the net income of any other Person which is not a Subsidiary of the Borrower or is accounted for by the Borrower by the equity method of accounting shall be included only to the extent of the payment of dividends or distributions by such other Person to the Borrower or a Subsidiary thereof during such period and (ii) the net income (or loss) of any other Person acquired by such specified Person or a Subsidiary of such Person in a pooling of interests transaction for any period prior to the date of such acquisition shall be excluded.

AConsolidated Net Worth@ shall mean, on any date of determination thereof, the consolidated net worth of the Borrower and its Subsidiaries determined as of such date of determination.

AContingent Obligation@ shall mean, as to any Person, any obligation of such Person as a result of such Person being a general partner of the other Person, unless the underlying obligation is expressly made non-recourse as to such general partner, and any obligation of such Person guaranteeing or intended to guarantee any Indebtedness, leases, dividends or other obligations (Aprimary obligations@) of any other Person (the Aprimary obligor@) in any manner, whether directly or indirectly, including, without limitation, any obligation of such Person, whether or not contingent, (i) to purchase any such primary obligation or any property constituting direct or indirect security therefor, (ii) to advance or supply funds (x) for the purchase or payment of any such primary obligation or (y) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor, (iii) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation or (iv) otherwise to assure or hold harmless the holder of such primary obligation against loss in respect thereof; provided, however, that the term Contingent Obligation shall not include (i) endorsements of instruments for deposit or collection in the ordinary course of business and (ii) until such time as the conditions to effectiveness of the Borrower=s obligations under the Contingent Guaranty referred to in Section 8.05 have been satisfied, the Contingent Guaranty. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof (assuming such Person is required to perform thereunder) as determined by such Person in good faith.

AContinuing Bank@ shall mean each Original Bank with a Commitment under this Agreement on the Restatement Effective Date.

AContinuing Directors@ shall mean the directors of the Borrower on the Restatement Effective Date and each other director, if such other director=s nomination for election to the Board of Directors of the Borrower is recommended by a majority of the then Continuing Directors or is recommended by a committee of the Board of Directors a majority of which is composed of the then Continuing Directors.

AContribution and Indemnification Agreement@ shall have the meaning provided in Section 5.11.

ACredit Documents@ shall mean this Agreement, each Note, the Subsidiaries Guaranty and each Security Document.

ACredit Event@ shall mean (i) the occurrence of the Restatement Effective Date and (ii) the making of any Loan or the issuance of any Letter of Credit, it being understood that any conversion of a Loan pursuant to Section 1.06 shall not constitute a Credit Event.

ACredit Party@ shall mean the Borrower and each Subsidiary Guarantor.

ADefault@ shall mean any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

ADefaulting Bank@ shall mean any Bank with respect to which a Bank Default is in effect.

ADividend@ shall mean, with respect to any Person, that such Person has declared or paid a dividend or returned any equity capital to its stockholders, partners or members or authorized or made any other distribution, payment or delivery of property (other than common stock of such Person) or cash to its stockholders, partners or members as such, or redeemed, retired, purchased or otherwise acquired, directly or indirectly, for a consideration any shares of any class of its capital stock or any partnership or membership interests outstanding on or after the Restatement Effective Date (or any options or warrants issued by such Person with respect to its capital stock), or set aside any funds for any of the foregoing purposes, or shall have permitted any Credit Party to purchase or otherwise acquire for a consideration any shares of any class of the capital stock or any partnership or membership interests of such Person outstanding on or after the Restatement Effective Date (or any options or warrants issued by such Person with respect to its capital stock). Without limiting the foregoing, ADividends@ with respect to any Person shall also include all payments made or required to be made by such Person with respect to any stock appreciation rights, plans, equity incentive or achievement plans or any similar plans or setting aside of any funds for the foregoing purposes.

ADocuments@ shall mean the Credit Documents and the Transaction Documents.

ADollars@ and the sign A$@ shall each mean freely transferable lawful money of the United States.

ADrawing@ shall have the meaning provided in Section 2.05(b).

AEligible Transferee@ shall mean and include a commercial bank, financial institution or other Aaccredited investor@ (as defined in Regulation D of the Securities Act).

AEnvironmental Claims@ shall mean any and all administrative, regulatory or judicial actions, suits, demands, demand letters, directives, claims, liens, notices of noncompliance or violation, investigations or proceedings relating in any way to any Environmental Law or any permit issued, or any approval given, under any such Environmental Law (hereafter, AClaims@), including, without limitation, (a) any and all Claims by governmental or regulatory authorities for enforcement, cleanup, removal, response, remedial or other actions or damages pursuant to any applicable Environmental Law, and (b) any and all Claims by any third party seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief in connection with alleged injury or threat of injury to health, safety or the environment due to the presence of Hazardous Materials.

AEnvironmental Law@ shall mean any Federal, state, foreign or local statute, law, rule, regulation, ordinance, code, guideline, written policy and rule of common law now or hereafter in effect and in each case as amended, and any judicial or administrative interpretation thereof, including any judicial or administrative order, consent decree or judgment, relating to the environment, employee health and safety or Hazardous Materials, including, without limitation, CERCLA; RCRA; the Federal Water Pollution Control Act, 33 U.S.C. ' 1251 et seq.; the Toxic Substances Control Act, 15 U.S.C. ' 2601 et seq.; the Clean Air Act, 42 U.S.C. ' 7401 et seq.; the Safe Drinking Water Act, 42 U.S.C. ' 3803 et seq.; the Oil Pollution Act of 1990, 33 U.S.C. ' 2701 et seq.; the Emergency Planning and the Community Right-to-Know Act of 1986, 42 U.S.C. ' 11001 et seq.; the Hazardous Material Transportation Act, 49 U.S.C. ' 1801 et seq. and the Occupational Safety and Health Act, 29 U.S.C. ' 651 et seq.; and any state and local or foreign counterparts or equivalents, in each case as amended from time to time.

AERISA@ shall mean the Employee Retirement Income Security Act of 1974, as amended from time to time, and the regulations promulgated and rulings issued thereunder. Section references to ERISA are to ERISA, as in effect at the date of this Agreement and any subsequent provisions of ERISA, amendatory thereof, supplemental thereto or substituted therefor.

AERISA Affiliate@ shall mean each person (as defined in Section 3(9) of ERISA) which together with the Borrower or a Subsidiary of the Borrower would be deemed to be a Asingle employer@ (i) within the meaning of Section 414(b), (c), (m) or (o) of the Code or (ii) as a result of the Borrower or a Subsidiary of the Borrower being or having been a general partner of such person.

AEurodollar Loan@ shall mean each Loan designated as such by the Borrower at the time of the incurrence thereof or conversion thereto.

AEurodollar Rate@ shall mean a rate per annum (rounded upwards, if necessary, to the next higher 1/100th of 1%) determined by the Agent pursuant to the following formulas

$$\text{rate} = \frac{\text{LIBOR}}{1.00 - \text{Eurodollar Reserve Percentage}}.$$

AEurodollar Reserve Percentage@ means, for any day, the percentage (expressed as a decimal and rounded upwards, if necessary, to the next higher 1/100th of 1%) which is in effect for such day as prescribed by the Federal Reserve Board (or any successor) for determining the maximum reserve requirement (including without limitation any basic, supplemental or emergency reserves) in respect of eurocurrency liabilities or any similar category of liabilities for a member bank of the Federal Reserve System in New York City.

AEurodollar Spread@ shall mean a percentage per annum equal to 2 of the Applicable Margin as in effect from time to time for Eurodollar Loans, provided that in no event shall the Eurodollar Spread be less than 1%.

AEvent of Default@ shall have the meaning provided in Section 9.

AExisting Indebtedness@ shall have the meaning provided in Section 6.23.

AExisting Indebtedness Agreements@ shall have the meaning provided in Section 5.06.

AExisting Letters of Credit@ shall have the meaning provided in Section 2.01.

AExisting Mortgages@ shall mean all Mortgages granted by the Credit Parties pursuant to the Original Credit Agreement and which have not been released prior to the Restatement Effective Date.

AFacing Fee@ shall have the meaning provided in Section 3.01(c).

AFederal Funds Rate@ shall mean, for any period, a fluctuating interest rate equal for each day during such period to the weighted average of the rates on overnight Federal Funds transactions with members of the Federal Reserve System arranged by Federal Funds brokers, as published for such day (or, if such day is not a Business Day, for the next preceding Business Day) by the Federal Reserve Bank of New York, or, if such rate is not so published for any day which is a Business Day, the average of the quotations for such day on such transactions received by the Agent from three Federal Funds brokers of recognized standing selected by the Agent.

AFees@ shall mean all amounts payable pursuant to or referred to in Section 3.01.

AFinal Maturity Date@ shall mean the date four years after the Restatement Effective Date.

AFirst Union@ or AAgent@ shall mean First Union National Bank, successor by merger to CoreStates Bank, N.A., in its individual capacity, and any successor corporation thereto by merger, consolidation or otherwise.

AFR Park Services@ shall mean FR Park Services, LP, a New Jersey limited partnership.

AFRPRLP@ shall mean FR Park Racing, LP, a New Jersey limited partnership.

AGS Park Services@ shall mean GS Park Services, L.P., a New Jersey limited partnership.

AGSPRLP@ shall mean GS Park Racing, LP, a New Jersey limited partnership.

AGTECH Contract@ shall mean that certain agreement relating to the lease, installation and service of the Charles Town Video Lottery Terminals, dated as of June 25, 1997, between the Charles Town Joint Venture and GTECH Corporation.

AHazardous Materials@ shall mean (a) any petroleum or petroleum products, radioactive materials, asbestos in any form that is friable, urea formaldehyde foam insulation, transformers or other equipment that contain dielectric fluid containing levels of polychlorinated biphenyls, and radon gas; (b) any chemicals, materials or substances defined as or included in the definition of Ahazardous substances,@ Ahazardous waste,@ Ahazardous materials,@ Aextremely hazardous substances,@ Arestricted hazardous waste,@ Atoxic substances,@ Atoxic pollutants,@ Acontaminants,@ or Apollutants,@ or words of similar import, under any applicable Environmental Law; and (c) any other chemical, material or substance, the Release of which is prohibited, limited or regulated by any governmental authority.

AInactive Subsidiaries@ shall mean The Plains Company, Audio Video Concepts, Inc., Lehigh Off-Track Wagering, L.P. and Peach Street Limited Partnership.

AIndebtedness@ shall mean, as to any Person, without duplication, (i) all indebtedness (including principal, interest, fees and charges) of such Person for borrowed money or for the deferred purchase price of property or services, (ii) the maximum amount available to be drawn under all letters of credit issued for the account of such Person and all unpaid drawings in respect of such letters of credit, (iii) all Indebtedness of the types described in clause (i), (ii), (iv), (v), (vi) or (vii) of this definition secured by any Lien on any property owned by such Person, whether or not such Indebtedness has been assumed by such Person (provided, that, if the Person has not assumed or otherwise become liable in respect of such Indebtedness, such Indebtedness shall be deemed to be in an amount equal to the fair market value of the property to which such Lien relates as determined in good faith by such Person), (iv) the aggregate amount required to be capitalized under leases under which such Person is the lessee, (v) all obligations of such person to pay a specified purchase price for goods or services, whether or not delivered or accepted, i.e., take-or-pay and similar obligations, (vi) all Contingent Obligations of such Person and (vii) all obligations under any Interest Rate Protection Agreement, any Other Hedging Agreement or under any similar type of agreement. Notwithstanding the foregoing, Indebtedness shall not include (i) trade payables and accrued expenses incurred by any Person in accordance with customary practices and in the ordinary course of business of such Person and (ii) the Borrower=s obligations with respect to the Put obligation referred to in Section 8.05 hereof.

AIntercompany Loan@ shall have the meaning provided in Section 8.05(vii).

AIntercompany Note@ shall mean a promissory note, in the form of Exhibit K, evidencing Intercompany Loans.

AInterest Determination Date@ shall mean, with respect to any Eurodollar Loan, the second Business Day prior to the commencement of any Interest Period relating to such Eurodollar Loan.

AInterest Period@ shall have the meaning provided in Section 1.09.

AInterest Rate Protection Agreement@ shall mean any interest rate swap agreement, interest rate cap agreement, interest collar agreement, interest rate hedging agreement or other similar agreement or arrangement.

AInvestments@ shall have the meaning provided in Section 8.05.

AIssuing Bank@ shall mean First Union National Bank.

AL/C Supportable Obligations@ shall mean (i) obligations of the Borrower and its Subsidiaries incurred in the ordinary course of business to horsemen for racing purposes, (ii) obligations of the Borrower and its Subsidiaries for pari-mutual taxes and (iii) such other obligations of the Borrower as are reasonably acceptable to the Issuing Bank and otherwise permitted to exist pursuant to the terms of this Agreement.

ALeaseholds@ of any Person shall mean all the right, title and interest of such Person as lessee or licensee in, to and under leases or licenses of land, improvements and/or fixtures.

ALetter of Credit@ shall have the meaning provided in Section 2.01(a).

ALetter of Credit Fee@ shall have the meaning provided in Section 3.01(b).

ALetter of Credit Outstanding@ shall mean, at any time, the sum of (i) the aggregate Stated Amount of all outstanding Letters of Credit and (ii) the amount of all Unpaid Drawings.

ALetter of Credit Request@ shall have the meaning provided in Section 2.03(a).

ALeverage Ratio@ shall mean, at any time, the ratio of (i) Consolidated Indebtedness at such time to (ii) Consolidated EBITDA for the Test Period then most recently ended (in each case taken as one accounting period), provided that for purposes of determining the Applicable Margin, the Interest Reduction Discount and the Applicable Commitment Commission Percentage as of any Test Date, the term AConsolidated Indebtedness@ as used in the foregoing clause (i) of this definition shall be the sum of (I) Consolidated Indebtedness (other than Revolving Outstanding) on such Test Date plus (II) the average Revolving Outstanding for the quarterly period ending on such Test Date.

ALIBOR@ shall mean the rate of interest per annum determined on the basis of the rate for deposits in Dollars in minimum amounts of at least $5,000,000 for a period equal to the applicable Interest Period which appears on the Telerate Page 3750 at approximately 11:00 a.m. (London time) two (2) Business Days prior to the first day of the applicable Interest Period (rounded upward, if necessary, to the nearest one-sixteenth of one percent (1/16%)). If, for any reason, such rate does not appear on Telerate Page 3750, then ALIBOR@ shall be determined by the Agent to be the arithmetic average (rounded upward, if necessary, to the nearest one-sixteenth of one percent (1/16%)) of the rate per annum at which deposits in Dollars would be offered by first class banks in the London interbank market to the Agent approximately 11:00 a.m. (London time) two (2) Business Days prior to the first day of the applicable Interest Period for a period equal to such Interest Period and in an amount substantially equal to the amount of the applicable Eurodollar Loan.

ALicenses@ shall mean each of the Penn National Licenses, the Plains Company Licenses and the Charles Town Licenses, and any other license required for Borrower=s or any Subsidiary=s operations by any Commission, as the case may be.

ALien@ shall mean any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), preference, priority or other security agreement of any kind or nature whatsoever (including, without limitation, any conditional sale or other title retention agreement, any financing or similar statement or notice filed under the UCC or any other similar recording or notice statute, and any lease having substantially the same effect as any of the foregoing).

ALoan@ shall mean, collectively, the Revolving Loan(s) and the Term Loan.

AMargin Stock@ shall have the meaning provided in Regulation U.

AMinimum Borrowing Amount@ shall mean $500,000 and $100,000 increments in excess thereof.

AMinimum Consolidated Net Worth@ shall mean, at any time, the sum of (i) $53,856,000 plus (ii) 50% of Consolidated Net Income of the Borrower, if positive, for each fiscal quarter of the Borrower ended prior to the date of determination plus (iii) 75% of the Net Equity Proceeds received by the Borrower after the Restatement Effective Date, it being understood that any increase to the Minimum Consolidated Net Worth shall be effective as of the last day of each fiscal quarter of the Borrower.

AMortgage@ shall mean each mortgage, deed to secure debt or deed of trust pursuant to which any Credit Party shall have granted to the Agent a mortgage lien on such Credit Party=s Mortgaged Property, and shall include all Mortgage Amendments and Additional Mortgages.

AMortgage Amendments@ shall have the meaning provided in Section 5.12.

AMortgage Policies@ shall mean the mortgage title insurance policies issued in respect of each of the Mortgaged Properties.

AMortgaged Properties@ shall mean all Real Property of the Credit Parties listed on Schedule IV and designated as Existing Mortgaged Properties therein and all Additional Mortgaged Properties.

ANet Debt Proceeds@ shall mean, with respect to any incurrence of Indebtedness for borrowed money, the cash proceeds (net of underwriting discounts and commissions and other reasonable costs associated therewith) received by the respective Person from the respective incurrence of such Indebtedness for borrowed money.

ANet Equity Proceeds@ shall mean, with respect to each issuance or sale of any equity by any Person or any capital contribution to such Person, the cash proceeds (net of underwriting discounts and commissions and other reasonable costs associated therewith) received by such Person from the respective sale of issuance of its equity or from the respective capital contribution.

ANet Insurance Proceeds@ shall mean, with respect to any Recovery Event, the cash proceeds (net of reasonable costs and taxes incurred in connection with such Recovery Event) received by the respective Person in connection with the respective Recovery Event.

ANet Sale Proceeds@ shall mean, for any Asset Sale, the gross cash proceeds (including any cash received by way of deferred payment pursuant to a promissory note, receivable or otherwise, but only as and when received) received from such sale of assets, net of the reasonable costs of such sale (including fees and commissions, payments of unassumed liabilities relating to the assets sold and required payments of any Indebtedness (other than Indebtedness secured pursuant to the Security Documents) which is secured by the respective assets which were sold), and the incremental taxes paid or payable as a result of such Asset Sale.

ANew Jersey Joint Venture Agreement@ shall have the meaning provided in Section 5.07.

ANew Jersey Joint Venture Entities@ shall mean, collectively, FRPRLP, GSPRLP, Pennwood, FR Park Services and GS Park Services.

ANew Jersey Shareholders= Agreement@ shall mean the Shareholders= Agreement dated of even date herewith, by, between and among those entities listed on Exhibit A attached thereto entered into in connection with the Transaction.

ANon-Continuing Bank@ shall mean each Original Bank which does not have a commitment under this Agreement on the Restatement Effective Date.

ANon-Defaulting Bank@ shall mean and include each Bank other than a Defaulting Bank.

ANon-Primary Location@ shall have the meaning provided in the Act referred to in clause (i) of the definition of AAct@.

ANote@ or ANotes@ shall mean, collectively, the Revolving Notes(s) and the Term Note(s).

ANotice of Borrowing@ shall have the meaning provided in Section 1.03(a).

ANotice of Conversion@ shall have the meaning provided in Section 1.06.

ANotice Office@ shall mean the office of the Agent located at 600 Penn Street, P.O. Box 1102 - PA 6464, Reading, PA 19603 Attn: Lynn B. Eagleson, Vice President, Facsimile No.: (610) 655-1027, or such other office as the Agent may hereafter designate in writing as such to the other parties hereto.

AObligations@ shall mean all amounts owing to the Agent, the Issuing Bank or any Bank pursuant to the terms of this Agreement or any other Credit Document.

AOriginal Bank@ shall mean each Person which was a Bank under, and as defined in, the Original Credit Agreement immediately prior to the Restatement Effective Date.

AOriginal Credit Agreement@ shall have the meaning provided in the first AWhereas@ clause of this Agreement.

AOther Hedging Agreement@ shall mean any foreign exchange contracts, currency swap agreements, commodity agreements or other similar agreements or arrangements designed to protect against the fluctuations in currency values.

AParticipant@ shall have the meaning provided in Section 2.04(a).

APayment Office@ shall mean the office of the Agent located at 1345 Chestnut Street, Philadelphia, PA 19107, or such other office as the Agent may hereafter designate in writing as such to the other parties hereto.

APBGC@ shall mean the Pension Benefit Guaranty Corporation established pursuant to Section 4002 of ERISA, or any successor thereto.

APenn National Licenses@ shall mean the licenses to conduct thoroughbred racing issued to the Borrower or one Credit Party by the Pennsylvania Horse Racing Commission.

APenn National Race Track@ shall mean Penn National Race Track located in Dauphin County, Pennsylvania.

APennsylvania Harness Racing Commission@ shall mean the Pennsylvania State Harness Racing Commission (and any successor thereto).

APennsylvania Horse Racing Commission@ shall mean the Pennsylvania State Horse Racing Commission (and any successor thereto).

APennwood@ shall mean Pennwood Racing, Inc., a Delaware corporation and the general partner of FRPRLP and GSPRLP.

APercentage@ of any Bank at any time shall mean a fraction (expressed as a percentage) the numerator of which is the Commitment of such Bank at such time and the denominator of which is the Total Commitment at such time, provided that if the Percentage of any Bank is to be determined after the Total Commitment has been terminated, then the Percentages of the Banks shall be determined immediately prior (and without giving effect) to such termination.

APermitted Encumbrance@ shall mean, with respect to any Mortgaged Property, such exceptions to title as are set forth in the title insurance policy or title commitment delivered with respect thereto, all of which exceptions must be reasonably acceptable to the Agent in their reasonable discretion.

APermitted Holders@ shall mean Peter D. Carlino, his progeny and his or their spouses and any trusts over which any such Person has sole control (voting or otherwise) and which name as beneficiaries only such Person or such Person=s spouse or children.

APermitted Liens@ shall have the meaning provided in Section 8.01.

APerson@ shall mean any individual, partnership, joint venture, firm, corporation, association, limited liability company, trust or other enterprise or any government or political subdivision or any agency, department or instrumentality thereof.

APlains Company Acquisition Agreement@ shall mean the Purchase Agreement dated as of September 13, 1996, by and between the Estate of Joseph B. Banks and the Borrower.

APlan@ shall mean any pension plan as defined in Section 3(2) of ERISA, which is maintained or contributed to by (or to which there is an obligation to contribute of) the Borrower or a Subsidiary of the Borrower or an ERISA Affiliate, and each such plan for the five year period immediately following the latest date on which the Borrower, or a Subsidiary of the Borrower or an ERISA Affiliate maintained, contributed to or had an obligation to contribute to such plan.

APledge Agreement@ shall mean the Amended and Restated Pledge Agreement, required pursuant to Section 5.16, made by the Borrower and each Subsidiary Guarantor in favor of the Agent, as Pledgee, as such agreement may be modified, amended or supplemented from time to time.

APledge Agreement Collateral@ shall mean all ACollateral@ as defined in the Pledge Agreement.

APledgee@ shall have the meaning provided in the Pledge Agreement.

APledged Securities@ shall mean all APledged Securities@ as defined in the Pledge Agreement.

APocono Downs Licenses@ shall mean the licenses to conduct harness racing and off track facilities issued to the Borrower or one Credit Party by the Pennsylvania Harness Racing Commission.

APocono Downs Race Track@ shall mean Pocono Downs Race Track located in Luzerne County, Pennsylvania.

APrime Lending Rate@ shall mean the rate which Agent announces from time to time as its prime lending rate, the Prime Lending Rate to change when and as such prime lending rate changes. The Prime Lending Rate is a reference rate and does not necessarily represent the lowest or best rate actually charged to any customer. Agent may make commercial loans or other loans at rates of interest at, above or below the Prime Lending Rate.

AProjections@ shall mean the projections which were prepared by the Borrower for the four-year period after the Restatement Effective Date ending in December, 2002, and delivered to the Banks on or about January 6, 1999.

AQuarterly Payment Date@ shall mean each March 31, June 30, September 30 and December 31 occurring after the Restatement Effective Date.

ARCRA@ shall mean the Resource Conservation and Recovery Act, as the same may be amended from time to time, 42 U.S.C. ' 6901 et seq.

AReal Property@ of any Person shall mean all the right, title and interest of such Person in and to land, improvements and fixtures, including Leaseholds.

ARecovery Event@ shall mean the receipt by the Borrower or any Credit Party of any cash insurance proceeds or condemnation awards payable (i) by reason of theft, loss, physical destruction, damage, taking or any other similar event with respect to any property or assets of the Borrower or any Credit Party and (ii) under any policy of insurance required to be maintained under Section 7.03.

ARegister@ shall have the meaning provided in Section 12.15.

ARegulation D@ shall mean Regulation D of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof establishing reserve requirements.

ARegulation G@ shall mean Regulation G of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

ARegulation T@ shall mean Regulation T of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

ARegulation U@ shall mean Regulation U of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

ARegulation X@ shall mean Regulation X of the Board of Governors of the Federal Reserve System as from time to time in effect and any successor to all or a portion thereof.

ARelease@ shall mean the disposing, discharging, injecting, spilling, pumping, leaking, leaching, dumping, emitting, escaping, emptying, pouring or migrating, into or upon any land or water or air, or otherwise entering into the environment.

AReplaced Bank@ shall have the meaning provided in Section 1.13.

AReplacement Bank@ shall have the meaning provided in Section 1.13.

AReportable Event@ shall mean an event described in Section 4043(c) of ERISA with respect to a Plan that is subject to Title IV of ERISA other than those events as to which the 30-day notice period is waived under subsection .13, .14, .16, .18, .19 or .20 of PBGC Regulation Section 4043.

ARestatement Effective Date@ shall have the meaning provided in Section 12.10.

ARestricted Payments@ shall mean Dividends and payments on Subordinated Debt.

ARequired Banks@ shall mean Non-Defaulting Banks the sum of whose outstanding Commitments (or after the termination thereof, outstanding Loans and Percentage of Letter of Credit Outstanding) represent an amount greater than 66b% of the Total Commitment less the Commitments of all Defaulting Banks (or after the termination thereof, the sum of the then total outstanding Loans of Non-Defaulting Banks and the aggregate Percentages of all Non-Defaulting Banks of the total outstanding Letter of Credit Outstanding at such time).

ARevolving Loan(s)@ shall have the meaning provided in Section 1.01(a).

ARevolving Note(s)@ shall have the meaning provided in Section 1.05(a).

ARevolving Outstanding@ shall mean, at any time, the sum of (I) the aggregate principal amount of Loans then outstanding plus (II) the aggregate amount of Letter of Credit Outstanding at such time.

ASEC@ shall have the meaning provided in Section 7.01(h).

ASection 4.04(b)(ii) Certificate@ shall have the meaning provided in Section 4.04(b)(ii).

ASecured Creditors@ shall have the meaning assigned that term in the respective Security Documents.

ASecurities Act@ shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

ASecurities Exchange Act@ shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

ASecurity Agreement@ shall mean the Amended Restated Security Agreement, required pursuant to Section 5.15, dated of even date herewith, made by the Borrowers and each Subsidiary Guarantor in favor of the Agent, as such agreement may be modified, amended or supplemented from time to time.

ASecurity Agreement Collateral@ shall mean all ACollateral@ as defined in the Security Agreement.

ASecurity Agreement Term Loan Collateral@ shall mean all ATerm Loan Collateral@ as defined in the Security Agreement.

ASecurity Document@ shall mean and include each of the Security Agreement, the Pledge Agreement and each Mortgage and, after the execution and delivery thereof, each Additional Security Document.

ASenior Note Indenture@ shall mean the Indenture dated as of December 17, 1997 among the Borrower, the Subsidiary Guarantors and State Street Bank and Trust Company, as Trustee.

ASenior Notes@ shall mean the Borrower=s 10-5/8% Senior Note due 2004.

AShareholders= Agreements@ shall have the meaning provided in Section 5.06.

AStated Amount@ of each Letter of Credit shall, at any time, mean the maximum amount available to be drawn thereunder (in each case determined without regard to whether any conditions to drawing could then be met).

ASubordinated Debt@ shall mean indebtedness of Borrower or any Subsidiary subordinated to the Loans with subordination provisions in form and substance satisfactory to Banks including without limitation any payment and repurchase of the Senior Notes.

ASubsidiaries Guaranty@ shall mean the Amended and Restated Subsidiaries Guaranty, required pursuant to Section 5.14, made by each of the Subsidiary Guarantors, as such guaranty may be modified, amended or supplemented from time to time.

ASubsidiary@ shall mean, as to any Person, (i) any corporation more than 50% of whose stock of any class or classes having by the terms thereof ordinary voting power to elect a majority of the directors of such corporation (irrespective of whether or not at the time stock of any class or classes of such corporation shall have or might have voting power by reason of the happening of any contingency) is at the time owned by such Person and/or one or more Subsidiaries of such Person and (ii) any partnership, association, joint venture or other entity in which such Person and/or one or more Subsidiaries of such Person has more than a 50% equity interest at the time.

ASubsidiary Guarantor@ shall mean each direct and indirect Subsidiary of the Borrower (other than the Charles Town Joint Venture so long as the Charles Town Joint Venture is a non-Wholly-Owned Subsidiary of the Borrower).

ATax Sharing Agreements@ shall have the meaning provided in Section 5.06.

ATaxes@ shall have the meaning provided in Section 4.04(a).

ATennessee Downs@ shall mean Tennessee Downs, Inc., a Tennessee corporation.

ATerm Loan@ shall have the meaning provided in Section 1.01(b).

ATerm Loan Maturity Date@ shall mean the earlier of December 31, 1999 or the date on which Banks may accelerate the loan pursuant to the last paragraph of Section 9 hereof.

ATest Period@ shall mean the four consecutive fiscal quarters of the Borrower then last ended (in each case taken as one accounting period).

ATotal Commitment@ shall mean, at any time, the sum of the Commitments of the Banks.

ATotal Unutilized Commitment@ shall mean, at any time, an amount equal to the remainder of (x) the Total Commitment then in effect less (y) the sum of the aggregate principal amount of Loans then outstanding plus the then aggregate amount of Letter of Credit Outstanding.

ATransaction@ shall have the meaning provided in Section 5.07.

ATransaction Conversion@ means the issuance to Borrower or a wholly-owned Subsidiary of a 50% or more equity interest in Pennwood and a 49.95% or more limited partnership interest in each of FRPRLP, GSPRLP, FR Park Services and GS Park Services upon the following: (i) the issuance of appropriate New Jersey licenses to Borrower pursuant to the terms of Section 2.12 and (ii) an additional investment in the New Jersey Joint Venture Entities by Borrower or a wholly-owned Subsidiary of an amount not in excess of $11,750,000; or such other transaction structure as may be presented by the Borrower and approved by Required Banks, which approval shall not be unreasonably withheld.

ATransaction Documents@ shall have the meaning provided in Section 5.07.

AType@ shall mean the type of Loan determined with regard to the interest option applicable thereto, i.e., whether a Base Rate Loan or a Eurodollar Loan.

AUCC@ shall mean the Uniform Commercial Code as from time to time in effect in the relevant jurisdiction.

AUnfunded Current Liability@ of any Plan shall mean the amount, if any, by which the actuarial present value of the accumulated plan benefits under the Plan as of the close of its most recent plan year exceeds the fair market value of the assets allocable thereto, each determined in accordance with Statement of Financial Accounting Standards No. 87, based upon the actuarial assumptions used by the Plan=s actuary in the most recent annual valuation of the Plan.

AUnited States@ and AU.S.@ shall each mean the United States of America.

AUnpaid Drawing@ shall have the meaning provided for in Section 2.05(a).

AUnutilized Commitment@ shall mean, with respect to any Bank at any time, such Bank=s Commitment at such time less the sum of (i) the aggregate outstanding principal amount of Revolving Loans made by such Bank and (ii) such Bank=s Percentage of the Letters of Credit Outstanding.

AWest Virginia Lottery Commission@ shall mean the West Virginia Lottery Commission (and any successor thereto).

AWest Virginia Racing Commission@ shall mean the West Virginia Racing Commission (and any successor thereto).

AWholly-Owned Subsidiary@ shall mean, as to any Person, (i) any corporation 100% of whose capital stock (other than director=s qualifying shares) is at the time owned by such Person and/or one or more Wholly-Owned Subsidiaries of such Person and (ii) any partnership, association, joint venture or other entity in which such Person and/or one or more Wholly-Owned Subsidiaries of such Person has a 100% equity interest at such time.

AYear 2000 Compliant@ shall mean, as to any computer system or application or micro-processor dependent good or equipment, that it is designed and intended to be used prior to, during and after the calendar year 2000 AD and that it will operate as designed and intended during each such time period without error relating to date data or date information, specifically including any error relating to, or the product of, date data or date information that represents or references different centuries or more than one century.

The Agent.

295 Appointment. The Banks hereby irrevocably designate First Union as Agent to act as specified herein and in the other Credit Documents. Each Bank hereby irrevocably authorizes, and each holder of any Note, by the acceptance of such Note, shall be deemed irrevocably to authorize, the Agent to take such action on their behalf under the provisions of this Agreement, the other Credit Documents and any other instruments and agreements referred to herein or therein and to exercise such powers and to perform such duties hereunder and thereunder as are specifically delegated to or required of the Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto. The Agent may perform any of its respective duties hereunder by or through its respective officers, directors, agents, employees or affiliates.

296 Nature of Duties. The Agent shall not have any duties or responsibilities except those expressly set forth in this Agreement and in the other Credit Documents. Neither the Agent, nor any of its respective officers, directors, agents, employees or affiliates shall be liable for any action taken or omitted by them hereunder or under any other Credit Document or in connection herewith or therewith, unless caused by its or their gross negligence or willful misconduct. The duties of the Agent shall be mechanical and administrative in nature; the Agent shall not have by reason of this Agreement or any other Credit Document a fiduciary relationship in respect of any Bank or the holder of any Note; and nothing in this Agreement or any other Credit Document, expressed or implied, is intended to or shall be so construed as to impose upon the Agent any obligations in respect of this Agreement or any other Credit Document except as expressly set forth herein or therein.

297 Lack of Reliance on the Agent. Independently and without reliance upon the Agent, each Bank and the holder of each Note, to the extent it deems appropriate, has made and shall continue to make (i) its own independent investigation of the financial condition and affairs of the Borrower and its Subsidiaries in connection with the making and the continuance of the Loans and the taking or not taking of any action in connection herewith and (ii) its own appraisal of the creditworthiness of the Borrower and its Subsidiaries and, except as expressly provided in this Agreement, the Agent shall not have any duty or responsibility, either initially or on a continuing basis, to provide any Bank or the holder of any Note with any credit or other information with respect thereto, whether coming into its possession before the making of the Loans or at any time or times thereafter. The Agent shall not be responsible to any Bank or the holder of any Note for any recitals, statements, information, representations or warranties herein or in any document, certificate or other writing delivered in connection herewith or for the execution, effectiveness, genuineness, validity, enforceability, perfection, collectibility, priority or sufficiency of this Agreement or any other Credit Document or the financial condition of the Borrower or any Credit Party or be required to make any inquiry concerning either the performance or observance of any of the terms, provisions or conditions of this Agreement or any other Credit Document, or the financial condition of the Borrower or any Credit Party or the existence or possible existence of any Default or Event of Default.

298 Certain Rights of the Agent. If the Agent shall request instructions from the Required Banks with respect to any act or action (including failure to act) in connection with this Agreement or any other Credit Document, the Agent shall be entitled to refrain from such act or taking such action unless and until the Agent shall have received instructions from the Required Banks; and the Agent shall not incur liability to any Person by reason of so refraining. Without limiting the foregoing, no Bank or the holder of any Note shall have any right of action whatsoever against the Agent as a result of the Agent acting or refraining from acting hereunder or under any other Credit Document in accordance with the instructions of the Required Banks.

299 Reliance. The Agent shall be entitled to rely, and shall be fully protected in relying, upon any note, writing, resolution, notice, statement, certificate, telex, teletype or telecopier message, cablegram, radiogram, order or other document or telephone message signed, sent or made by any Person that the Agent believed to be the proper Person, and, with respect to all legal matters pertaining to this Agreement and any other Credit Document and its duties hereunder and thereunder, upon advice of counsel selected by the Agent.

300 Indemnification. To the extent the Agent is not reimbursed and indemnified by the Borrower or any Credit Party, the Banks will reimburse and indemnify the Agent in proportion to their respective Apercentage@ as used in determining the Required Banks, for and against any and all liabilities, obligations, losses, damages, penalties, claims, actions, judgments, costs, expenses or disbursements of whatsoever kind or nature which may be imposed on, asserted against or incurred by the Agent in performing its respective duties hereunder or under any other Credit Document, in any way relating to or arising out of this Agreement or any other Credit Document; provided that no Bank shall be liable for any portion of such liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements resulting from the Agent=s gross negligence or willful misconduct.

301 The Agent in its Individual Capacity. With respect to its obligation to make Loans or issue or participate in Letters of Credit under this Agreement, the Agent shall have the rights and powers specified herein for a ABank@ and may exercise the same rights and powers as though it were not performing the duties specified herein; and the term ABanks,@ ARequired Banks,@ Aholders of Notes@ or any similar terms shall, unless the context clearly otherwise indicates, include the Agent in its respective individual capacity. The Agent and its affiliates may accept deposits from, lend money to, and generally engage in any kind of banking, investment banking, trust or other business with, or provide debt financing, equity capital or other services (including financial advisory services) to, any Credit Party or any Affiliate of any Credit Party (or any Person engaged in a similar business with any Credit Party or any Affiliate thereof) as if they were not performing the duties specified herein, and may accept fees and other consideration from any Credit Party or any Affiliate of any Credit Party for services in connection with this Agreement and otherwise without having to account for the same to the Banks.

302 Holders. The Agent may deem and treat the payee of any Note as the owner thereof for all purposes hereof unless and until a written notice of the assignment, transfer or endorsement thereof, as the case may be, shall have been filed with the Agent. Any request, authority or consent of any Person who, at the time of making such request or giving such authority or consent, is the holder of any Note shall be conclusive and binding on any subsequent holder, transferee, assignee or endorsee, as the case may be, of such Note or of any note or notes issued in exchange therefor.

303 Resignation by the Agent. (a) The Agent may resign from the performance of all its functions and duties hereunder and/or under the other Credit Documents at any time by giving 15 Business Days= prior written notice to the Banks. Such resignation shall take effect upon the appointment of a successor Agent pursuant to clauses (b) and (c) below or as otherwise provided below.

304 Upon any such notice of resignation by the Agent, the Required Banks shall appoint a successor Agent hereunder or thereunder who shall be a commercial bank or trust company reasonably acceptable to the Borrower.

305 If a successor Agent shall not have been so appointed within such 15 Business Day period, the Agent with the consent of the Borrower (which consent shall not be unreasonably withheld or delayed), shall then appoint a successor Agent who shall serve as Agent hereunder or thereunder until such time, if any, as the Required Banks appoint a successor Agent as provided above.

306 If no successor Agent has been appointed pursuant to clause (b) or (c) above by the 20th Business Day after the date such notice of resignation was given by the Agent, the Agent=s resignation shall become effective and the Required Banks shall thereafter perform all the duties of the Agent hereunder and/or under any other Credit Document until such time, if any, as the Required Banks appoint a successor Agent as provided above.

Miscellaneous.

307 Payment of Expenses, etc. The Borrower shall: (i) whether or not the transactions herein contemplated are consummated, pay all reasonable out-of-pocket costs and expenses of the Agent (including, without limitation, the reasonable fees and disbursements of Pepper Hamilton LLP and of the Agent=s local racing and other counsel and consultants) in connection with the preparation, execution and delivery of this Agreement and the other Credit Documents and the documents and instruments referred to herein and therein and any amendment, waiver or consent relating hereto or thereto, of the Agent in connection with their syndication efforts with respect to this Agreement and of the Agent and, after the occurrence of an Event of Default, each of the Banks in connection with the enforcement of this Agreement and the other Credit Documents and the documents and instruments referred to herein and therein (including, without limitation, the reasonable fees and disbursements of counsel for the Agent and, after the occurrence of an Event of Default, for each of the Banks); (ii) pay and hold each of the Banks harmless from and against any and all present and future stamp, excise and other similar documentary taxes with respect to the foregoing matters and save each of the Banks harmless from and against any and all liabilities with respect to or resulting from any delay or omission (other than to the extent attributable to such Bank) to pay such taxes; and (iii) indemnify the Agent and each Bank, and each of their respective officers, directors, employees, representatives and agents from and hold each of them harmless against any and all liabilities, obligations (including removal or remedial actions), losses, damages, penalties, claims, actions, judgments, suits, costs, expenses and disbursements (including reasonable attorneys= and consultants= fees and disbursements) incurred by, imposed on or assessed against any of them as a result of, or arising out of, or in any way related to, or by reason of, (a) any investigation, litigation or other proceeding (whether or not the Agent or any Bank is a party thereto and whether or not such investigation, litigation or other proceeding is brought by or on behalf of any Credit Party) related to the entering into and/or performance of this Agreement or any other Credit Document or the use of any Letter of Credit or the proceeds of any Loans or the Term Loan hereunder or the consummation of any Transaction or any other transactions contemplated herein or in any other Credit Document or the exercise of any of their rights or remedies provided herein or in the other Credit Documents, or (b) the actual or alleged presence of Hazardous Materials in the air, surface water or groundwater or on the surface or subsurface of any Real Property owned or at any time operated by the Borrower or any Credit Party, the generation, storage, transportation, handling or disposal of Hazardous Materials at any location, whether or not owned or operated by the Borrower or any Credit Party, the non-compliance of any Real Property with foreign, federal, state and local laws, regulations, and ordinances (including applicable permits thereunder) applicable to any Real Property, or any Environmental Claim asserted against the Borrower, any Credit Party or any Real Property owned or at any time operated by the Borrower or any Credit Party, including, in each case, without limitation, the reasonable fees and disbursements of counsel and other consultants incurred in connection with any such investigation, litigation or other proceeding (but excluding any losses, liabilities, claims, damages or expenses to the extent incurred by reason of the gross negligence or willful misconduct of the Person to be indemnified). To the extent that the undertaking to indemnify, pay or hold harmless the Agent or any Bank set forth in the preceding sentence may be unenforceable because it is violative of any law or public policy, the Borrower shall make the maximum contribution to the payment and satisfaction of each of the indemnified liabilities which is permissible under applicable law.

308 Right of Setoff. In addition to any rights now or hereafter granted under applicable law or otherwise, and not by way of limitation of any such rights, upon the occurrence of an Event of Default, each Bank is hereby authorized (to the extent not prohibited by applicable law) at any time or from time to time, without presentment, demand, protest or other notice of any kind to the Borrower or to any other Person, any such notice being hereby expressly waived, to set off and to appropriate and apply any and all deposits (general or special) and any other Indebtedness at any time held or owing by such Bank (including, without limitation, by branches and agencies of such Bank wherever located) to or for the credit or the account of any Credit Party against and on account of the Obligations and liabilities of the Credit Parties to such Bank under this Agreement or under any of the other Credit Documents, including, without limitation, all interests in Obligations purchased by such Bank pursuant to Section 12.06(b), and all other claims of any nature or description arising out of or connected with this Agreement or any other Credit Document, irrespective of whether or not such Bank shall have made any demand hereunder and although said Obligations, liabilities or claims, or any of them, shall be contingent or unmatured.

309 Notices. Except as otherwise expressly provided herein, all notices and other communications provided for hereunder shall be in writing (including telegraphic, telex, telecopier or cable communication) and mailed, telegraphed, telexed, telecopied, cabled or delivered: if to any Credit Party, at the address specified opposite its signature below or in the other relevant Credit Documents; if to any Bank, at its address specified on Schedule II; and if to the Agent, at the Notice Office; or, as to any Credit Party, or the Agent, at such other address as shall be designated by such party in a written notice to the other parties hereto and, as to each Bank, at such other address as shall be designated by such Bank in a written notice to the Borrower and the Agent. All such notices and communications shall, when mailed, telegraphed, telexed, telecopied, or cabled or sent by overnight courier, be effective when deposited in the mails, delivered to the telegraph company, cable company or overnight courier, as the case may be, or sent by telex or telecopier, except that notices and communications to the Agent shall not be effective until received by the Agent.

310 Benefit of Agreement; Assignments; Participations. (a) This Agreement shall be binding upon and inure to the benefit of and be enforceable by the respective successors and assigns of the parties hereto; provided, however, the Borrower may not assign or transfer any of its rights, obligations or interest hereunder without the prior written consent of the Banks and, provided further, that, although any Bank may transfer, assign or grant participations in its rights hereunder in a minimum amount of $5,000,000, such Bank shall remain a ABank@ for all purposes hereunder (and may not transfer or assign all or any portion of its Commitment hereunder except as provided in Sections 1.13 and 12.04(b)) and the transferee, assignee or participant, as the case may be, shall not constitute a ABank@ hereunder and, provided further, that no Bank shall transfer or grant any participation under which the participant shall have rights to approve any amendment to or waiver of this Agreement or any other Credit Document except to the extent such amendment or waiver would (i) extend the final scheduled maturity of any Loan, Note or Letter of Credit (unless such Letter of Credit is not extended beyond the Final Maturity Date) in which such participant is participating, or reduce the rate or extend the time of payment of interest or Fees thereon (except in connection with a waiver of applicability of any post-default increase in interest rates) or reduce the principal amount thereof, or increase the amount of the participant=s participation over the amount thereof then in effect (it being understood that a waiver of any Default or Event of Default or of a mandatory reduction in the Total Commitment, shall not constitute a change in the terms of such participation, and that an increase in Commitment or any Loan shall be permitted without the consent of any participant if the participant=s participation is not increased as a result thereof), (ii) consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement or (iii) release all or substantially all of the Collateral under all of the Security Documents (except as expressly provided in the Credit Documents). In the case of any such participation, the participant shall not have any rights under this Agreement or any of the other Credit Documents (the participant=s rights against such Bank in respect of such participation to be those set forth in the agreement executed by such Bank in favor of the participant relating thereto) and all amounts payable by the Borrower hereunder shall be determined as if such Bank had not sold such participation.

311 Notwithstanding the foregoing, any Bank (or any Bank together with one or more other Banks) may (x) assign all or a portion of its Commitment or the Term Loan and related outstanding Obligations hereunder to its parent company and/or any affiliate of such Bank which is at least 50% owned by such Bank or its parent company or to one or more Banks or (y) assign all, or if less than all, a portion equal to at least $5,000,000 in the aggregate for the assigning Bank or assigning Banks, of such Commitments or the Term Loan hereunder to one or more Eligible Transferees, each of which assignees shall become a party to this Agreement as a Bank by execution of an Assignment and Assumption Agreement, provided that, (i) at such time Schedule I shall be deemed modified to reflect the Commitments of such new Bank and of the existing Banks, (ii) upon the surrender of the old notes by the assigning Bank (or, upon such assigning Bank=s indemnifying the Borrower for any lost Note pursuant to a customary indemnification agreement) new Notes will be issued, at the Borrower=s expense, to such new Bank and to the assigning Bank upon the request of such new Bank or assigning Bank, such new Notes to be in conformity with the requirements of Section 1.05 (with appropriate modifications) to the extent needed to reflect the revised Commitments, (iii) the consent of the Agent and Borrower shall be required in connection with any assignment to an Eligible Transferee pursuant to clause (y) above, which consents shall not be unreasonably withheld or delayed; provided, however, that Borrower=s consent shall not be required if a Default or Event of Default has occurred and is continuing, (iv) the Agent shall receive at the time of each such assignment, from the assigning or assignee Bank, the payment of a non-refundable assignment fee of $3,500 and (v) no such transfer or assignment will be effective until recorded by the Agent on the Register pursuant to Section 12.15. To the extent of any assignment pursuant to this Section 12.04(b), the assigning Bank shall be relieved of its obligations hereunder with respect to its assigned Commitment. At the time of each assignment pursuant to this Section 12.04(b) to a Person which is not already a Bank hereunder and which is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) for Federal income tax purposes, the respective assignee Bank shall, to the extent legally entitled to do so, provide to the Borrower the appropriate Internal Revenue Service Forms (and, if applicable, a Section 4.04(b)(ii) Certificate) described in Section 4.04(b). To the extent that an assignment of all or any portion of a Bank=s Commitment pursuant to Section 1.13 or this Section 12.04(b) would, at the time of such assignment, result in increased costs under Section 1.10, 2.06 or 4.04 from those being charged by the respective assigning Bank prior to such assignment, then the Borrower shall not be obligated to pay such increased costs (although the Borrower, in accordance with and pursuant to the other provisions of this Agreement, shall be obligated to pay any other increased costs of the type described above resulting from changes after the date of the respective assignment).

312 Nothing in this Agreement shall prevent or prohibit any Bank from pledging its Loans or Notes hereunder to a Federal Reserve Bank in support of borrowings made by such Bank from such Federal Reserve Bank.

313 No Waiver; Remedies Cumulative. No failure or delay on the part of the Agent or any Bank in exercising any right, power or privilege hereunder or under any other Credit Document and no course of dealing between the Borrower or any other Credit Party and the Agent or any Bank shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder or under any other Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder or thereunder. The rights, powers and remedies herein or in any other Credit Document expressly provided are cumulative and not exclusive of any rights, powers or remedies which the Agent or any Bank would otherwise have. No notice to or demand on any Credit Party in any case shall entitle any Credit Party to any other or further notice or demand in similar or other circumstances or constitute a waiver of the rights of the Agent or any Bank to any other or further action in any circumstances without notice or demand.

314 Payments Pro Rata. (a) Except as otherwise provided in this Agreement, the Agent agrees that promptly after its receipt of each payment from or on behalf of the Borrower in respect of any Obligations hereunder, it shall distribute such payment to the Banks (other than any Bank that has consented in writing to waive its pro rata share of any such payment) pro rata based upon their respective shares, if any, of the Obligations with respect to which such payment was received.

315 Each of the Banks agrees that, if it should receive any amount hereunder (whether by voluntary payment, by realization upon security, by the exercise of the right of setoff or banker=s lien, by counterclaim or cross action, by the enforcement of any right under the Credit Documents, or otherwise), which is applicable to the payment of the principal of, or interest on, the Loans, Unpaid Drawings, Commitment Commission or Letter of Credit Fees, of a sum which with respect to the related sum or sums received by other Banks is in a greater proportion than the total of such Obligation then owed and due to such Bank bears to the total of such Obligation then owed and due to all of the Banks immediately prior to such receipt, then such Bank receiving such excess payment shall purchase for cash without recourse or warranty from the other Banks an interest in the Obligations of the respective Credit Party to such Banks in such amount as shall result in a proportional participation by all the Banks in such amount; provided that if all or any portion of such excess amount is thereafter recovered from such Bank, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest.

316 Notwithstanding anything to the contrary contained herein, the provisions of the preceding Sections 12.06(a) and (b) shall be subject to the express provisions of this Agreement which require, or permit, differing payments to be made to Non-Defaulting Banks as opposed to Defaulting Banks.

317 Calculations; Computations; Accounting Terms. (a) The financial statements to be furnished to the Banks pursuant hereto shall be made and prepared in accordance with generally accepted accounting principles in the United States consistently applied throughout the periods involved (except as set forth in the notes thereto or as otherwise disclosed in writing by the Borrower to the Banks); provided that, except as otherwise specifically provided herein, all computations of Commitment Commission and Applicable Margin, and all computations and all definitions used in determining compliance with Sections 8.08 through 8.11, inclusive, shall utilize accounting principles and policies in conformity with those used to prepare the historical financial statements of the Borrower delivered to the Banks referred to in Section 6.05(a).

318 All computations of interest, Commitment Commission and other Fees hereunder shall be made on the basis of a year of 360 days for the actual number of days (including the first day but excluding the last day; except that in the case of Letter of Credit Fees, the last day shall be included) occurring in the period for which such interest, Loan Commitment Commission or Fees are payable.

319 GOVERNING LAW; SUBMISSION TO JURISDICTION; VENUE; WAIVER OF JURY TRIAL. (a) THIS AGREEMENT AND THE OTHER CREDIT DOCUMENTS AND THE RIGHTS AND OBLIGATIONS OF THE PARTIES HEREUNDER AND THEREUNDER SHALL, EXCEPT AS OTHERWISE PROVIDED IN THE MORTGAGES, BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE COMMONWEALTH OF PENNSYLVANIA, WITHOUT REFERENCE TO CHOICE OF LAW PROVISIONS. ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE COMMONWEALTH OF PENNSYLVANIA OR OF THE UNITED STATES FOR THE EASTERN DISTRICT OF PENNSYLVANIA, AND, BY EXECUTION AND DELIVERY OF THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT, THE BORROWER HEREBY IRREVOCABLY ACCEPTS FOR ITSELF AND IN RESPECT OF ITS PROPERTY, GENERALLY AND UNCONDITIONALLY, THE JURISDICTION OF THE AFORESAID COURTS. THE BORROWER HEREBY FURTHER IRREVOCABLY WAIVES ANY CLAIM THAT ANY SUCH COURTS LACK PERSONAL JURISDICTION OVER THE

BORROWER, AND AGREES NOT TO PLEAD OR CLAIM, IN ANY LEGAL ACTION PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENTS BROUGHT IN ANY OF THE AFOREMENTIONED COURTS, THAT SUCH COURTS LACK PERSONAL JURISDICTION OVER THE BORROWER. THE BORROWER FURTHER IRREVOCABLY CONSENTS TO THE SERVICE OF PROCESS OUT OF ANY OF THE AFOREMENTIONED COURTS IN ANY SUCH ACTION OR PROCEEDING BY THE MAILING OF COPIES THEREOF BY REGISTERED OR CERTIFIED MAIL, POSTAGE PREPAID, TO THE BORROWER AT ITS ADDRESS SET FORTH OPPOSITE ITS SIGNATURE BELOW, SUCH SERVICE TO BECOME EFFECTIVE 30 DAYS AFTER SUCH MAILING. THE BORROWER HEREBY IRREVOCABLY WAIVES ANY OBJECTION TO SUCH SERVICE OF PROCESS AND FURTHER IRREVOCABLY WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY ACTION OR PROCEEDING COMMENCED HEREUNDER OR UNDER ANY OTHER CREDIT DOCUMENT THAT SERVICE OF PROCESS WAS IN ANY WAY INVALID OR INEFFECTIVE. NOTHING HEREIN SHALL AFFECT THE RIGHT OF THE AGENT, ANY BANK OR THE HOLDER OF ANY REVOLVING NOTE TO SERVE PROCESS IN ANY OTHER MANNER PERMITTED BY LAW OR TO COMMENCE LEGAL PROCEEDINGS OR OTHERWISE PROCEED AGAINST THE BORROWER IN ANY OTHER JURISDICTION.

320 THE BORROWER HEREBY IRREVOCABLY WAIVES ANY OBJECTION WHICH IT MAY NOW OR HEREAFTER HAVE TO THE LAYING OF VENUE OF ANY OF THE AFORESAID ACTIONS OR PROCEEDINGS ARISING OUT OF OR IN CONNECTION WITH THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT BROUGHT IN THE COURTS REFERRED TO IN CLAUSE (a) ABOVE AND HEREBY FURTHER IRREVOCABLY, TO THE EXTENT PERMITTED BY APPLICABLE LAW, WAIVES AND AGREES NOT TO PLEAD OR CLAIM IN ANY SUCH COURT THAT ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

321 EACH OF THE PARTIES TO THIS AGREEMENT HEREBY IRREVOCABLY WAIVES ALL RIGHT TO A TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE OTHER CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY.

322 Arbitration. Upon demand of any party hereto, whether made before or after institution of any judicial proceeding, any dispute, claim or controversy arising out of, connected with or relating to this Agreement or the other Credit Documents (ADisputes@) shall be resolved by binding arbitration as provided herein. Institution of a judicial proceeding by a party does not waive the right of that party to demand arbitration hereunder. Disputes may include, without limitation, tort claims, counterclaims, disputes as to whether a matter is subject to arbitration, claims brought as class actions, claims arising from Credit Documents executed in the future, or claims arising out of or connected with the transaction reflected by this Agreement.

Arbitration shall be conducted under and governed by the Commercial Financial Disputes Arbitration Rules (the AArbitration Rules@) of the American Arbitration Association (the AAAA@) and Title 9 of the U.S. Code. All arbitration hearings shall be conducted in the city where the Payment Office is located. The expedited procedures set forth in Rule 53 et seq. of the Arbitration Rules shall be applicable to claims of less than $1,000,000. All applicable statutes of limitation shall apply to any Dispute. A judgment upon the award may be entered in any court having jurisdiction. The panel from which all arbitrators are selected shall be comprised of licensed attorneys. The single arbitrator selected for expedited procedure shall be a retired judge from the highest court of general jurisdiction, state or federal, of the state where the hearing will be conducted or if such person is not available to serve, the single arbitrator may be a licensed attorney. Notwithstanding the foregoing, this arbitration provision does not apply to disputes under or related to any Interest Rate Protection Agreement or Other Hedging Agreement.

323 Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original, but all of which shall together constitute one and the same instrument. A set of counterparts executed by all the parties hereto shall be lodged with the Borrower and the Agent.

324 Effectiveness. This Agreement shall become effective on the date (the ARestatement Effective Date@) on which (i) the Borrower, the Agent and each Continuing Bank shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered the same to the Agent at the Notice Office, or, in the case of the Continuing Banks, shall have given to the Agent telephonic (confirmed in writing), written, telex or telecopy notice (actually received) at such office that the same has been signed and mailed to it and (ii) the conditions contained in Section 5 are met to the satisfaction of the Agent and the Required Banks (determined immediately after the occurrence of the Restatement Effective Date). Unless the Agent has received actual notice from any Bank that the conditions contained in Section 5 have not been met to its satisfaction, upon the satisfaction of the condition described in clause (i) of the immediately preceding sentence and upon the Agent=s good faith determination that the conditions described in clause (ii) of the immediately preceding sentence have been met, then the Restatement Effective Date shall have been deemed to have occurred, regardless of any subsequent determination that one or more of the conditions thereto had not been met (although the occurrence of the Restatement Effective Date shall not release the Borrower from any liability for failure to satisfy one or more of the applicable conditions contained in Section 5). The Agent will give the Borrower and each Bank prompt written notice of the occurrence of the Restatement Effective Date.

325 Headings Descriptive. The headings of the several sections and subsections of this Agreement are inserted for convenience only and shall not in any way affect the meaning or construction of any provision of this Agreement.

326 Amendment or Waiver; etc. (a) Neither this Agreement nor any other Credit Document nor any terms hereof or thereof may be changed, waived, discharged or terminated unless such change, waiver, discharge or termination is in writing signed by the respective Credit Parties party thereto and the Required Banks, provided that no such change, waiver, discharge or termination shall, without the consent of each Bank (other than a Defaulting Bank), (i) extend the final scheduled maturity of any Loan or Note or extend the stated expiration date of any Letter of Credit beyond the Final Maturity Date, or reduce the rate or extend the time of payment of interest or Fees thereon, or reduce the principal amount thereof (except to the extent repaid in cash) (it being understood that any amendment or modification to the financial definitions in this Agreement or to Section 12.07(a) shall not constitute a reduction in the rate of interest or any Fees for purposes of this clause (i)), (ii) release all or substantially all of the Collateral (except as expressly provided in the Credit Documents) under all the Security Documents, (iii) amend, modify or waive any provision of this Section 12.12, (iv) reduce the percentage specified in the definition of Required Banks (it being understood that, with the consent of the Required Banks, additional extensions of credit pursuant to this Agreement may be included in the determination of the Required Banks on substantially the same basis as the Commitments are included on the Restatement Effective Date) or (v) consent to the assignment or transfer by the Borrower of any of its rights and obligations under this Agreement; provided further, that no such change, waiver, discharge or termination shall (w) increase the Commitment of any Bank over the amount thereof then in effect without the consent of such Bank (it being understood that waivers or modifications of conditions precedent, covenants, Defaults or Events of Default or of a mandatory reduction in the Total Commitment shall not constitute an increase of the Commitment of any Bank, and that an increase in the available portion of the Commitment of any Bank shall not constitute an increase of the Commitment of such Bank), (x) without the consent of the Issuing Bank, amend, modify or waive any provision of Section 2 or alter its rights or obligations with respect to Letters of Credit, (y) without the consent of the Agent, amend, modify or waive any provision of Section 11 or any other provision as same relates to the rights or obligations of the Agent or (z) without the consent of the Agent, amend, modify or waive any provision relating to the rights or obligations of the Agent.

If, in connection with any proposed change, waiver, discharge or termination to any of the provisions of this Agreement as contemplated by clauses (i) through (v), inclusive, of the first proviso to Section 12.12(a), the consent of the Required Banks is obtained but the consent of one or more of such other Banks whose consent is required is not obtained, then the Borrower shall have the right, so long as all non-consenting Banks whose individual consent is required are treated as described in either clauses (A) or (B) below, to either (A) replace each such non-consenting Bank or Banks with one or more Replacement Banks pursuant to Section 1.13 so long as at the time of such replacement, each such Replacement Bank consents to the proposed change, waiver, discharge or termination or (B) terminate such non-consenting Bank=s Commitment of such Bank in accordance with Sections 3.02(b) and/or 4.01(b), provided that, unless the Commitment that is terminated pursuant to preceding clause (B) is immediately replaced in full at such time through the addition of new Banks or the increase of the Commitments of existing Banks (who in each case must specifically consent thereto), then in the case of any action pursuant to preceding clause (B) the Required Banks (determined after giving effect to the proposed action) shall specifically consent thereto, provided further, that in any event the Borrower shall not have the right to replace a Bank, terminate its Commitment as a result of the exercise of such Bank=s rights (and the withholding of any required consent by such Bank) pursuant to the second proviso to Section 12.12(a)).

Survival. All indemnities set forth herein including, without limitation, in Sections 1.10, 1.11, 2.06, 4.04, 11.06 and 12.01 shall survive the execution, delivery and termination of this Agreement and the Notes and the making and repayment of the Obligations.

Domicile of Loans. Each Bank may transfer and carry its Loans at, to or for the account of any office, Subsidiary or Affiliate of such Bank. Notwithstanding anything to the contrary contained herein, to the extent that a transfer of Loans pursuant to this Section 12.14 would, at the time of such transfer, result in increased costs under Section 1.10, 1.11, 2.06 or 4.04 from those being charged by the respective Bank prior to such transfer, then the Borrower shall not be obligated to pay such increased costs (although the Borrower shall be obligated to pay any other increased costs of the type described above resulting from changes after the date of the respective transfer).

330 Register. The Borrower hereby designates the Agent to serve as the Borrower=s agent, solely for purposes of this Section 12.15, to maintain a register (the ARegister@) on which it will record the Commitments from time to time of each of the Banks, the Loans made by each of the Banks and each repayment in respect of the principal amount of the Loans of each Bank. Failure to make any such recordation, or any error in such recordation shall not affect the Borrower=s obligations in respect of such Loans. With respect to any Bank, the transfer of the Commitment of such Bank and the rights to the principal of, and interest on, any Loan made pursuant to such Commitment shall not be effective until such transfer is recorded on the Register maintained by the Agent with respect to ownership of such Commitment and Loans and prior to such recordation all amounts owing to the transferor with respect to such Commitment and Loans shall remain owing to the transferor. The registration of assignment or transfer of all or part of any Commitments and Loans shall be recorded by the Agent on the Register only upon the acceptance by the Agent of a properly executed and delivered Assignment and Assumption Agreement pursuant to Section 12.04(b). Coincident with the delivery of such an Assignment and Assumption Agreement to the Agent for acceptance and registration of assignment or transfer of all or part of a Loan, or as soon thereafter as practicable, the assigning or transferor Bank shall surrender the Note evidencing such Loan, and thereupon one or more new Notes in the same aggregate principal amount shall be issued to the assigning or transferor Bank and/or the new Bank. The Borrower agrees to indemnify the Agent from and against any and all losses, claims, damages and liabilities of whatsoever nature which may be imposed on, asserted against or incurred by the Agent in performing its duties under this Section 12.15.

331 Confidentiality. (a) Subject to the provisions of clause (b) of this Section 12.16, each Bank agrees that it will use its reasonable efforts not to disclose without the prior consent of the Borrower (other than to its employees, auditors, advisors or counsel or to another Bank if the Bank or such Bank=s holding or parent company in its sole discretion determines that any such party should have access to such information, provided such Persons shall be subject to the provisions of this Section 12.16 to the same extent as such Bank) any information with respect to the Borrower or any Credit Party which is now or in the future furnished pursuant to this Agreement or any other Credit Document and which is designated by the Borrower to the Banks in writing as confidential, provided that any Bank may disclose any such information (a) as has become generally available to the public other than by virtue of a breach of this Section 12.16(a) by the respective Bank, (b) as may be required or reasonably appropriate in any report, statement or testimony submitted to any municipal, state or Federal regulatory body having or claiming to have jurisdiction over such Bank or to the Federal Reserve Board or the Federal Deposit Insurance Corporation or similar organizations (whether in the United States or elsewhere) or their successors, (c) as may be required or reasonably appropriate in respect to any summons or subpoena or in connection with any litigation, (d) in order to comply with any law, order, regulation or ruling applicable to such Bank, (e) to the Agent and (f) to any prospective or actual transferee or participant in connection with any contemplated transfer or participation of any of the Notes or Commitments, or any interest therein by such Bank, provided that such prospective transferee agrees to be bound by the confidentiality provisions contained in this Section 12.16.

332 The Borrower hereby acknowledges and agrees that each Bank may share with any of its affiliates any information related to the Borrower or any Credit Party (including, without limitation, any nonpublic customer information regarding the creditworthiness of the Borrower and its Subsidiaries, provided such Persons shall be subject to the provisions of this

Section 12.16 to the same extent as such Bank).

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this Agreement as of the date first above written.

Address:
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 203
Wyomissing, Pennsylvania 19610
Attention: Chief Financial Officer
Telephone: (610) 376-2400
Facsimile: (610) 376-2842

PENN NATIONAL GAMING, INC.

By \s\Robert S. Ippolito
Name: Robert S. Ippolito
Title:Chief Financial Officer

FIRST UNION NATIONAL BANK,
successor by merger to
CoreStates Bank, N.A.,
Individually and as Agent

By \s\Lynn B. Eagleson
Name:Lynn B. Eagleson
Title:Vice President

SUMMIT BANK

By \s\Mary R. Balciar
Name:Mary R. Balciar
Title:Vice President

SCHEDULE I

REVOLVING LOANS COMMITMENT

Bank	Commitment
First Union National Bank	$10,000,000
Summit Bank	$10,000,000
TOTAL:	$20,000,000

SCHEDULE II

BANK ADDRESSES

Bank	Address
First Union National Bank	600 Penn Street Reading, Pennsylvania 19603 Attn: Lynn B. Eagleson Tel: 610-655-2950 Fax: 610-655-1027
Summit Bank	201 Granite Run Drive Suite 280 Lancaster, PA 17601 Attn: Mary Balciar Tel: (717) 581-0300 Fax: (717) 581-5394

SCHEDULE III

EXISTING LETTERS OF CREDIT

Beneficiary	Issuer	Amount	Expiration Date
The State Horseracing Commission	Bankers Trust	$100,000	12/31/99
The Horsemen=s Benevolent Protective Association	Bankers Trust	$1,776,000	12/31/99

EXHIBIT A

FORM OF NOTICE OF BORROWING

[Date]

First Union National Bank,
as Agent for the Banks party
to the Credit Agreement
referred to below

Attention: _____

Ladies and Gentlemen:

The undersigned, Penn National Gaming, Inc. (the ABorrower@), refers to the Second Amended and Restated Credit Agreement, dated January 28, 1999 (as amended from time to time, the ACredit Agreement,@ the terms defined therein being used herein as therein defined), among the Borrower, the lenders from time to time party thereto (the ABanks@) and you, as Agent for such Banks, and hereby gives you notice, irrevocably, pursuant to Section 1.03(a) of the Credit Agreement, that the undersigned hereby requests a Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Borrowing (the AProposed Borrowing@) as required by Section 1.03(a) of the Credit Agreement:

The Business Day of the Proposed Borrowing is _____.

The aggregate principal amount of the Proposed Borrowing is $_____.

The Proposed Borrowing shall consist of [$_____ of Eurodollar Loans] and [$_____ of Base Rate Loans].

[The initial Interest Period for the Eurodollar Loans shall be _____ months.]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Borrowing:

(A) the representations and warranties contained in the Credit Agreement and in the other Credit Documents are and will be true and correct in all material respects, both before and after giving effect to the Proposed Borrowing and to the application of the proceeds thereof, as though made on such date, unless stated to relate to a specific earlier date, in which case such representations and warranties shall be true and correct in all material respects as of such earlier date; and

(B) no Default or Event of Default has occurred and is continuing, or would result from such Proposed Borrowing or from the application of the proceeds thereof.

Very truly yours,

PENN NATIONAL GAMING, INC.

By: _____
Name:
Title:

EXHIBIT B-1
FORM OF AMENDED AND RESTATED
REVOLVING NOTE

$_____ Philadelphia, Pennsylvania
January __, 1999

FOR VALUE RECEIVED, PENN NATIONAL GAMING, INC. (the ABorrower@), a Pennsylvania corporation, hereby promises to pay to _____ or its registered assigns (the ABank@), in lawful money of the United States of America in immediately available funds, at the office of First Union National Bank (the AAgent) located at _____ on the Final Maturity Date (as defined in the Agreement referred to below) the principal sum of _____ DOLLARS ($_____) or, if less, the unpaid principal amount of all Revolving Loans (as defined in the Agreement) made by the Bank pursuant to the Agreement.

The Borrower promises also to pay interest on the unpaid principal amount hereof in like money at said office from the date hereof until paid at the rate and at the times provided in Section 1.08 of the Agreement.

This Amended and Restated Note (this ANote@) is one of the Revolving Notes referred to in the Second Amended and Restated Credit Agreement, dated January __, 1999, among the Borrower, the lenders from time to time party thereto (including the Bank), and the Agent (as amended, modified or supplemented from time to time, the AAgreement@) and is entitled to the benefits thereof and of the other Credit Documents (as defined in the Agreement). This Note is secured by the Security Documents (as defined in the Agreement) and is entitled to the benefits of the Subsidiaries Guaranty (as defined in the Agreement). This Note is subject to voluntary and mandatory prepayment or repayment prior to the Final Maturity Date, in whole or in part, as provided in the Agreement.

In case a Default or Event of Default (as defined in the Agreement) shall occur and be continuing, the principal of and accrued interest on this Note may become or be declared to be due and payable in the manner and with the effect provided in the Agreement.

The Borrower hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

This Note amends and restates the Note dated December 17, 1997 by Borrower in favor of Bank (the APrior Note@); provided, however, that the execution and delivery of this Note shall not in any circumstance be deemed to have terminated, extinguished or discharged Borrower=s indebtedness under such Prior Note, all of which indebtedness and the collateral security therefor shall continue under and be governed by this Note, the Agreement, and the Security Documents (as defined in the Agreement). This Note is an amendment and restatement of the Prior Note and is NOT A NOVATION. Nothing herein is intended to modify or in any way affect the priority of the liens and security interests which secure this Note in favor of Bank.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE COMMONWEALTH OF PENNSYLVANIA.

PENN NATIONAL GAMING, INC.

By:_____
Name:
Title:

EXHIBIT B-2

FORM OF TERM NOTE

$5,000,000 Philadelphia, Pennsylvania
January __, 1999

FOR VALUE RECEIVED, PENN NATIONAL GAMING, INC. (the ABorrower@), a Pennsylvania corporation, hereby promises to pay to FIRST UNION NATIONAL BANK or its registered assigns (the ABank@), in lawful money of the United States of America in immediately available funds, at the office of First Union National Bank (the AAgent@) located at 1345 Chestnut Street, Philadelphia, PA 19107 on the Term Loan Maturity Date (as defined in the Agreement referred to below) the principal sum of FIVE MILLION DOLLARS ($5,000,000) or, if less, the unpaid principal amount of all the Term Loans (as defined in the Agreement) made by the Bank pursuant to the Agreement.

The Borrower promises also to pay interest on the unpaid principal amount hereof in like money at said office from the date hereof until paid at the rate and at the times provided in Section 1.08 of the Agreement.

This Note is one of the Term Notes referred to in the Second Amended and Restated Credit Agreement, dated of even date herewith, among the Borrower, the lenders from time to time party thereto (including the Bank), and the Agent (as amended, modified or supplemented from time to time, the AAgreement@) and is entitled to the benefits thereof and of the other Credit Documents (as defined in the Agreement). This Note is secured by the Security Documents (as defined in the Agreement) and is entitled to the benefits of the Subsidiaries Guaranty (as defined in the Agreement). This Note is subject to voluntary and mandatory prepayment or repayment prior to the Term Loan Maturity Date, in whole or in part, as provided in the Agreement.

In case a Default or an Event of Default (as defined in the Agreement) shall occur and be continuing, the principal of and accrued interest on this Note may become or be declared to be due and payable in the manner and with the effect provided in the Agreement.

The Borrower hereby waives presentment, demand, protest or notice of any kind in connection with this Note.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND BE GOVERNED BY THE LAW OF THE COMMONWEALTH OF PENNSYLVANIA.

PENN NATIONAL GAMING, INC.

By:_____
Name:
Title:

EXHIBIT D

CALCULATION OF FUNDING LOSSES

If a Borrower is liable to a Bank for funding costs pursuant to Paragraph 3.3(e), 4.01 or 4.02(b) of the Credit Agreement, then on the repayment or prepayment date, such Borrower shall pay such Bank an amount, not less than zero, as calculated by Agent in accordance with the following formula:

(Eurodollar Rate, applicable to the Borrowing being repaid or prepaid minus one and one-fourth percent (1 1/4%) per annum) - (the Applicable Eurodollar Rate minus the Applicable Margin)

X

(the principal amount of the Borrowing not funded or being repaid or prepaid)

X

(the number of days in the Interest Period selected for any Borrowing not funded or the number of days to but excluding the last day in the Interest Period for any Borrowing being repaid or prepaid) divided by 365

The AApplicable Eurodollar Rate@ shall mean the Eurodollar Rate as defined in the Credit Agreement, determined at or about 11:00 a.m. London time on the first Business Day in London following the date of repayment or prepayment for deposits of United States Dollars in amount or amounts substantially equal in the aggregate to the amount being repaid or prepaid and with a maturity or maturities substantially equal to the period or periods of time between the date of repayment or prepayment and the date or dates such amount would otherwise have matured and become repayable under the Credit Agreement.

Exhibit E

FORM OF SECTION 4.04(b)(ii) CERTIFICATE

Reference is hereby made to the Second Amended and Restated Credit Agreement, dated as of January 28, 1999 among Penn National Gaming, Inc., a Pennsylvania corporation, the Banks party thereto from time to time, and First Union National Bank, a national banking association and successor by merger to CoreStates Bank, N.A., as Agent (the ACredit Agreement@). Pursuant to the provisions of Section 4.04(b)(ii) of the Credit Agreement, the undersigned hereby certifies that it is not a Abank@ as such term is used in Section 881(c)(3)(A) of the Internal Revenue Code of 1986, as amended.

[BANK]

Date: _____

By: _____
Name:
Title:

EXHIBIT H

FORM OF ACKNOWLEDGMENT LETTER

January __, 1999

First Union National Bank, as Agent
under the Credit Agreement
referred to below

Reference is hereby make to the Credit Agreement, dated as of November 27, 1996, and amended and restated as of December 17, 1997, among Penn National Gaming, Inc., the lenders party thereto on the date hereof (the ABanks@), CoreStates Bank, N.A., as Co-Agent, and Bankers Trust Company, as Agent (as amended, modified or supplemented through, but not including, the date hereof, the AExisting Credit Agreement@).

The Borrower intends to consummate a transaction whereby the Existing Credit Agreement shall be amended and restated (the Existing Credit Agreement, as so amended and restated, is hereinafter referred to as the ASecond Amended and Restated Credit Agreement@) and in connection with such amendment and restatement: (i) certain of the Banks shall no longer continue to be Banks under the Second Amended and Restated Credit Agreement; (ii) First Union National Bank, successor by merger to CoreStates Bank, N.A. shall replace Bankers Trust Company as the Agent under the Second Amended and Restated Credit Agreement and (iii) Summit Bank shall become a Bank under the Second Amended and Restated Credit Agreement.

This acknowledgment letter is to confirm that upon the effectiveness of the Second Amended and Restated Credit Agreement (which includes the payment of all Loans, interest, fees and other amounts due and owing under the Existing Credit Agreement and the termination of all Letters of Credit issued under such Existing Credit Agreement), (i) the Banks party to the Existing Credit Agreement and listed under the heading ACONTINUING BANKS@ on the signature page below shall continue to constitute Banks under, and as defined in, the Second Amended and Restated Credit Agreement and (ii) the Banks party to the Existing Credit Agreement listed under the heading ANON-CONTINUING BANKS@ on the signature page below shall cease to constitute Banks under, and as defined in, the Amended and Restated Credit Agreement, although any indemnification provisions under the Existing Credit Agreement and the other Credit Documents referred to therein which by their terms survive shall continue to be effective as to all Banks.

IN WITNESS WHEREOF, the parties hereto have caused their duly authorized officers to execute and deliver this acknowledgment letter as of the date first above written.

CONTINUING BANKS

FIRST UNION NATIONAL BANK,
successor by merger to
CoreStates Bank, N.A.

By:
Name:
Title:

NON-CONTINUING BANKS

BANKERS TRUST COMPANY

By
Name:
Title:

Acknowledged and Agreed:

SUMMIT BANK

By
Name:
Title:

PENN NATIONAL GAMING, INC.

By
Name:
Title:

EXHIBIT J

FORM OF SOLVENCY CERTIFICATE

I, the undersigned, the Chief Financial Officer of Penn National Gaming, Inc. (the ABorrower@), do hereby certify in such capacity and on behalf of the Borrower that:

This Certificate is furnished to the Agent and each of the Banks pursuant to Section 5.19 of the Second Amended and Restated Credit Agreement, dated January __, 1999, among the Borrower, the Banks party thereto from time to time, and First Union National Bank, (as Agent as may be amended, modified or supplemented from time to time, the ACredit Agreement@). Unless otherwise defined herein, capitalized terms used in this Certificate shall have the meanings set forth in the Credit Agreement.

For purposes of this Certificate, the terms below shall have the following definitions:

AFair Value@

The amount at which the assets, in their entirety, of the Borrower and its Subsidiaries (on a consolidated basis) would change hands between a willing buyer and a willing seller, within a commercially reasonable period of time, each having reasonable knowledge of the relevant facts, with neither being under any compulsion to act.

APresent Fair Salable Value@

The amount that could be obtained by an independent willing seller from an independent willing buyer if the assets of the Borrower and its Subsidiaries (on a consolidated basis) are sold with reasonable promptness under normal selling conditions in a current market.

AStated Liabilities@

The recorded liabilities (including contingent liabilities) that would be recorded in accordance with generally accepted accounting principles (AGAAP@) of the Borrower and its Subsidiaries (on a consolidated basis) at December 31, 1997, determined in accordance with GAAP consistently applied, together with the net change in long-term debt (including current maturities) between December 31, 1997 and the date hereof.

Identified Contingent Liabilities

The maximum estimated amount of liabilities reasonably likely to result from pending litigation, asserted claims and assessments, guaranties, uninsured risks and other contingent liabilities of each of the Borrower and its Subsidiaries (on a consolidated basis) after giving effect to the Transaction (exclusive of such contingent liabilities to the extent reflected in Stated Liabilities).

Will be able to pay its Stated Liabilities and Identified Contingent Liabilities, as they mature@

Each of the Borrower and its Subsidiaries (on a consolidated basis) will have sufficient assets and cash flow to pay their respective Stated Liabilities and Identified Contingent Liabilities as those liabilities mature or otherwise become payable.

Does not have Unreasonably Small Capital@

Each of the Borrower and its Subsidiaries (on a consolidated basis), after consummation of the Transaction and all Indebtedness (including the Loans and the Senior Notes) being incurred or assumed and Liens created by the Borrower and its Subsidiaries in connection therewith, is a going concern and has sufficient capital to ensure that it will continue to be a going concern for such period and to remain a going concern.

For purposes of this Certificate, I, or other officers of the Borrower under my direction and supervision, have performed the following procedures as of and for the periods set forth below.

I have reviewed the financial statements referred to in Section 6.05(a) of the Credit Agreement.

I have made inquiries of certain officials of the Borrower and its Subsidiaries, who have responsibility for financial and accounting matters regarding (i) the existence and amount of Identified Contingent Liabilities associated with the business of the Borrower and its Subsidiaries and (ii) whether the unaudited consolidated financial statements referred to in paragraph (a) above are in conformity with GAAP applied on a basis substantially consistent with that of the audited financial statements as at December 31, 1997.

I have knowledge of and have reviewed to my satisfaction the Credit Documents and the other Documents, and the respective Schedules and Exhibits thereto.

With respect to Identified Contingent Liabilities, I:

inquiredof certain officials of the Borrower and its Subsidiaries, who have responsibility for legal, financial and accounting matters, as to the existence and estimated liability with respect to all contingent liabilities known to them;

confirmed with officers of the Borrower and its Subsidiaries, that, to the best of such officers= knowledge, (i) all appropriate items were included in Stated Liabilities or the listing of Identified Contingent Liabilities and that (ii) the amounts relating thereto were the maximum estimated amount of liabilities reasonably likely to result therefrom as of the date hereof; and

I have examined the Projections which have been delivered to the Banks and considered the effect thereon of any changes since the date of the preparation thereof on the results projected therein. After such review, I hereby certify that in my opinion the Projections are reasonable and the Projections support the conclusions contained in paragraph 4 below.

I have made inquiries of certain officers of the Borrower and its Subsidiaries who have responsibility for financial reporting and accounting matters regarding whether they were aware of any events or conditions that, as of the date hereof, would cause the Borrower and its Subsidiaries (on a consolidated basis), after giving effect to the Transaction, to (i) have assets with a Fair Value or Present Fair Salable Value that are less than the sum of Stated Liabilities and Identified Contingent Liabilities; (ii) have Unreasonably Small Capital; or (iii) not be able to pay its Stated Liabilities and Identified Contingent Liabilities as they mature or otherwise become payable.

Based on and subject to the foregoing, I hereby certify on behalf of the Borrower that, after giving effect to the Transaction, it is my informed opinion that (i) the Fair Value and Present Fair Salable Value of the assets of the Borrower and its Subsidiaries (on a consolidated basis) exceed its Stated Liabilities and Identified Contingent Liabilities; (ii) the Borrower and its Subsidiaries (on a consolidated basis) do not have Unreasonably Small Capital; and (iii) the Borrower and its Subsidiaries (on a consolidated basis) will be able to pay their Stated Liabilities and Identified Contingent Liabilities, as they mature or otherwise become payable.

IN WITNESS WHEREOF, I have hereto set my hand this ___ day of January, 1999.

PENN NATIONAL GAMING, INC.

By: _____
Name:
Title:

EXHIBIT K
FORM OF ASSIGNMENT AND ASSUMPTION AGREEMENT

DATE: _____

Reference is made to the Credit Agreement described in Item 2 of Annex I annexed hereto (as such Credit Agreement may hereafter be amended, modified or supplemented from time to time, the "Credit Agreement"). Unless defined in Annex I attached hereto, terms defined in the Credit Agreement are used herein as therein defined. _____ (the AAssignor@) and _____ (the AAssignee@), intending to be legally bound, hereby agree as follows:

The Assignor hereby sells and assigns to the Assignee without recourse and without representation or warranty (other than as expressly provided herein), and the Assignee hereby purchases and assumes from the Assignor, that interest in and to all of the Assignor=s rights and obligations under the Credit Agreement as of the date hereof which represents the percentage interest specified in Item 4 of Annex I (the AAssigned Share@) of all of the outstanding rights and obligations under the Credit Agreement including, without limitation, all rights and obligations with respect to the Assigned Share of the Total Commitment and all outstanding Loans and Letters of Credit.

The Assignor (i) represents and warrants that it is the legal and beneficial owner of the interest being assigned by it hereunder and that such interest is free and clear of any adverse claims; (ii) makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or the other Credit Documents or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement or the other Credit Documents or any other instrument or document furnished pursuant thereto; and (iii) makes no representation or warranty and assumes no responsibility with respect to the financial condition of the Borrower or any of its Subsidiaries or the performance or observance by the Borrower or any of its Subsidiaries of any of their respective obligations under the Credit Agreement or the other Credit Documents or any other instrument or document furnished pursuant thereto.

The Assignee (i) confirms that it has received a copy of the Credit Agreement and the other Credit Documents, together with copies of the financial statements referred to therein and such other documents and information it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption Agreement; (ii) agrees that it will, independently and without reliance upon the Agent, the Assignor or any other Bank and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Credit Agreement; (iii) appoints and authorizes the Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement and the other Credit Documents as are delegated to the Agent by the terms thereof, together with such powers as are reasonably incidental thereto; [and] (iv) agrees that it will perform in accordance with their terms all of the obligations which by the terms of the Credit Agreement are required to be performed by it as a Bank[; and (v) attaches the forms and/or Certificate set forth in the penultimate sentence of Section 12.04(b) of the Credit Agreement.]1

Followingthe execution of this Assignment and Assumption Agreement by the Assignor and the Assignee, an executed original hereof (together with all attachments) will be delivered to the Agent. The effective date of this Assignment and Assumption Agreement shall be the date of: (i) execution hereof by the Assignor and the Assignee, to the extent required by the Credit Agreement; (ii) the receipt of the consent of the Agent; (iii) receipt by the Agent of the assignment fee referred to in Section 12.04(b) of the Credit Agreement; and (iv) the recordation by the Agent of the assignment effected hereby in the Register, unless otherwise specified in Item 5 of Annex I (the ASettlement Date@).

Upon the delivery of a fully executed original hereof to the Agent, as of the Settlement Date: (i) the Assignee shall be a party to the Credit Agreement and, to the extent provided in this Assignment and Assumption Agreement, have the rights and obligations of a Bank thereunder and under the other Credit Documents and (ii) the Assignor shall, to the extent provided in this Assignment and Assumption Agreement, relinquish its rights and be released from its obligations under the Credit Agreement and the other Credit Documents.

It is agreed that upon the effectiveness hereof, the Assignee shall be entitled to: (x) all interest in the Assigned Share of the Loans at the rates specified in Item 6 of Annex 1, (y) all Commitment Commission on the Assigned Share of the Total Commitment at the rate specified in Item 7 of Annex I and (z) all Letter of Credit Fees on the Assignee=s participation in all Letters of Credit at the rate specified in Item 8 of Annex 1, which, in each case, accrue on and after the Settlement Date (such interest, Commitment Commission and Letter of Credit Fees to be paid by the Agent directly to the Assignee). It is further agreed that all payments of principal made on the Assigned Share of the Loans which occur on and after the Settlement Date will be paid directly by the Agent to the Assignee. Upon the Settlement Date, the Assignee shall pay to the Assignor an amount specified by the Assignor in writing which represents the Assigned Share of the principal amount of the Loans made by the Assignor pursuant to the Credit Agreement which are outstanding on the Settlement Date, net of any closing costs, and which are being assigned hereunder. The Assignor and the Assignee shall make all appropriate adjustments in payments under the Credit Agreement for periods prior to the Settlement Date directly between themselves.

THIS ASSIGNMENT AND ASSUMPTION AGREEMENT SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE

COMMONWEALTH OF PENNSYLVANIA.

IN WITNESS WHEREOF, the parties hereto have caused this Assignment and Assumption Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written, such execution also being made on Annex I hereto.

[NAME OF ASSIGNOR],
as Assignor

By: _____
Name:
Title:

[NAME OF ASSIGNEE],
as Assignee

By: _____
Name:
Title:

[Acknowledged and Agreed:

FIRST UNION NATIONAL BANK, as Agent

By: _____
Name:
Title:

PENN NATIONAL GAMING, INC.

By: _____
Name:
Title:

ANNEX I FOR ASSIGNMENT AND ASSUMPTION AGREEMENT

1. The Borrower: Penn National Gaming, Inc.

2. Name and Date of Credit Agreement:

Second Amended and Restated Credit Agreement dated January 28, 1999 among Penn National Gaming, Inc., the lenders from time to time party thereto, and First Union National Bank, as Agent.

3. Date of Assignment Agreement:

4. Amounts (as of date of item #3 above):

	Commitment (Revolving Loans)			Term Loan (solely from First Union)	
a.	Aggregate Amount for all Banks	$_____	aa.	Aggregate Amount	$_____
b.	Assigned Share	_____%	bb.	Assigned Share	_____%
c.	Amount of Assigned Share	$_____	cc.	Amount of Assigned Share	$_____

5. Settlement Date: _____

6. Rate of Interest to the Assignee: (unless otherwise agreed to by the Assignor and the Assignee)3 As set forth in Section 1.08 of the Credit Agreement

7. Commitment As set forth in Section 3.01(a) of the Credit

Commission Agreement (unless otherwise agreed to by the Assignor and to the Assignee: the Assignee)

8. Letter of Credit Fee As set forth in Section 3.01(b) of the Credit Agreement to the Assignee: (unless otherwise agreed to by the Assignor and the Assignee)

9. Notice: ASSIGNOR:

==========
==========
Attention:
Telephone No.:
Facsimile No.:
Reference:

ASSIGNEE:

==========
==========
Attention:
Telephone No.:
Facsimile No.:
Reference:

Payment Instructions:

ASSIGNOR:

==========
==========
ABA Account:
Account No.:
Reference:

Attention:

ASSIGNEE:

==========
==========
ABA Account:
Account No.:
Reference:
Attention:

Accepted and Agreed:

[NAME OF ASSIGNEE]

By: _____
Name:
Title:

[NAME OF ASSIGNOR]

By: _____
Name:
Title:

EXHIBIT L

FORM OF INTERCOMPANY NOTE

[Date]

FOR VALUE RECEIVED, [NAME OF PAYOR] (the APayor@), hereby promises to pay on demand to the order of _____ or its assigns (the APayee@), in lawful money of the United States of America in immediately available funds, at such location in the United States of America as the Payee shall from time to time designate, the unpaid principal amount of all loans and advances made by the Payee to the Payor.

The Payor promises also to pay interest on the unpaid principal amount hereof in like money at said office from the date hereof until paid at such rate per annum as shall be agreed upon from time to time by the Payor and Payee.

Upon the commencement of any bankruptcy, reorganization, arrangement, adjustment of debt, relief of debtors, dissolution, insolvency or liquidation or similar proceeding of any jurisdiction relating to the Payor, the unpaid principal amount hereof shall become immediately due and payable without presentment, demand, protest or notice of any kind in connection with this Note.

[This Note, and all of the Payor=s obligations hereunder, shall be subordinate and junior to all Senior Indebtedness (as defined in Section 1.07 of Annex A hereto) on the terms and conditions set forth in Annex A hereto, which Annex A is incorporated herein by reference and made a part hereof as if set forth herein in its entirety.]

This Note evidences certain permitted intercompany Indebtedness referred to in the Second Amended and Restated Credit Agreement, dated January 28, 1999, among Penn National Gaming, Inc., the lenders party thereto from time to time, First Union National Bank, as Agent (as may be amended, modified or supplemented from time to time, the ACredit Agreement@), and is subject to the terms thereof, and shall be pledged by the Payee pursuant to the Pledge Agreement (as defined in the Credit Agreement). The Payor hereby acknowledges and agrees that the Agent pursuant to and as defined in the Pledge Agreement, as in effect from time to time, may exercise all rights provided herein with respect to this Note. Terms used herein and not defined shall have the respective meanings set forth in the Credit Agreement.

The Payee is hereby authorized to record all loans and advances made by it to the Payor (all of which shall be evidenced by this Note), and all repayments or prepayments thereof, in its books and records, such books and records constituting prima facie evidence of the accuracy of the information contained therein.

All payments under this Note shall be made without offset, counterclaim or deduction of any kind.

THIS NOTE SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAW OF THE COMMONWEALTH OF PENNSYLVANIA.

[NAME OF PAYOR]

By: _____
Name:
Title:

[NAME OF PAYEE]

By: _____
Name:
Title:

Pay to the order of

- - -------------------------

EXHIBIT M

Applicable Margins

Level	Leverage Ratio	Applicable Eurodollar Margin	Applicable Base Rate Margin	Commitment Fee
Level I	> 3.00	2.75%	1.75%	.500%
Level II	> 2.50 > 3.00x	2.50%	1.50%	.500%
Level III	> 2.00 > 2.50x	2.00%	1.00%	.375%
Level IV	> 1.50 > 2.00x	1.75%	0.75%	.375%
Level V	> 1.50x	1.50%	0.50%	.375%

EXHIBIT N
FORM OF OFFICER=S CERTIFICATE - COVENANT COMPLIANCE

[PENN NATIONAL GAMING, INC. LETTERHEAD]

CERTIFICATE OF OFFICER
OF
PENN NATIONAL GAMING, INC.

This Certificate is delivered by Penn National Gaming, Inc., a Pennsylvania corporation (the ACompany@), pursuant to Section 7.01(f) of the Second Amended and Restated Credit Agreement dated January 28, 1999 (the AAgreement@), among the Company, various banks and First Union National Bank, as Agent. Capitalized terms used but not defined herein shall have the meanings assigned to them in the Agreement.

The undersigned, a duly elected and authorized officer of the Company, as such hereby certifies to the Lenders that accompanying this certificate as Exhibit A hereto is a true and correct copy of Form _____ of the Company as filed with the SEC on
- - ----------.

IN WITNESS WHEREOF, the undersigned has executed this Certificate on the ____ day of _____, ____.

PENN NATIONAL GAMING, INC.

By: _____
Name:
Title:

Penn National Gaming, Inc.
First Union Financial Loan Covenants
As of _____

	Per Bank	Per Company
Section 8.05(ix) Cash equity contributions to Charles Town Joint Venture, not to exceed	$47,566.007 + accrued interest	$_____
Section 8.07 Operating Leases may not exceed	$[1,400,000] [or $_____, as approved by Required Banks for the current fiscal year]	$_____
Section 8.08 Capital expenditures	$[9,000,000] [or $_____, as approved by Required Banks for the current fiscal year]	$_____
[if applicable, Capital Expenditures by Tennessee Downs]	[$16,000,000]	[$_____]
Section 8.09 Minimum consolidated net worth may not be less than	[$53,856,000 + 50% of Consolidated Net Income + 75% of Net Equity Proceeds]	$_____
Section 8.10 Consolidated Cash interest coverage ratio not to be less than	[2.50 to 1]	_____
Section 8.11 Maximum leverage ratio not greater than	[4.00 to 1]	_____

LIVE RACING AGREEMENT

THIS LIVE RACING AGREEMENT (the "Agreement") is effective as of March 23, 1999 by and among PENNSYLVANIA NATIONAL TURF CLUB, INC. (PNTC) and MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION (MTRA) (hereinafter collectively referred to as the "Associations") and PENNSYLVANIA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC. ("PA HBPA").

WITNESSETH

WHEREAS, the Associations operate and conduct thoroughbred horse race meetings with pari-mutuel wagering at the track facility located in Grantville, Pennsylvania, known as Penn National Race Course ("Penn National"); and

WHEREAS, the PA HBPA represents the horsemen, during the Term of this Agreement, who own, train and/or race horses at Penn National; and

WHEREAS, the February 15, 1996 Agreement between the Associations and the PA HBPA has expired by its terms; and

WHEREAS, the Associations and the PA HBPA have agreed to enter into the following Agreement with regards to the conduct of thoroughbred horse racing at Penn National.

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

1. Purses

(a) The Associations agree to allocate and pay horsemen purses equal to the following percentages of the Associations' receipts, fees and revenues described below:

March 23, 1999 to March 22, 2000:	32 %
March 23, 2000 to March 22, 2001:	32-2/3%
March 23, 2001 to expiration:	33-1/3%

of:

(i) Net Commissions from the pari-mutuel handle, including the Telephone Account Betting handle, and the Associations' and horsemen's share of the breakage received from the pari-mutuel handle on Penn National live races.

(ii) Net Commissions from the gross handle on Penn National's live races being simulcast to the Associations' off-track betting sites, including horsemen's share of breakage.

(iii) Total Commissions from the handle for send intertrack wagering of Penn National's live races, including track handle, Telephone Account Betting handle and off-track betting handle.

(iv) Total out-of-state host fee when the Associations' are sending a full card of interstate simulcasting wagering ("ISW") on Penn National's live races.

(v) Net Commissions from the handle for receive intertrack wagering of Pocono Downs, Meadows and Philadelphia Park live races, including track handle, Telephone Account Betting handle, off-track betting handle and horsemen's share of breakage.

(vi) Net Commissions from the handle for on-track, off-track and Telephone Account Betting, including horsemen's share of breakage, when the Associations are receiving a full card of ISW, regardless of in-state host association.

(vii) The Associations' net revenues from all other gaming activities, provided, however,

that revenue from video gaming devices and other similar non-pari-mutuel revenues during the Term of this Agreement shall be allocated in the same manner as set forth in the Amendments to Senate Bill No. 692 (Printer's No. 714) dated June 9, 1997.

(viii) Host fees received from intrastate and interstate tracks or the NTRA on account of telephone or electronic wagering by persons in geographic proximity.

Two percent (2%) of purses shall be paid monthly to PA HBPA, which may be increased by mutual consent of the parties.

For purposes of this Article, Net Commissions are defined as the gross handle at the racetrack, telephone account betting, non-primary betting locations (OTB's), less the amounts returned to the betting public, less the amounts paid to the Commonwealth of Pennsylvania as required by statute, less host fees paid to intrastate and interstate tracks or host fees paid to the NTRA for races received or for telephone or electronic wagering received from persons in geographic proximity.

(b) Waiver of overpayment through February 15, 1999 The Associations agree to credit the overpayment in the amount of $299,550.26.

(c) The Associations will use commercially reasonable best efforts to maximize each existing component of the "gross handle" described in Section 1(a)(i) through (viii) above, as well as any additional source of gross handle that becomes available during the term of this Agreement.

2. Simulcasting Consents

(a) The PA HBPA grants its consent and approval to the Associations as provided for under Sections 216, 216a and 234 of the Race Horse Industry Reform Act and the provisions of the Interstate Horse Racing Act of 1978, so that the Associations may act as "host licensees" for the purpose of transmitting and receiving intrastate, international and interstate simulcast races, said consent and approval to be effective for any agreement that existed prior to February 15, 1999 or a successor agreement. As to any new racetracks the Associations shall present any proposed new simulcast agreement to PA HBPA for its review and approval, which shall not be unreasonably withheld. Such approval to be given or denied within two (2) days of presentation to PA HBPA.

3. Compatibility of Purses

(a) It is the intent of Associations and PA HBPA to promote competitive horse racing at Penn National to (i) avoid any underpayment or overpayment of purses (except seasonal adjustments) and (ii) assure the payment, as far as practical and feasible, of consistent purses throughout the contract year.

(b) Associations shall notify PA HBPA of the racing dates applied for to the SHRC for the next following calendar year by promptly sending to the PA HBPA a copy of their application filed with the SHRC. The actual pari-mutuel handles from the current year for the comparable dates will be used as a guide in projecting the approximate handle for the ensuing year. The purse formula as described under paragraph 1 of this agreement will be applied to establish an average purse per day for a beginning guideline.

(c) Should a purse overpayment or underpayment develop in excess of $150,000, then the parties agree to automatically adjust purses down or up, in the next published condition book, by 5%. This triggering mechanism may be waived by mutual consent of the PA HBPA and Associations.

(d) If, in the opinion of the Penn National Racing Secretary, the agreed adjustment in the condition book does not alleviate the overpaid purse condition, the Associations have the right, and are required, to make immediate purse cuts in accordance with formulas mutually agreeable, to eliminate the purse overpayment. The Associations, without prejudice, shall have the right to not exercise this right, should they so desire.

(e) If, in the opinion of the PA HBPA Condition Book Committee, the agreed adjustment in the condition book does not alleviate the underpaid purse condition, the PA HBPA shall have the right to require the Associations to make and the Associations shall make immediate purse increases in accordance with formulas mutually agreeable, to eliminate the purse underpayment. The PA HBPA, without prejudice shall have the right not to exercise this right, should it so desire.

4. Horsemen's Bookkeeper Account

(a) Section 235 of the Race Horse Industry Reform Act shall govern the operation of the Horsemen's Bookkeeper Account.

5. Inactive Accounts In Horsemen's Bookkeeper Account

(a) Associations will furnish annually to PA HBPA a list of all accounts in the Horsemen's Bookkeeper Account which have been inactive for a period of four years, giving the names of such accounts, the amount thereof and the last known addresses. This list will be rendered annually as of June 15, 1999 and prior to each June 15 during the Term hereof.

(b) PA HBPA will advertise the four-year-old inactive accounts in a Horsemen's publication of general circulation. All unclaimed inactive accounts one year after they are advertised shall be paid to the PA HBPA's Benevolent Fund. PA HBPA agrees to hold Associations harmless and to indemnify them as to any claim, liability, cost or expense (including reasonable attorney's fees) as a result of the payment of inactive accounts to the PA HBPA's Benevolent Fund.

6. PA HBPA Fire And Hazard Insurance

Associations agree to pay to HBPA National office, on or before May 15 of each year during the term hereof, their proportionate share of the total annual premium as determined annually by the National HBPA for a national policy of fire and other hazards insurance covering horses and tack belongings to PA HBPA members stabled at Penn National or at locations as covered by said HBPA policy. It is understood, however, that the limits and types of coverage will not be increased without the prior agreement of Associations.

7. Track Committees

(a) Equine Safety Committee
The Associations and the PA HBPA agree to establish an Equine Safety Committee. The membership will consist of representatives from all constituent groups that affect live racing at Penn National. The committee will meet at least once a month, if not more frequently, to discuss the variety of issues that affect all aspects of equine safety at Penn National.

(b) Condition Book Committee
The PA HBPA may appoint a committee of not more than five individuals which will be known as the "Condition Book Committee". The Condition Book Committee shall be entitled to meet with the Associations and/or the Racing Secretary and/or General Manager in order to establish guidelines for preparing the condition book and for filling and carding races and other matters of concern to the horsemen, including the mix of races and purse levels for particular condition books.

(c) PA HBPA Management Committee
During the term of this Agreement, Associations and the PA HBPA shall organize and maintain a joint committee to be known as the "PA HBPA/Management Committee." This Committee shall be composed of three representatives from the PA HBPA and three

representatives from Associations (including the General Manager). This Committee shall meet regularly at the request of any member of said Committee. The Committee shall discuss such things as barn area issues, track conditions, racing program, track kitchen, other matters which relate to attendance, pari-mutuel handle, the quality of racing and any other issue not specifically addressed in this Agreement which will assist the Pennsylvania thoroughbred horse racing industry to be progressive and competitive. The Committee shall determine how to resolve any of the foregoing issues and it may recommend any impasse to arbitration in accordance with Section 8.(b) of this Agreement.

8. PA HBPA Covenant

(a) PA HBPA covenants that so long as Associations comply with the provisions of this Agreement, PA HBPA will not institute or instigate, promote, encourage, condone, or engage in any boycott, close down, slow down, stoppage of, or interference with any race meet or race meets of Associations at Penn National. PA HBPA will use its best efforts to ensure that its members comply with this paragraph.

(b) In the event that there is a disagreement between the parties as to whether any party has complied with the terms or conditions in this Agreement, then the Associations shall choose an Arbitrator and the PA HBPA shall choose an Arbitrator. The two Arbitrators shall choose a third Arbitrator, and the Board of Arbitrators shall decide the issues involved and each party agrees to be bound by the decision of the arbitration panel. No action shall be taken by PA HBPA prohibited by paragraph 8(a) unless and until the Arbitrators have determined that Associations are not in compliance with the terms hereof.

9. Associations' Covenants

(a) The Associations will not, by means of agreement or otherwise, seek to establish or impose upon the horsemen a monopoly concerning horseshoers, feedmen, tack suppliers or any other suppliers or servicemen customarily used by horsemen. Notwithstanding the foregoing, the Associations

reserve the right to impose reasonable nondiscriminatory requirements for security, safety and environmental reasons on the Associations' premises and to limit access to only those vendors, suppliers and servicemen who are properly licensed by the State Horse Racing Commission and conditioned upon their compliance with reasonable rules and regulations promulgated by the Associations.

(b) The Associations will not, in making their stall allocations, discriminate against any horsemen because of the horseman's participation in lawful PA HBPA activities. Allocations of stalls shall, subject only to the above limitations, remain the prerogative of the Associations.

10. Recognition of PA HBPA

Associations recognize PA HBPA during the Term of this agreement as the exclusive representative of the horse owners and trainers racing at Penn National, the majority of whom are members of the PA HBPA and, during the term of this Agreement, for purposes of negotiating a successor live racing agreement. During the term of the Agreement, Associations agree that they will not negotiate with any other group purporting to represent horsemen at Penn National and Associations further agree that they will not revoke the foregoing recognitions, and will not supplant, attempt to supplant or encourage the supplanting of the PA HBPA as the exclusive representative of horsemen at Penn National.

11. Term Of Agreement

This Agreement will continue for a term commencing March 23, 1999 and ending January 1, 2004. This Agreement shall continue for a further Term of two years without change unless any party shall, at least ninety days prior to January 1, 2004, or each successive two-year Term thereafter, give notice to the other of their intention that this Agreement shall not be automatically renewed pursuant to the provisions of this paragraph. In the event notice of intent not to renew is given by either party, the parties agree that weekly negotiation sessions shall be held commencing no later than 75 days prior to the expiration of the term or successive term and the

parties mutually agree to bargain in good faith, without waiving rights or prerogatives of either party. In the event that a successor agreement is not reached on or before 30 days prior to the expiration of the term or successor term, the parties agree to utilize the services of the Pennsylvania Bureau of Mediation for non-binding negotiation. If a successor Live Racing Agreement is not signed by the expiration of the term of successor term or any extensions thereof, Associations agree that the horsemen shall have 30 days thereafter within which to remove their horses from the backstretch area at Penn National and that the facilities listed in paragraph 16 shall be available during that 30 day period of time. This additional 30 day period of time shall not be construed as evidence of the Associations' recognition of the PA HBPA as the exclusive representative of the horsemen subsequent to the expiration of the term or successive term of this Agreement.

12. Notices

All notices or other communication pursuant hereto by any party shall be sent b certified mail, return receipt requested to:

PNTC: Pennsylvania National Turf Club, Inc.
P.O. Box 100
Grantville, Pa. 17128
Attn: General Manager

MTRA: Mountainview Thoroughbred Racing Association
P.O. Box 32
Grantville, Pa. 17128
Attn: General Manager

PA HBPA: Pennsylvania Division, Horsemen's Benevolent and Protective Association, Inc.
P.O. Box 88
Grantville, Pa. 17028
Attn: President

13. Prior Agreements and Claims

(a) The entering into of this agreement represents a cancellation of all prior agreements between the parties with respect to the subject matters herein.

(b) The parties acknowledge that neither has any claims or demands on the other for any matter prior to February 16, 1999. The Associations and PA HBPA agree that the relief available under the Order of Court entered into in Dauphin County by Judge Kleinfelter (attached) shall be moot upon the execution of this Agreement. Parties agree to join in a notice to settle, discontinue and end these matters.

(c) Mutual Releases
The parties hereby mutually agree to release each other from all outstanding claims arising out of the 1996 Live Racing Agreement. PA HBPA shall notify National HBPA and all other supporting horsemen's groups nationally of the settlement of all issues and ask for the cooperation with restoring the prior existing relations that existed prior to February 15, 1999 upon the execution of this Agreement.

14. Stakes Schedule

PA HBPA and Associations agree to grandfather, for the term of the agreement, all Non-Pa Bred Stakes Race monies of $250,000.00. Existing stakes monies may be increased upon mutual agreement of PA HBPA and Associations. It is understood by both of the Associations and the PA HBPA that the overnight purses will be the first priority in purse increases followed by stakes races. The initial increases in stakes monies must be preceded by at least a six month period of average daily purses earned being above the following benchmark levels: Average purses earned daily Allocated for Stakes

$60,000	Up to 4%
$65,000 + up	Up to 6%

Average purses will be calculated by dividing all purse monies live, ITW, ISW and OTW by total number of live Penn National race days.

15. Application For Racing Days In Penn National Live Program

Associations agree to apply for the maximum number of racing days during each calendar year as can be raced for the maximum benefit of Associations and consistent with their leases with the owner of Penn National. The determination of the number of racing days shall be decided exclusively by the Associations, but in no event shall it be less than 199 days without the approval of the Board of HBPA.

16. Availability of Facilities

The racing strip, barns, dormitories, track kitchen, tack rooms and all other facilities of Penn National useful for training purposes, shall be made available to Horsemen approved by Associations, without charge. Associations agree that these facilities shall be available for at least twenty-one days prior to the opening date of each thoroughbred race meet or reopening after a shutdown. Associations shall also make water and electricity available without charge, and shall, at their own expense, keep the track properly harrowed and watered daily and available during reasonable hours for training purposes, all subject to weather conditions. Associations shall continue to provide PA HBPA offices and restroom facilities on a year round basis. Heating, cooling and electric services are to be provided. PA HBPA shall be responsible for cleaning and interior maintenance of its facilities. Structural maintenance of roofs, wall, floor and restrooms shall be the responsibility of Associations.

17. Approval By SHRC

This Agreement shall be subject to approval by the Pennsylvania State Horse Racing Commission.

18. Binding Effect

This Agreement shall be binding upon and inure to the benefit of the parties hereto or their respective successors and approved assigns. Each party will supply all parties with a certified copy of a Resolution approving this Agreement.

19. Mutual Cooperation

The Associations and PA HBPA agree that there will be opportunities where there will be a need for cooperation between the parties because of the mutual benefit to racing. The parties agree to support each others positions where there is a mutual benefit.

20. Telebet Account Recovery

Associations agree to use their best efforts to retrieve the telephone accounts that have been transferred from Penn National to Pocono. Associations shall provide a list of those telebet accounts which were transferred to Pocono and shall return those accounts, except those whose account holders refuse consent, to Penn National and provide proof to the PA HBPA.

21. Entire Agreement

This Agreement contains the entire agreement and understanding of the parties hereto with respect to the subject matter interest and supersedes all prior or contemporaneous agreements with respect to such subject matters; and may not be modified or amended except in writing signed by all parties hereto. Notwithstanding the aforementioned, the Stall Agreements shall remain in full force and effect. This Agreement further incorporates, and supersedes the York and Lancaster OTW Agreements.

22. Headings

The paragraph headings of this Agreement are for convenience of reference only and do not form a part of the terms or conditions of this Agreement or give full notice thereof.

23. Mutual Consents of Non-Discrimination

Neither party will discriminate against any individual or group for any activities that took place during the period between February 15, 1999 and the date herein

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IN WITNESS WHEREOF, the Associations and PA HBPA have executed this Live Racing Agreement this 23rd day of March, 1999.

ASSOCIATIONS:

Attest: PENNSYLVANIA NATIONAL TURF CLUB INC.

By:\s\Philip T. O'Hara_
Name: Philip T. O'Hara
Witness Title: Vice President

Attest: MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION

By: \s\Philip T. O'Hara
Name: Philip T. O'Hara
Witness Title: Vice President

Attest: PENNSYLVANIA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

By:\s\Joseph H. Santanna
Name: Joseph H. Santanna
Witness Title: President

Subsidiaries

The Plains Company
Mountainview Thoroughbred Racing Association
Pennsylvania National Turf Club, Inc.
Penn National Speedway, Inc.
Penn National holding Company
Penn national Gaming of West Virginia, Inc.
Penn National GSFR, Inc.
Sterling Aviation, Inc.
Northeast Concessions, Inc.
The Downs Racing, Inc.
PNGI Pocono, Inc.
Tennessee Downs, Inc.
Backside, Inc.
Audio Video Concepts
Mill Creek Land, Inc.
Wilkes Barre Downs, Inc.
Grantville Racing, Inc.
PNGI Charles Town Food and Beverage, LLC

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