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, 1997

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 officer)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:
None
Securities registered pursuant to Section 12(g) of the Act:

Common stock par value .01 per share
Title of Class

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. / /

Aggregate market value of the voting common stock held by
nonaffiliates of the Registrant
as of March 20, 1998 was approximately $156,302,075.

Number of Shares of Common Stock outstanding as of March 20, 1998 - 15,155,830

Documents Incorporated by Reference

Registrant's Definitive Proxy Statement with respect to Annual Meeting of Shareholders to be held on May 20, 1998.

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 STATEMENTS. IN ADDITION, FORWARD-LOOKING STATEMENTS GENERALLY CAN BE IDENTIFIED BY THE USE OF 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 ("CAUTIONARY

STATEMENTS") ARE DISCLOSED IN THIS REPORT AND IN OTHER MATERIALS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE COMPANY OR PERSONS ACTING ON ITS BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS.

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 eight off-track wagering facilities ("OTWs") in Pennsylvania, as well as an 89% interest in an entertainment complex that includes a thoroughbred racetrack and video gaming machines ("Gaming Machines") in Charles Town, West Virginia. The Company's Pennsylvania racetracks include the 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 three additional OTWs that have been allocated to it under Pennsylvania law, after which it would operate 11 of the 23 OTWs currently authorized in Pennsylvania. Between 1993 and 1996, the Company increased total wagers at a compound annual growth rate of 21.1% by expanding its simulcast and OTW operations. In contrast, during the same period, total industry wagers increased at a compound annual growth rate of 3.0% based upon industry data.

The Company developed the Charles Town Entertainment Complex in order to operate and market a facility that integrates Gaming Machines with the Company's core business strengths of live racing and simulcast wagering. The Charles Town Entertainment Complex is an approximately 60-minute drive from Baltimore, Maryland and an approximately 70-minute drive from Washington, DC. Through December 31, 1997, the Company has invested a total of approximately $45.2 million to acquire and develop the Charles Town Entertainment Complex, which includes $18.2 million in acquisition costs and $27.0 million for substantial renovations and refurbishments. In developing the Charles Town Entertainment Complex, the Company preserved the California mission-style architecture of the original Charles Town Races facility and incorporated extensive internal renovations including a 1930s art deco Hollywood theater theme within the Silver Screen Gaming area. After having been closed for approximately six months, the thoroughbred racing and simulcasting operations at the Charles Town Entertainment Complex were reopened in April 1997. Gaming Machine operations commenced in September 1997.

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. 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. Prior to the inception of OTWs, declining live racing attendance at a track translated directly into lower purses at that track. As the size of the purses declined, the quality of live racing at the track would suffer, leading in turn to further reductions in attendance. The Company believes that increased contributions to the purse pool from wagers placed at OTWs affiliated with racetracks have significantly offset the effects of declining live racing

attendance on race quality, and thereby improved the marketability of many tracks' export simulcast products. Indeed, despite declining live racing attendance, total pari-mutuel wagering on horse races in the United States has remained relatively constant in recent years, increasing from approximately $13.7 billion in 1993 to approximately $15.0 billion in 1996, according to industry data; an increase in simulcast, inter-track and off-track wagering from approximately $7.6 billion to approximately $11.0 billion during that period has offset declining wagering at tracks on live races. Given that many pari-mutuel wagering companies, such as the Company, face the necessary precondition of conducting live racing operations as their entree into the industry, the Company believes that its opportunities for success can be maximized through OTW operations, import and export simulcasting and the operation of Gaming Machines, to the extent permitted.

A number of states have recently begun to authorize the installation of slot machines, video lottery terminals or other gaming machines ("Gaming Wagering") at live racing venues such as thoroughbred horse tracks, harness tracks and dog tracks. The revenue from these gaming opportunities and from the higher volume of wagers placed at these venues has not only increased total revenues for the tracks at which they are installed, but has generally further increased purse size and thereby resulted in higher quality races that can command higher simulcast revenues. The Company has taken advantage of this development by acquiring Charles Town Races shortly after West Virginia authorized the operation of Gaming Machines at Charles Town Races. Since pari-mutuel wagering companies, such as the Company, possess the necessary precondition of conducting live racing operations to offer OTW wagering opportunities and Gaming Wagering (where permitted by law), the Company believes that its opportunities for success can be maximized through OTW operations, import simulcasting and export simulcasting and the operation of Gaming Machines, to the extent permitted. At present, more than 40 states authorize inter-state and/or intra-state pari-mutuel wagering, which may involve the simulcasting of such races.

STRATEGY

The Company intends to be a leading operator in the gaming and pari-mutuel wagering industry by capitalizing on its horse racing expertise and its numerous wagering locations. The Company plans to increase revenue by using the following strategies:

Focus on Gaming Machine Operations. The Company's primary focus at the Charles Town Entertainment Complex is on Gaming Machine operations. The Company commenced Gaming Machine operations with a soft opening of 223 Gaming Machines on September 10, 1997. The Company's grand opening of Gaming Machine operations at the Charles Town Entertainment Complex occurred on October 17, 1997 with 400 Gaming Machines in operation. As of March 1998, the Company had 609 Gaming Machines in operation. The Company intends to increase the number of Gaming Machines in operation at the Charles Town Entertainment Complex to 799 in 1998, and if demand warrants, to 1,000 thereafter, the maximum number the Company is currently approved to operate at this complex. The Charles Town Entertainment Complex's 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. Marketing efforts, which include print and radio advertising, commenced in October 1997 and are focused on the Washington, DC, Baltimore, Maryland, Northern Virginia, Eastern West Virginia and Southern Pennsylvania markets. The Company intends to enhance these marketing efforts by installing and operating a computerized player tracking system, in order to identify preferred players and encourage repeat Gaming Machine patronage at the Charles Town Entertainment Complex.

Open Additional OTWs. The Company operates eight of the 19 OTWs now open in Pennsylvania and has the right to operate three of the four remaining OTWs that have been authorized in Pennsylvania. The Company's OTWs are located in Allentown, Chambersburg, Erie, Lancaster, Reading, Williamsport, York and Hazelton, 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 Race Horse Industry Reform Act ("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 will open an OTW in Carbondale, Pennsylvania (on or about March 31, 1998) and plans (subject to the receipt of remaining regulatory approvals, including site approvals) to open and operate additional OTWs in Stroudsburg and Altoona, Pennsylvania, which would give the Company a total of 11 of the 23 OTWs currently authorized by Pennsylvania law.

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 of 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 75 racetracks, including premier racetracks such as Belmont Park, 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 98 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. The Company also seeks to improve the quality of its export simulcast products by increasing purse sizes where practicable.

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 20, 1998, no such additional form of gaming in Pennsylvania has been adopted, and therefore, no such payment is due at this time.

Prior to the Company's acquisition, Pocono Downs conducted (a) harness racing at Pocono Downs, located outside Wilkes-Barre, Pennsylvania, (b) export simulcasting of Pocono Downs races to locations throughout the United States, (c) pari-mutuel wagering at Pocono Downs and at OTWs in Allentown and Erie, Pennsylvania on Pocono Downs races and on import simulcast races from other racetracks, and (d) telephone account wagering on live and import simulcast races.

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 lease of the Gaming Machines, is approximately $27.0 million as of December 31, 1997.

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. The West Virginia Gaming Machine 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 1998, 609 Gaming Machines at the Charles Town Entertainment Complex, and anticipates installing 135 additional Gaming Machines by April 1998. 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. After installing 799 Gaming Machines, the Company will evaluate demand for its Gaming Machines and install an additional 201 Gaming Machines if demand warrants such installation.

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 Penn National Race Course, (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 Penn National 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.

Pennsylvania Operating Data of the Company

The following table summarizes certain key operating statistics for the Company's Pennsylvania pari-mutuel operations related to Penn National Race Course, Pocono Downs and their respective OTWs, including the pro forma presentation of data assuming the acquisition of Pocono Downs occurred on January 1, 1993:

PENN NATIONAL GAMING, INC.
PENNSYLVANIA WAGERING SUMMARY

	YEARS ENDED DECEMBER 31				
	1993	1994	1995	1996	1997
(DOLLARS IN THOUSANDS, EXCEPT ATTENDANCE DATA AND AVERAGE DAILY PURSES)					
NUMBER OF LIVE RACING DAYS:					
Penn National Race Course	238	219	204	206	212
Pocono Downs	147	143	135	134	134
TOTAL ATTENDANCE:					
Penn National Race Course(1)	548,085	485,224	430,128	370,898	339,487
Pocono Downs(1)	211,629	253,521	242,870	377,830	370,090
Reading OTW	251,540	253,183	246,012	214,314	178,237
Chambersburg OTW	--	110,075	143,554	132,447	125,448
York OTW	--	--	232,109	238,610	225,672
Lancaster OTW	--	--	--	92,641	158,003
Williamsport OTW	--	--	--	--	81,797
Erie OTW	135,617	129,074	116,367	113,169	94,429
Allentown OTW	136,620	275,118	272,491	271,706	252,909
Total paid attendance(1)	1,283,491	1,506,195	1,683,531	1,811,615	1,826,072
TOTAL WAGERING(1)(2):					
Penn National Race Course	$87,485	$91,898	$85,661	$75,708	$69,687
Pocono Downs	45,956	51,980	57,784	53,190	47,217
Reading OTW	33,518	39,714	42,810	41,320	30,811
Chambersburg OTW	--	14,589	24,365	25,024	24,899
York OTW	--	--	42,140	49,864	45,245
Lancaster OTW	--	--	--	13,079	29,292
Williamsport OTW	--	--	--	--	9,684
Erie OTW	20,452	26,404	29,379	27,200	21,767
Allentown OTW	21,130	52,676	56,440	56,216	58,681
Penn National Telebet	8,103	7,967	8,281	8,423	9,473
Pocono Downs Dial-A-Bet	--	--	75	5,510	8,179
Export simulcasting:					
Penn National Race Course	80,832	90,878	113,639	148,702	192,798
Pocono Downs	20,173	25,723	30,121	32,493	28,899
Total wagering	$ 317,649	$401,829	$490,695	$536,729	$576,632

	YEARS ENDED DECEMBER 31				
	1993	1994	1995	1996	1997
	(DOLLARS IN THOUSANDS, EXCEPT ATTENDANCE DATA AND AVERAGE DAILY PURSES)				
AVERAGE DAILY PURSES:					
Penn National Race Course.....	$40,834	$48,560	$57,897	$62,328	$60,623
Pocono Downs.....	26,022	35,790	42,314	42,313	40,149
Total average daily purse.....	$66,856	$84,350	$100,211	$104,641	$100,772
GROSS MARGIN FROM WAGERING(3):					
Penn National Race Course.....	$15,346	$17,963	$24,915	$27,955	$28,669
Pocono Downs.....	10,918	16,653	17,838	17,805	16,920
Total gross margin from wagering.....	$26,264	$34,616	$42,753	$45,760	$45,589

(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 and (ii) for the years ended December 31, 1993-1995, in the case of Pocono Downs.

(2) Wagering on certain imported 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 to Pennsylvania and simulcast commissions or host track fees paid to other racetracks.

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 to 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 the 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. Although other regional racetracks offer nighttime thoroughbred racing, the Penn National Race Course is the only racetrack 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. Post time at the Penn National Race Course is 7:30 p.m. on Wednesdays, Fridays and Saturdays, and 1:30 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 and 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 and conducted 134 days of live harness racing at the facility in the 1997 season. Post time at Pocono Downs is 7:30 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 and the Company conducted 159 days of thoroughbred racing at the facility in the 1997 season. Post time at the Charles Town Races is 7:30 p.m. on Fridays and Saturdays and 1:30 p.m. on Wednesdays and Sundays.

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	OWNED OR LEASED
Allentown, PA	Opened 7/93	28,500	$5,207,000	Owned
Chambersburg, PA	Opened 4/94	12,500	1,500,000	Leased
Erie, PA	Opened 5/91	22,500	3,575,000	Owned
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
Hazleton, PA	Opened 3/98	13,000	2,000,000 (estimated)	Leased
Carbondale, PA	Approval obtained; expected to open on or about March 31, 1998	13,000	2,300,000 (estimated)	Owned(2)
Stroudsburg, PA	License authorized; approval to operate pending; site selected	12,000	2,000,000 (estimated)	Leased(2)
Altoona, PA	License authorized; approval to operate pending; site selected	14,220	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 has purchased land and is in the process of constructing its proposed Carbondale OTW. All necessary approvals for operating such facilities have been obtained. The Company expects to open the Carbondale OTW on or about March 31, 1998. The Company is licensed to operate two additional OTWs and has identified sites to operate OTW locations in Stroudsburg and Altoona, Pennsylvania, subject to receipt of all applicable approvals to operate these sites.

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

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 Pennsylvania Horsemen and applicable taxing authorities). The percentages vary, based on the type of wager; the average percentage has approximated 20%, which is retained by the Company. 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 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 exports 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, 1996 and 1997, respectively, the Company received import simulcasts from approximately 57 and 75 racetracks, respectively, including premier racetracks such as Arlington International Racecourse, Belmont Park, Gulfstream Park, Hollywood Park, Santa Anita and Saratoga and transmitted export simulcasts of Company races to 63 and 98 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.

CHARLES TOWN JOINT VENTURE; OPERATING TERMS

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 has amended its operating agreement with Bryant Development Company and its affiliates ("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, and will contribute, 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 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, 1997, equaled $45.9 million.

The Charles Town Joint Venture acquired its option to purchase the Charles Town Entertainment Complex from Bryant; Bryant, in turn, acquired the 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 until November 5, 2001, and expire thereafter unless legislation to permit casino gaming at the Charles Town Entertainment Complex has been adopted prior to such date. 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 what 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 do not trigger Showboat's right to exercise the Showboat Option. If West Virginia law were to permit casino gaming at the Charles Town Entertainment Complex and if Showboat were to exercise the Showboat Option, the Company would be required to pay a management fee to Showboat for the operation of the casino.

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 on this option site, which is located in the northeastern section of Memphis. The Company submitted an application to the Tennessee 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. Tennessee Downs has been found financially suitable by the Tennessee Commission and a public comment hearing before the Tennessee Commission was held on November 15, 1997. The Tennessee Commission plans to have its portion of the application review completed in April 1998. A land use plan for the construction of a 5/8-mile harness track, clubhouse and grandstand area were approved in October 1997 by the Land Use Hearing Board for the City of Memphis and County of Shelby. On December 2, 1997, the Company received the necessary zoning and land development approvals from the Memphis City Council.

If the Company is awarded a racing license, 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 $15.0 million. In addition, if the Company is awarded a racing license, 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.

If the Company's application is approved by the Tennessee Commission, the Company plans to exercise its option to purchase the site and build the track and OTW facility at an estimated cost of $15.0 million. If this development project is pursued, the physical plant will be completed in two phases as described below. The Tennessee Horse Racing Act permits the construction of both a simulcast facility and a primary facility within the same enclosure. Upon the approval of the racing license by the Tennessee State Horse Racing Commission, Tennessee Downs plans to initiate the pre-construction site improvements and move forward with the construction of the simulcast facility. This portion of the project will include infrastructure improvements, the actual simulcast facility and related parking. Estimated construction costs for the first phase, along with development and land acquisition costs, are estimated to be approximately $9.0 million. The second phase of the project will include

construction of the track, barns, paddock area and other racing related amenities. Following timely receipt of all applicable approvals, Tennessee Downs would initiate construction in the second or third quarter of fiscal 1998 with the opening of the simulcast facility planned for January, 1999. Construction of the second phase would follow during the spring/summer of 1999 with an anticipated opening for live racing sometime in 2000. The second phase of the project is estimated to cost approximately $6.0 million.

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 potential 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 1998, the Company intends to purchase and install a computerized player tracking system at the Charles Town Entertainment Complex, which will further focus the Company's marketing efforts. The Company has also implemented a coupon program where customers who visit the Charles Town Entertainment Complex can redeem each coupon for five dollars. From these coupons, the Company has compiled a database of customers that will be targeted for future marketing programs.

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 intends to expand Racing Alive and/or to create 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 Systems, Inc.'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 entered into an agreement (the "GTECH Agreement") with GTECH Corporation ("GTECH") relating to the lease, installation and service of a video lottery system ("VLS") at the Charles Town Entertainment Complex. The GTECH Agreement provides that GTECH will be the exclusive provider of VLS and related services, including video lottery terminals and slot machines, if any, at the Charles Town Entertainment Complex; provided, however, the Charles Town Joint Venture has retained management control over the VLS. The GTECH Agreement has a term of five years from the first date on which 400 Gaming Machines are installed, operational and generating "Net Win," (total of all cash inserted into, or game credits played on, a video lottery terminal minus the total value of all prizes paid). On September 26, 1997, the Charles Town Joint Venture had 400 Gaming Machines installed, operational and generating Net Win at the Charles Town Entertainment Complex. Pursuant to the GTECH Agreement, the Charles Town Joint Venture has agreed to pay GTECH a fee which can range between 4% and 10% of Gaming Machine gross revenue. The Company generally is obligated to pay a lower percentage of Gaming Machine gross revenue to GTECH at higher levels of average win per day per machine and a higher percentage of Gaming Machine gross revenue at lower levels of average win per day per machine; provided, however, the Charles Town Joint Venture is obligated to pay GTECH the greater of the percentage fee described above or a minimum annual fee of $4.3 million if more than 800 Gaming Machines are in operation at the Charles Town Entertainment Complex. The payments pursuant to the GTECH Agreement include the cost of the rental of the Gaming Machines, the rental of the software (which is not a component of the VLS), technical assistance and programming services, maintenance and marketing services. At the end of the term of the GTECH Agreement, the Charles Town Joint Venture will purchase the VLS from GTECH for a cash purchase price equal to the net unamortized residual value of the VLS. In the event GTECH terminates the agreement because of the Charles Town Joint Venture's material misrepresentation and/or breach of the GTECH Agreement, the Charles Town Joint Venture must purchase the VLS from GTECH at a price equal to the net unamortized residual value of the VLS at that time and pay an additional one-time fee as follows: for such termination in the first year of the term, $8.5 million; for such termination in the second year of the term, $6.6 million; for such termination in the third year of the term, $5.0 million; for such termination in the fourth year of the term, $3.7 million; and for such termination in the fifth year of the term, $2.5 million. Pursuant to the GTECH Agreement, the Charles Town Joint Venture must maintain tangible net worth equal to at least 105% of the amounts payable as additional fees in the event of a termination as set forth in the preceding sentence.

PURSES; AGREEMENTS WITH HORSEMEN

The Horsemen Agreements set forth the amounts to be paid to the Pennsylvania Horsemen as racing purses. Revenues from wagering at the Penn National Race Course and Pocono Downs, except for wagering on races simulcast from outside Pennsylvania, are divided approximately equally between the Company and the Pennsylvania Horsemen. Revenues from all other sources (all wagering at the Company's OTWs and on races simulcast from outside Pennsylvania) are shared such that the Pennsylvania Horseman generally receive between 3.0% and 7.5% of total wagering at the OTWs.

The Company sets the purses paid on Company races, based on projected wagering and in accordance with the terms of the Horsemen Agreements. Because the amount of the purses is based on projections, at any given point in time the Pennsylvania Horsemen will have either been overpaid or underpaid. The agreement with the Thoroughbred Horsemen permits the Thoroughbred Horsemen to require immediate purse adjustments should the amount of revenues to be paid to them as purses, and remaining unpaid, exceed $100,000. The amount of underpaid or overpaid purses varies from time to time, and the Company believes that further action to reduce the amount of underpaid purses will not affect its ability to increase purses in an orderly manner. In setting future purses the Company seeks, over time, to adjust for the under or over-payments, but no assurance can be given that any such adjustment will be accurate or adequate.

During the years ended December 31, 1995, 1996 and 1997, the Pennsylvania Thoroughbred Horsemen earned an aggregate of approximately $12.0 million, $12.3 million and $12.9 million in purses, respectively. The

average daily purses earned by the Pennsylvania Thoroughbred Horsemen who raced at Penn National Race Course during the three-year period increased from approximately $57,900 to approximately $60,600. The Company believes that the increases in daily purses have contributed to an improvement in the quality of horses racing at the Penn National Race Course. During the years ended December 31, 1995, 1996 and 1997, the Harness Horsemen earned an aggregate of approximately $6.5 million, $5.7 million and $5.4 million in purses, respectively. The average daily purses earned by the Harness Horsemen during the four-year period ended December 31, 1997 increased from approximately $35,800 to approximately $40,100. The average daily purses earned by the Harness Horsemen for calendar 1996 and 1997 were approximately $42,300 and $40,100 per day, respectively. The average daily purses at Charles Town Races during such period decreased from approximately $28,538 to approximately $25,800.

The Penn National Race Course Thoroughbred Horsemen Agreement was entered into in February 1996, expires in February 1999 and is subject to automatic renewal for successive one year terms unless either party gives notice of termination at least 90 days prior to the end of any such period. The Harness Horsemen Agreement was entered into in November 1994, became effective in January 1995 and expires in January 2000. The Company is party to the requisite agreement with the Charles Town Horsemen, which expires on December 31, 2000. The West Virginia Gaming Machine Act 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, although this agreement expired on December 31, 1997. The Company is in the process of negotiating a new pari-mutuel clerks agreement.

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, increased purses may not result in a continued improvement in the quality of racing at the Penn National Race Course or in any material improvement in the quality of racing at Pocono Downs or the Charles Town Races.

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 that 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 new 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. A competitor of the Company has applied to open an OTW within four miles of the Company's OTW in Allentown. If the application were approved, such new OTW could compete for patrons with the Company's site. However, the Company believes it is unlikely that the competitor's site will be approved by gaming authorities under existing legal precedent established by such gaming authorities.

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. West Virginia has not authorized, and may never approve, such mechanical 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, 1997, the Company has 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. 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. See "MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS."

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 also 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 Gaming Machine 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 Regulation

The Company's horse racing operations at the 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). The Pennsylvania Racing Commissions 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 Horse 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 anytime, 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 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 eight OTWs that are currently open and the three additional OTWs the Company proposed 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.

The Pennsylvania Racing Act provides that no corporation licensed to conduct thoroughbred racing with pari-mutuel wagering shall be licensed to conduct harness racing with pari-mutuel wagering and that no corporation licensed to conduct harness racing with pari-mutuel wagering shall be licensed to conduct thoroughbred racing with pari-mutuel wagering. The Company's harness and thoroughbred licenses are held by separate corporations, each of which is a wholly owned subsidiary of the Company. Moreover, the Pennsylvania State Harness Racing Commission has reissued the Pocono Downs harness racing license and has found, in connection with the reissuance, that it is not "inconsistent with the best interests, convenience or necessity or with the best interests of racing generally," that a subsidiary of the Company beneficially owns Pocono Downs. The Company thus believes that the arrangement under which it holds both a harness and a thoroughbred license complies with applicable regulations.

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 Gaming Machine 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 Gaming Machine 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

Both the Federal Interstate Horseracing Act of 1978 (the "Federal Horse Racing Act") and the Pennsylvania Racing Act require that the Company have a written agreement with the Thoroughbred Horsemen and with the Harness Horsemen 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 either Horsemen Agreement 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 Commission. 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 Commission has 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 Gaming Machine 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 Gaming Machine 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

Thoroughbred Track

The Thoroughbred Track 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 Thoroughbred Track 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 Thoroughbred Track which are available for future expansion or development.

The Thoroughbred Track'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 Thoroughbred Track 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 back stretch area and water and sewage treatment plants. Parking facilities for approximately 6,500 vehicles adjoin the Thoroughbred Track.

Harness Track

The Harness Track 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 the Harness Track and approximately 1.5 million persons within a 50-mile radius. The property includes a 5/8-mile all-weather, lighted harness track. The Harness Track's main buildings are the grandstand and the clubhouse. The clubhouse is completely enclosed and 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. The Harness Track 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 solid waste landfill ("Landfill") is on a parcel of land adjacent to the 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. However, there can be no assurance that the municipalities will continue to meet 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.

Charles Town Facility

The Charles Town Facility 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 Facility. The property includes a 3/4-mile thoroughbred racetrack. The Charles Town Facility'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 Facility, 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 Facility.

The Charles Town Facility also includes stables, an indoor paddock, ample parking and water and sewage treatment facilities.

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.

The Company's current OTW properties are described in the following table:

LOCATION	OWNED OR LEASED
Allentown	Owned
Chambersburg	Leased
Erie	Owned
Lancaster	Leased
Reading	Leased
York	Leased
Williamsport	Owned
Hazelton	Leased

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 2005 and provides for an annual rental of $71,100 plus common area expenses and electric utility charges. 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 August 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 16, 1998, the Company had 1,629 permanent employees, of whom 749 were full-time and 880 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 20, 1998 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 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) seeks declaratory relief that certain contracts allegedly bind the Charles Town Joint Venture to retain Amtote for wagering services through September 2004 and (iv) seeks unspecified compensatory damages, legal fees and costs associated with the action and other legal and equitable relief as the Court deems just and appropriate. On December 24, 1997, a temporary restraining order was issued, which prescribes performance under the Third Party Wagering Contract. On January 14, 1998, a hearing was held to rule on whether a preliminary injunction should be issued or whether the temporary restraining order should be lifted, and on February 20, 1998, the court lifted the temporary restraining order. The Company intends to pursue legal remedies 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.

1996	HIGH	LOW
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	HIGH	LOW
First Quarter	$18.250	$14.000
Second Quarter	19.625	13.750
Third Quarter	20.125	14.625
Fourth Quarter	19.250	8.750

The closing sale price per share of Common Stock on The Nasdaq National Market on March 20,1998 was $10.313. As of March 20, 1998, there were 581 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 prohibits the Company from authorizing, declaring or paying any dividends.

ITEM 6 SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data of the Company for the years ended December 31, 1993, 1994, 1995, 1996 and 1997, except for Other 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.

	YEARS ENDED DECEMBER 31				
	1993(1)	1994	1995	1996	1997(2)
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)				
INCOME STATEMENT DATA					
Revenues					
Pari-mutuel revenues					
Live races	$ 29,224	$ 23,428	$ 21,376	$ 18,727	$ 27,653
Import simulcasting	9,162	16,968	27,254	32,992	59,810
Export simulcasting	383	1,187	2,142	3,347	5,279
Gaming Machine revenue	--	--	--	--	5,712
Admissions, programs and other racing revenues	2,485	2,563	3,704	4,379	5,678
Concession revenues	1,410	1,885	3,200	3,389	7,404
Total revenues	42,664	46,031	57,676	62,834	111,536
Operating expenses					
Purses, stakes and trophies	9,719	10,674	12,091	12,874	22,335
Direct salaries, payroll taxes and employee benefits	6,394	6,707	7,699	8,669	16,200
Simulcast expenses	10,136	8,892	9,084	9,215	12,982
Pari-mutuel taxes	3,568	4,054	4,963	5,356	9,506
Lottery taxes and administration	--	--	--	--	1,874
Other direct meeting expenses	5,817	6,093	7,576	8,536	18,087
OTW concession expenses	767	1,175	2,125	2,349	5,605
Management fees paid to related entity	1,208	345	--	--	--
Other operating expenses	1,959	2,968	5,002	4,942	8,735
Depreciation and amortization	640	699	881	1,433	4,040
Site development and restructuring changes	--	--	--	--	2,437
Total operating expenses	40,208	41,607	49,421	53,374	101,801
Income from operations	2,456	4,424	8,255	9,460	9,735
Other income (expenses)					
Interest income (expense), net	(962)	(340)	198	(156)	(3,656)
Other	6	15	10	--	(2)
Total other income (expenses)	(956)	(325)	208	(156)	(3,658)
Income before income taxes and extraordinary item	1,500	4,099	8,463	9,304	6,077
Taxes on income	42	1,381	3,467	3,794	2,308

	YEARS ENDED DECEMBER 31				
	1993(1)	1994	1995	1996	1997(2)
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE)				
Income before extraordinary item	1,458	2,718	4,996	5,510	3,769
Extraordinary item loss on early extinguishment of debt, net of income taxes of $83 and respectively	--	115	--	--	1,482
Net income	$ 1,458	$ 2,603	$ 4,996	$ 5,510	$ 2,287
PER SHARE DATA:					
Basic Income per share before extraordinary item			$ .39	$ .41	$ .25
Basic net income per share			$ .39	$ .41	$ .15
Diluted income per share before extraordinary item			$ .38	$ .40	$ .24
Diluted net income per share			$ .38	$ .40	$ .15
SHARES OUTSTANDING:					
Basic			12,906	13,302	14,925
Diluted			13,017	13,822	15,458
Supplemental Pro Forma Net Income Statement Data (4):					
Supplemental pro forma net income	$ 1,819	$ 2,724			
Supplemental pro forma net income per share	$ 0.15	$ 0.22			
Weighted average number of common shares outstanding	12,249(5)	12,663			

OPERATING DATA:					
Pari-mutuel wagering					
Live races	$138,939	$111,248	$102,145	$89,327	$128,090
Import simulcasting	58,252	93,461	142,499	170,814	298,459
Export simulcasting	12,746	40,337	72,252	112,871	176,287
Total pari-mutuel wagering	$209,937	$245,046	$316,896	$373,012	$602,836
Gross profit from wagering(3)	$ 15,346	$ 17,936	$ 24,915	$ 27,955	$ 45,589

	AS OF DECEMBER 31				
	1993	1994	1995	1996	1997
	(DOLLARS IN THOUSANDS)				
BALANCE SHEET DATA:					
Cash and cash equivalents	$1,002	$5,502	$7,514	$5,634	$21,854
Working capital (deficiency)	(4,549)	2,074	4,134	(509)	15,226
Total assets	18,373	21,873	27,532	96,723	158,878
Total debt	10,422	516	390	47,517	80,336
Shareholders' equity	3,418	15,627	20,802	27,881	53,856

(1) The Consolidated Financial Statements of the Company include entities which, prior to a recapitalization which occurred in 1994 shortly before the Company's initial public offering, were affiliated through common ownership and control.

(2) 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."

(3) 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.

(4) Supplemental pro forma amounts for the years ended December 31, 1993 and 1994 reflect (i) the elimination of $1,208,000 and $345,000, respectively, in management fees paid to a related entity, (ii) the inclusion of $320,000 and $133,000, respectively, in executive compensations, (iii) the elimination of $946,000 and $413,000, respectively, of interest expenses on Company debt which was repaid with the proceeds of the initial public offering in 1994, (iv) the elimination of $0 and $198,000, respectively, of loss on early extinguishment of debt, and (v) a provision for income taxes of $701,000 and $377,000, respectively, 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.

(5) 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 Penn National Race Course, (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 Penn National 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.

Over the past several years, attendance at live racing, on an industry-wide basis, has generally declined. Prior to the inception of OTWs, declining live racing attendance at a track translated directly into lower purses at that track. As the size of the purses declined, the quality of live racing at the track would suffer, leading in turn to further reductions in attendance. However, the Company believes that increased contributions to the purse pool from wagers placed at OTWs affiliated with racetracks have significantly offset the effects of declining live racing attendance on race quality, and thereby improved the marketability of many tracks' export simulcast products. Indeed, despite declining live racing attendance, total pari-mutuel wagering on horse races in the United States has remained relatively constant in recent years. Moreover, a number of states have recently begun to authorize the installation of slot machines, video lottery terminals or other gaming machines at live racing venues such as thoroughbred horse tracks, harness tracks and dog tracks. The revenue from these gaming opportunities and from the higher volume of wagers placed at these venues has not only increased total revenues for the tracks at which they are installed, but has generally further increased purse size and thereby resulted in higher quality races that can command higher simulcast revenues.

The amount of revenue to the Company from a wager depends upon where the race is run and where the wagering takes place. Pari-mutuel revenues from Company races and import simulcasting of out-of-state races have consisted of the total amount wagered, less the amount paid as winning wagers. Pari-mutuel revenues from wagering at the Company's racetracks or the Company's OTWs on import simulcasting from other Pennsylvania racetracks have consisted of the total amount wagered, less the amounts paid as winning wagers, amounts payable to the host racetrack and pari-mutuel taxes to Pennsylvania. Pari-mutuel revenues from export simulcasting have consisted of amounts payable to the Company by the out-of-state racetracks with respect to wagering on live races at the Company's racetracks. Operating expenses have included purses payable to the Thoroughbred Horsemen, commissions to other racetracks with respect to wagering at their facilities on races at the Company's racetracks, pari-mutuel taxes on races at the Company's racetracks and export simulcasting and other direct and indirect operating expenses.

The Pennsylvania Racing Act specifies the maximum percentages of each dollar wagered on horse races in Pennsylvania which may be retained by the Company (prior to required payments to the Thoroughbred Horsemen and applicable taxing authorities). The percentages vary, based on the type of wager; the average percentage 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 or the Company's 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 Thoroughbred Horsemen are determined under agreements with the Thoroughbred Horsemen and vary depending upon where the wagering is conducted and the racetrack at which such races take place. The Thoroughbred 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. See "BUSINESS-PURSES; AGREEMENTS WITH HORSEMEN."

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. Pocono Downs conducts harness racing and pari-mutuel wagering at its track 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 and Erie, Pennsylvania on Pocono Downs races and on import simulcast races from other racetracks and telephone account wagering on live and import simulcast races. The Company applied and was approved by the Pennsylvania Harness Commission for a new racing license and 1998 harness racing dates at Pocono Downs. This approval entitles the Company to reduce, for a period of four years, its pari-mutuel tax by one-half percent with respect to wagering at Pocono Downs and the Company's OTWs in Allentown, Carbondale, Erie, Hazleton and Stroudsburg, Pennsylvania.

Prior to the acquisition of Pocono Downs, the Company operated four OTWs, one each in Chambersburg, Lancaster, Reading and York, Pennsylvania. The Company added the OTWs in Allentown and Erie, Pennsylvania in November 1996 through the acquisition of Pocono Downs and added two OTWs through the opening of the Williamsport OTW in February 1997 and the Hazleton OTW in March, 1998. The Company has obtained approvals to operate, and expects to open on or about March 31, 1998, an OTW in Carbondale, Pennsylvania. Subject to the receipt of all regulatory approvals, the Company anticipates opening additional OTWs in Stroudsburg and Altoona, Pennsylvania, at which time the Company would operate 11 of the 23 OTWs, authorized under Pennsylvania law.

On January 15, 1997, the Company acquired for a net purchase price of approximately $18.2 million (including acquisition costs) a controlling joint venture interest in Charles Town Races. After substantially completing a major renovation and refurbishment of the property, the Company reopened Charles Town Races as the Charles Town Entertainment Complex which features Gaming Machines, live racing, simulcast wagering and dining. The Company currently owns an 89% joint venture interest in the Charles Town Joint Venture. Racing operations reopened at the Charles Town Entertainment Complex in April 1997. Gaming Machine operations commenced with a soft opening on September 10, 1997, followed by the Company's grand opening on October 17, 1997. The Company operated an average of approximately 300 Gaming Machines in September 1997, and

increased the number of Gaming Machines in operation to 550 as of October 31, 1997. The Company has installed and is operating, as of March 1998, 609 Gaming Machines at the Charles Town Entertainment Complex, and anticipates that the Company will install 135 additional Gaming Machines by April 1998. The Company ultimately intends to operate at the Charles Town Entertainment Complex 1,000 Gaming Machines, the maximum number it is currently permitted to operate by law if demand warrants.

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		
	1995	1996	1997
Revenues			
Pari-mutuel revenues			
Live races	37.1%	29.8%	24.8%
Import simulcasting	47.3	52.5	53.6
Export simulcasting	3.7	5.3	4.7
Gaming Machine revenues	--	--	5.1
Admissions, programs and other racing revenues	6.4	7.0	5.1
Concession revenues	5.5	5.4	6.7
Total revenues	100.0	100.0	100.0
Operating expenses			
Purses, stakes and trophies	21.0	20.5	20.0
Direct salaries, payroll taxes and employee benefits	13.3	13.8	14.5
Simulcast expenses	15.8	14.7	11.7
Pari-mutuel taxes	8.6	8.5	8.5
Lottery taxes and administration	--	--	1.7
Other direct meeting expenses	13.1	13.6	16.2
OTW concession expenses	3.7	3.7	5.0
Other operating expenses	8.7	7.9	7.8
Depreciation and amortization	1.5	2.3	3.6
Site development and restructuring charges	--	--	2.2
Total operating expenses	85.7	84.9	91.3
Income from operations	14.3	15.1	8.7
Total other income (expenses)	0.4	(0.2)	(3.3)
Income before income taxes and extraordinary item	14.7	14.9	5.4
Net income	8.7%	8.8%	2.1%

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 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, and a full year of operations at the Lancaster OTW facility. 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 sites during 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 off-track wagering 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 $265,000, 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's incurring bank debt for the purchase of Pocono Downs and Charles Town Races, and for the renovations to the Charles Town Facility and issuing $80.0 million 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 finance 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.

YEAR ENDED DECEMBER 31, 1996 COMPARED TO YEAR ENDED DECEMBER 31, 1995

Total revenues increased by approximately $5.2 million, or 8.9%, from $57.7 million in 1995 to $62.8 million in 1996. The increase was attributable to an increase in import and export simulcasting revenues, offset in

part by a decrease in pari-mutuel revenues on live races at the Penn National Race Course. The increases in pari-mutuel revenues from import simulcasting, admissions, programs and other racing revenues and concession revenue were due primarily to operating the York OTW facility for twelve months in 1996 compared to nine months in 1995, the opening of the Lancaster OTW facility in July 1996, and the additional revenue from the acquisition of Pocono Downs since November 28, 1996. The increase in export simulcasting revenue of $1.2 million or 56.3% from $2.1 million to $3.3 million resulted from the marketing of the Penn National Race Course races to additional out-of-state locations. The decrease in pari-mutuel revenues on the Penn National Race Course races was due to increased import simulcasting revenue from wagering on other racetracks at Company facilities and inclement winter weather conditions throughout the state of Pennsylvania during the first quarter of 1996. For the year, the Penn National Race Course was scheduled to run 217 live race days but canceled eleven in the first quarter of 1996 due to weather. In 1995, the Penn National Race Course ran 204 live race days and had six cancellations.

Total operating expenses increased by approximately $4.0 million, or 8.0%, from $49.4 million in 1995 to $53.4 million in 1996. The increase in operating expenses resulted from a full year of operations for the York OTW compared to nine months in 1995, six months of operating expenses for the new Lancaster OTW, one month of operating expenses at Pocono Downs and the expansion of the corporate staff and office facility at Wyomissing in June of 1995.

Income from operations increased by approximately $1.2 million, or 14.6%, from $8.3 million in 1995 to $9.5 million in 1996 due to the factors described above.

The Company had other operating expenses of $156,000 in 1996 compared to other operating income of $208,000 in 1995, primarily as a result of increased interest expense. The increase in interest expense is due to the company incurring bank debt of $47 million on November 27, 1996 for the purchase of Pocono Downs.

Net income increased $514,000 or 10.3%, from $5.0 million in 1995 to $5.5 million in 1996 reflecting the factors described above. Income tax expense increased from $3.5 million to $3.8 million due to the increase 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 for the year ended December 31, 1997 ($10.7 million) consisted of net income and non-cash expenses ($6.3 million), the extraordinary loss relating to early extinquishment of debt ($2.5 million), the repayment of the Charles Town Entertainment Complex receivable in January 1997 ($1.3 million) and other changes in certain assets and liabilities ($.6 million).

Cash flows used in investing activities for the year ended December 31, 1997 ($47.6 million) consisted of the acquisition of the Charles Town Races ($18.2 million), construction in progress and renovation and refurbishment of the Charles Town Races ($25.5 million), and $3.9 million in capital expenditures, including approximately $700,000 for the completion of the Williamsport OTW facility.

Net cash flows from financing activities totaled approximately $53.2 million for the year ended December 31, 1997. Cash flows consisted principally of $23.1 million in proceeds from an equity offering in February 1997, $16.5 million in proceeds from long-term debt used as payment for the acquisition of Charles Town Races on January 15, 1997, $31.0 million in additional proceeds from long-term debt used for renovations at the Charles Town Entertainment Complex and capital improvements at other locations, and $80 million from the issuance on December 12, 1997, of 10.625% Senior Notes due 2004. The Company used the proceeds from the equity offering to repay $19.0 million of its bank debt (including borrowings from the acquisition of the Charles Town Races facility), with the remaining amount used for the refurbishment of the Charles Town Entertainment Complex. The Company used $59.0 million of the proceeds from the issuance of the Senior Notes to repay the

balance of its bank debt on December 12, 1997. The Company also incurred $3.0 million of financing costs associated with the sale of the Senior Notes.

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 "PROPERTIES-Harness Track."

During 1998 the Company anticipates capital expenditures of approximately $7.2 million to complete construction of four additional OTW facilities. For the existing racetracks and OTW facilities, at Penn National Race Course and Pocono Downs, the Company plans to spend an additional $500,000 and $350,000, respectively, on building improvements and equipment. The Company anticipates expending approximately $1.4 million on the refurbishment of the Charles Town Entertainment Complex (excluding the cost of Gaming Machines). If approval of the Tennessee license is received, the Company anticipates expending $9.0 million to complete the first phase of the project.

The Company entered into a Credit Facility with Bankers Trust Company, as agent. The Credit Facility provides for, subject to certain terms and conditions, a $12.0 million revolving credit facility and has a five-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. The Company would not have been in compliance with certain convents had the bank group not granted waivers of certain technical defaults regarding minimum consolidated net worth, consolidated cash interest ratio and minimum leverage ratio. 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 certain of its subsidiaries and guaranteed by all subsidiaries, except the Charles Town Joint Venture.

The net proceeds of the 1997 equity offering, together with cash generated from operations, borrowings under the 10.625% Senior Notes and the revolving credit facility, were sufficient to repay amounts outstanding under the Credit Facility. The Company currently estimates that such proceeds will also be sufficient to finance its current operations, planned capital expenditure requirements and the costs associated with the Tennessee development project. There can be no assurance, however, that the Company will not be required to seek additional capital, in addition to that available from the foregoing sources. The Company may, from time to time, seek additional funding through public or private financing, including equity financing. There can be no assurance that adequate funding will be available as needed or, if available, on terms acceptable to the Company.

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

All of the Company's debt obligations at December 31, 1997 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, 1996 and 1997, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. 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 aspects, the financial position of Penn National Gaming, Inc. and Subsidiaries at December 31, 1996 and 1997, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1997 in conformity with generally accepted accounting principles.

\s\ BDO Seidman, LLP

Philadelphia, Pennsylvania
March 2, 1998

BDO Seidman, LLP

Penn National Gaming, Inc. and Subsidiaries
Consolidated Balance Sheets
(In Thousands, Except Share Data)

December 31,	1996	1997
Assets		
Current assets		
Cash and cash equivalents	$ 5,634	$ 21,854
Accounts receivable	4,293	2,257
Prepaid expenses and other current assets	1,552	1,441
Deferred income taxes	90	469
Prepaid income taxes	--	3,003
Total current assets	11,569	29,024
Property, plant and equipment, at cost		
Land and improvements	15,728	24,643
Building and improvements	30,484	56,298
Furniture, fixtures and equipment	8,937	13,847
Transportation equipment	366	490
Leasehold improvements	6,680	6,778
Leased equipment under capitalized lease	1,626	824
Construction in progress	2,926	11,288
	66,747	114,168
Less accumulated depreciation and amortization	8,029	11,007
Net property, plant and equipment	58,718	103,161
Other assets		
Excess of cost over fair market value of net assets acquired (net of accumulated amortization of $811 and $1,389, respectively)	21,885	23,055
Prepaid acquisition costs	1,764	--
Deferred financing costs	2,416	3,014
Miscellaneous	371	624
Total other assets	26,436	26,693
	$ 96,723	$ 158,878

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

Penn National Gaming, Inc. and Subsidiaries
Consolidated Balance Sheets
(In Thousands, Except Share Data)

December 31,	1996	1997
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	$ 1,563	$ 204
Accounts payable	5,066	7,405
Purses due horsemen	1,421	--
Uncashed pari-mutuel tickets	1,336	1,504
Accrued expenses	1,373	2,753
Accrued salaries and wages	507	813
Customer deposits	420	470
Taxes, other than income taxes	392	649
Total current liabilities	12,078	13,798
Long-term liabilities		
Long-term debt and capital lease obligations, net of current maturities	45,954	80,132
Deferred income taxes	10,810	11,092
Total long-term liabilities	56,764	91,224
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 and outstanding 13,355,290 and 15,152,580, respectively	134	152
Additional paid-in capital	14,299	37,969
Retained earnings	13,448	15,735
Total shareholders' equity	27,881	53,856
	$ 96,723	$ 158,878

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

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Income
(In Thousands, Except Share Data)

Year ended December 31,	1995	1996	1997
Revenues			
Pari-mutuel revenues			
Live races	$ 21,376	$ 18,727	$ 27,653
Import simulcasting	27,254	32,992	59,810
Export simulcasting	2,142	3,347	5,279
Gaming revenue	--	--	5,712
Admissions, programs and other racing revenues	3,704	4,379	5,678
Concession revenues	3,200	3,389	7,404
Total revenues	57,676	62,834	111,536
Operating expenses			
Purses, stakes and trophies	12,091	12,874	22,335
Direct salaries, payroll taxes and employee benefits	7,699	8,669	16,200
Simulcast expenses	9,084	9,215	12,982
Pari-mutuel taxes	4,963	5,356	9,506
Lottery taxes and administration	--	--	1,874
Other direct meet expenses	7,576	8,536	18,087
Off-track wagering concessions expenses	2,125	2,349	5,605
Other operating expenses	5,002	4,942	8,735
Depreciation and amortization	881	1,433	4,040
Site development and restructuring charges	--	--	2,437
Total operating expenses	49,421	53,374	101,801
Income from operations	8,255	9,460	9,735
Other income (expenses)			
Interest (expense)	(71)	(506)	(4,591)
Interest income	269	350	935
Other	10	--	(2)
Total other income (expenses)	208	(156)	(3,658)

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Income
(In Thousands, Except Share Data)

Year ended December 31,	1995	1996	1997
Income before income taxes and extraordinary item	$ 8,463	$ 9,304	$ 6,077
Taxes on income	3,467	3,794	2,308
Income before extraordinary item	4,996	5,510	3,769
Extraordinary item			
Loss on early extinguishment of debt, net of income taxes of $1,001	--	--	1,482
Net income	$ 4,996	$ 5,510	$ 2,287
Per share data			
Basic			
Income per share before extraordinary item	$ .39	$ .41	$ .25
Extraordinary item	--	--	.10
Net income per share	.39	.41	.15
Diluted			
Income per share before extraordinary item	$ .38	$ .40	$ .24
Extraordinary item	--	--	.09
Net income per share	.38	.40	.15
Shares outstanding			
Basic	12,906	13,302	14,925
Diluted	13,017	13,822	15,458

See accompany 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		Additional Paid in	Retained	
	Shares	Amount	Capital	Earnings	Total
Balance, January 1, 1995	12,900,000	$ 43	$ 12,642	$ 2,942	$15,627
Issuance of common stock	45,000	--	179	--	179
Net income for the year	--	--	--	4,996	4,996
Balance, December 31, 1995	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

See accompany 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,	1995	1996	1997
Cash flows from operating activities			
Net income	$ 4,996	$ 5,510	$ 2,287
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	881	1,433	4,040
Extraordinary loss relating to early extinguishment of debt, before income tax benefit	--	--	2,483
Deferred income taxes (benefit)	20	228	(97)
Decrease (increase) in			
Accounts receivable	(362)	(1,870)	2,036
Prepaid expenses and other current assets	(158)	871	111
Prepaid income taxes	--	--	(3,003)
Miscellaneous other assets	5	(255)	(258)
Increase (decrease) in			
Accounts payable	(15)	1,288	2,339
Purses due horsemen	297	(248)	(1,421)
Uncashed pari-mutuel tickets	184	632	168
Accrued expenses	(504)	827	1,380
Accrued salaries and wages	128	265	306
Customer deposits	16	105	50
Taxes other than income taxes	239	146	257
Income taxes	190	(985)	--
Net cash provided by operating activities	5,917	7,947	10,678
Cash flows from investing activities			
Expenditures for property, plant and equipment	(3,958)	(6,995)	(29,196)
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	(3,958)	(55,829)	(47,620)

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

Year ended December 31,	1995	1996	1997
Cash flows from financing activities			
Proceeds from sale of common stock	$ 179	$ 1,569	$ 23,086
Tax benefit related to stock options exercised	--	--	602
Proceeds from long-term debt	--	47,000	111,167
Principal payments on long-term debt and capital lease obligations	(126)	(123)	(78,348)
Increase in unamortized financing cost	--	(2,444)	(3,345)
Net cash provided by financing activities	53	46,002	53,162
Net increase (decrease) in cash	2,012	(1,880)	16,220
Cash, beginning of period	5,502	7,514	5,634
Cash, end of period	$ 7,514	$ 5,634	$ 21,854

See accompany 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 1997 presentation.

Description of Business

The Company, which began operations in 1972, provides pari-mutuel wagering opportunities on both live and simulcast thoroughbred and harness horse races at two racetracks and seven 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 race track. Prior to the consummation of the acquisitions of Pocono Downs and Charles Town Races (see Note 2), the Company owned and operated Penn National Race Course located near Harrisburg, Pennsylvania ("Penn National Race Course"), and operated four OTWs, one each in Chambersburg, Lancaster, Reading and York, Pennsylvania. On November 27, 1996, the Company consummated the acquisition of Pocono Downs (the "Pocono Downs Acquisition") and as a result acquired Pocono Downs Racetrack, located outside Wilkes-Barre, Pennsylvania ("Pocono Downs"), and OTWs in Allentown and Erie, Pennsylvania. In February 1997, the Company opened its seventh OTW in Williamsport, Pennsylvania.

On January 15, 1997, a joint venture, in which the Company holds an 89% interest, acquired substantially all of the assets relating to Charles Town Races, a thoroughbred racing facility in Jefferson County, West Virginia (the "Charles Town Acquisition"). The Company refurbished and reopened the Charles Town facility as an entertainment complex featuring live racing, dining, simulcast wagering and, effective September 1997, Gaming Machines.

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.

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

December 31,	1995	1996	1997
Pari-mutuel wagering on			
the Company's live races	$ 102,145	$ 89,327	$ 128,090
Pari-mutuel wagering on simulcasting			
Import simulcasting from other racetracks	142,499	170,814	298,459
Export simulcasting to out of Pennsylvania wagering facilities	72,252	112,871	176,287
Total pari-mutuel wagering	$ 316,896	$ 373,012	$ 602,836

Racing Meet

The Penn National Race Course racing seasons for the years ended December 31, 1995, 1996 and 1997 totaled 204, 206 and 212 live race days, respectively. For the year ended December 31, 1997, the Pocono Downs and Charles Town Races racing seasons totaled 134 and 159 live race days, respectively.

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, 1995, 1996 and 1997 amounted to $814,000, $1,301,000 and $3,193,000, 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 1995, 1996 and 1997 amounted to $67,000, $98,000 and $578,000, 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.

Deferred financing costs are charged to operations over the life of the underlying indebtedness. Amortization of deferred financing

costs for 1995, 1996 and 1997 amounted to $-0-, $34,000 and $269,000, respectively.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 121 ("SFAS 121") "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" during the year ended December 31, 1995. SFAS 121 establishes accounting standards for the impairment of long-lived assets, certain identifiable intangibles and goodwill related to those assets to be held and used and for long-lived assets and certain identifiable intangibles to be disposed of. 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, 1997, the Company has determined that no impairment has occurred.

Income Taxes

The Company has adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 requires a company to recognize deferred tax liabilities and assets for the expected future tax consequences of events that have been recognized in a 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.

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

The Company adopted the provisions of Statement of Financial Accounting Standards No. 128 ("SFAS 128") "Earnings Per Share" in 1997. SFAS 128 provides for the calculation of "basic" and "diluted" net income per 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 (less than seven days) money market and tax free bond funds which are exposed to minimal interest rate and credit risk. At December 31, 1997, the Company had bank deposits which exceeded federally insured limits by approximately $960,000 and money market and tax free bond funds of approximately $18,939,000. 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.

Prepaid Acquisition Costs

Prepaid acquisition costs, which were incurred by the Company substantially in connection with the Charles Town Acquisition (see Note 2), are included in the purchase price of the Charles Town Acquisition and allocated to the appropriate assets.

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

Statement of Financial Accounting Standards No. 129, "Disclosure of Information about Capital Structure" ("SFAS 129"), effective for periods ending after December 15, 1997, establishes standards for disclosing information about an entity's capital structure. SFAS 129 requires disclosure of the pertinent rights and privileges of various securities outstanding (stock, options, warrants, preferred stock, debt and participation rights) including dividend and liquidation preferences, participant rights, call prices and dates, conversion or exercise prices and redemption requirements. Adoption of SFAS 129 will have no effect on the Company because it currently discloses the information specified.

Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income" ("SFAS 130"), establishes standards for reporting and display of comprehensive income, its components and accumulated balances. Comprehensive income is defined to include all changes in equity except those resulting from investments by owners and distributions to owners. Among other disclosures, SFAS 130 requires that all items that are required to be recognized under current accounting standards as components

of comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements.

Statement of Financial Accounting Standards No. 131, "Disclosure about Segments of a Business Enterprise" ("SFAS 131"), establishes standards for the way that public enterprises report information about operating segments in annual financial statements and requires reporting of selected information about operating segments in interim financial statements issued to the public. It also establishes standards for disclosures regarding products and services, geographic areas and major customers. SFAS 131 defines operating segments as components of an enterprise about which separate financial information is available and that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance.

Statement of Financial Accounting Standards No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits" ("SFAS 132"), revises employers' disclosures about pension and other postretirement benefit plans. It does not change the measurement or recognition of those plans. It standardizes the disclosure requirements for pensions and other postretirement benefits to the extent practicable, requires additional information on changes in the benefit obligations and fair values of plan assets that will facilitate financial analysis and eliminates certain existing disclosure requirements.

SFAS 130, SFAS 131 and SFAS 132 are effective for financial statements for periods beginning after December 15, 1997 and require comparative information for earlier years to be restated. Due to the recent issuance of these standards, management has been unable to fully evaluate the impact, if any, they may have on future financial statement disclosures.

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 and Erie, 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. In accordance with SFAS 109, 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 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 used its Credit Facility (see Note 3) and cash of Pocono Downs to fund the acquisition.

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 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 and 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 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, 1997, amounted to $45.9 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 Company would be required to pay a management fee to Showboat for the operation of the casino.

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 $27.0 million inclusive of $614,000 of capitalized interest and exclusive of the costs of leasing gaming machines through December 31, 1997. Construction in progress at December 31, 1997 primarily consists of approximately $9.5 million related to the Charles Town Entertainment Complex refurbishments. The estimated cost to complete these refurbishments as of December 31, 1997 is approximately $475,000.

Effective June 4, 1996, the Charles Town Joint Venture entered into a Loan and Security Agreement with Charles Town. The Loan and Security Agreement provided for a working capital line of credit in the amount of $1,250,000 and a requisite reduction of the purchase price under the option, by $1.60 for each dollar borrowed under that line. Upon consummation of the Charles Town Acquisition, Charles Town Races, Inc. repaid the loan. The parties agreed that $936,000 of the amount borrowed was eligible for the $1.60 purchase price reduction and are negotiating the applicability of the purchase price reduction to the remaining $219,000 that was borrowed.

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 1997 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. The 1997 results of Charles Town closely represents a full year of operations and the 1996 results of Charles Town are immaterial to the financial statements taken as a whole, therefore, no pro forma financial information is presented.

3. Long-Term Debt and Capital Lease Obligations

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

December 31,	1996	1997
	(In thousands)	
Long-term debt		
Senior Notes - $80 million face amount, due December 15, 2004 with interest payable at 10.625% per annum to noteholders 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
Term loans payable to a bank group in quarterly installments (see additional information below under Credit Facilities). These term loans were paid in December 1997 from the proceeds of the Debt Offering.	47,000	--
Other notes payable	380	279
Capital Lease Obligations	137	57
	47,517	80,336
Less current maturities	1,563	204
	$ 45,954	$ 80,132

Credit Facilities

At December 31, 1996 and 1997, the Company was contingently obligated under letters of credit with face amounts aggregating $1,436,000 and $1,634,000, respectively. These amounts consisted of $1,336,000 and $1,534,000, respectively, relating to the horsemens' account balances and $100,000 for Pennsylvania pari-mutuel taxes in each period.

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 ("1996 Credit Facility"). Simultaneously with the closing of the 1996 Credit Facility, the Company repaid amounts outstanding under its old credit facility and replaced it. The 1996 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 1996 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. The revolving credit facility is secured by substantially all of the assets of the Company. The revolving credit facility provides for certain covenants, including those of a financial nature. The Company would not have been in compliance with certain covenants had the bank group not granted waiver of certain technical defaults regarding minimum consolidated net worth, consolidated cash interest coverage ratio and minimum leverage ratio. However, at December 31, 1997 the Company had not drawn any portion of the revolving credit facility (although a $1.6 million letter of credit was issued against such revolving credit facility) and had adequate capital resources even without consideration of its revolving credit facility.

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%.

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; however, the existing credit facility, as amended, permitted the Company to retain up to the first $19 million of proceeds from an offering of the Company's equity securities. 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 $12 million revolving credit facility.

The following is a schedule of future minimum lease payments under capitalized leases and repayments of long-term debt, as of December 31, 1997:

December 31,	Capitalized Leases	Term Loans and Notes Payable	Total
			(In thousands)
1998	$ 51	$ 157	$ 208
1999	10	32	42
2000	--	35	35
2001	--	38	38
2002	--	17	17
Thereafter	--	80,000	80,000
Total minimum payments	61	80,279	80,340
Less interest discount amount	4	--	4
Total present value of net minimum lease payments and total notes payable	57	80,279	80,326
Current maturities	47	157	204
Total noncurrent maturities	$ 10	$ 80,122	$ 80,132

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 8).

4. Customer Deposits

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

5. Commitments and Contingencies

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 were $672,000, $1,001,000 and $807,000 for the years ended December 31, 1995, 1996 and 1997, respectively.

The future lease commitments relating to noncancelable operating leases as of December 31, 1997 are as follows:

	(In thousands)
1998	$ 1,035
1999	1,084
2000	1,099
2001	1,067
2002	1,070
Thereafter	1,696
	$ 7,051

On April 12, 1994, the Company entered into 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.

In August 1994, the Company signed a consulting agreement with its former Chairman expiring in August 1999 at an annual payment of $125,000.

On June 1, 1995, the Company entered into an employment agreement with its President and Chief Operating Officer at an annual base salary of $210,000. The agreement terminates on June 12, 1998. 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.

Under an agreement between the Company and its former president, the former president received options to purchase 150,000 shares of common stock at the fair value as of the date of grant of $3.33 per share expiring May 31, 2000.

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") 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, 1995, 1996 and 1997 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 $70,000, $89,000 and $145,000 for the years ended December 31, 1995, 1996 and 1997, 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 year ended December 31, 1997 was $114,000.

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 provides that GTECH will be the exclusive provider of VLS and related services, including video lottery terminals and slot machines, if any, at the Charles Town Entertainment Complex; provided, however, the Charles Town Joint Venture has retained management control over the VLS. The GTECH Agreement has a term of five years from the first date on which 400 Gaming Machines are installed, operational and generating net win (total of all cash inserted into, or game credits played on, a video lottery terminal minus the total value of all prizes paid). Pursuant to the GTECH Agreement, the Charles Town Joint Venture has agreed to pay GTECH a fee which can range between 4% and 10% of Gaming Machine gross revenue. The Company generally is obligated to pay a lower percentage of Gaming Machine gross revenue to GTECH at higher levels of average win per day per machine and a higher percentage of Gaming Machine gross revenue at lower levels of average win per

day per machine; provided, however, the Charles Town Joint Venture is obligated to pay GTECH the greater of the percentage fee described above or a minimum annual fee of $4.3 million if more than 800 Gaming Machines are in operation at the Charles Town Entertainment Complex. The payments pursuant to the GTECH Agreement include the cost of the rental of the Gaming Machines, the rental of the software (which is not a component of the VLS, as defined), technical assistance and programming services, maintenance and marketing services. At the end of the term of the GTECH Agreement, the Charles Town Joint Venture will purchase the VLS from GTECH for a cash purchase price equal to the net unamortized residual value of the VLS. In the event GTECH terminates the agreement because of the Charles Town Joint Venture's material misrepresentation and/or breach of the GTECH Agreement, the Charles Town Joint Venture must purchase the VLS from GTECH at a price equal to the net unamortized residual value of the VLS at that time and pay an additional one-time fee as follows: for such termination in the first year of the term, $8.5 million, for such termination in the second year of the term, $6.6 million; for such termination in the third year of the term, $5.0 million; for such termination in the fourth year of the term, $3.7 million; and for such termination in the fifth year of the term, $2.5 million. Pursuant to the GTECH Agreement, the Charles Town Joint Venture must maintain tangible net worth equal to at least 105% of the amounts payable as additional fees in the event of a termination as set forth in the preceding sentence.

On March 26, 1997, the Company entered into an agreement to purchase property for its Carbondale, Pennsylvania OTW facility. The agreement provides for a purchase price of $200,000 and is subject to numerous contingencies, including approval by the Pennsylvania State Harness Racing Commission (the "Harness Racing Commission"). On June 5, 1997, the Company's application was approved by the Harness Racing Commission. In October 1997, the Company entered into a construction contract regarding the Carbondale OTW facility. Commitments under this contract at December 31, 1997 were approximately $1.2 million. The Company expects to have the facility constructed and operational in the first quarter of 1998.

On June 20, 1997, the Company acquired options to purchase approximately 100 acres of land in Memphis, Tennessee for an aggregate purchase price of $2.7 million. The Company paid $11,000 to acquire the options and has the right to extend the

options from month to month until June 20, 1998 upon the payment of $11,000 per month. The Company has filed an application to the Tennessee State Racing Commission for the proposed development of a harness racetrack and off-track wagering facility at the site on October 9, 1997. The Company anticipates to hear the results of the Commission's review of the application during the second quarter of 1998.

On July 9, 1997, the Company entered into a lease agreement for its Hazleton, Pennsylvania OTW facility. The initial term of the lease is for ten years with two additional five-year renewal options available. This lease provides for minimum annual lease payments of $98,400 in years one through five and $108,240 in years six through ten. The agreement is subject to numerous contingencies, including approval by the Harness Racing Commission. On September 26, 1997, the Company's application was approved by the Harness Racing Commission. In November 1997, the Company entered into a construction contract regarding the Hazleton OTW facility. Commitments under this contract at December 31, 1997 were approximately $1.2 million. The Company expects to have the facility constructed and operational in the first quarter of 1998.

On September 9, 1997, the Company entered into a lease agreement for its Stroudsburg, Pennsylvania OTW facility. The initial term of the lease is for ten years with two additional five-year renewal options available. This lease provides for minimum annual lease payments of $101,640 during its initial term. The table above does not reflect this lease commitment. The agreement is subject to numerous contingencies, including approval by the Harness Racing Commission. On November 6, 1997, the Company's application was approved by the Harness Racing Commission. The Company is awaiting land development plan approvals and has no definitive date of opening at this time.

On September 26, 1997, the Company entered into a lease agreement for its proposed Altoona, Pennsylvania OTW facility. The initial term of the lease is for ten years with two additional five-year renewal options available. This lease provides for minimum annual lease payments of $92,400 during its initial term. The table presented above does not reflect this lease commitment. The agreement is subjected to numerous contingencies, including approval by the Pennsylvania State Horse Racing Commission. On January 15, 1998, the Company's application was approved by the Pennsylvania State Horse Racing Commission. The Company

expects to have the facility renovated and operational in the third quarter of 1998.

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.

6. Income Taxes

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

Year ended December 31,	1995	1996	1997
Current tax expense			
Federal	$ 2,605	$ 2,686	$ 2,006
State	842	880	399
Total current	3,447	3,566	2,405
Deferred tax expense (benefit)			
Federal	15	178	(56)
State	5	50	(41)
Total deferred	20	228	(97)
Total provision	$ 3,467	$ 3,794	$ 2,308

Deferred tax assets and liabilities are comprised of the following:

December 31,	1996	1997
Deferred tax assets		
Reserve for debit balances of horsemens' accounts, bad debts restructuring charges and litigation	$ 90	$ 469
Deferred tax liabilities		
Property, plant and equipment	$ 10,810	$ 11,092

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,	1995	1996	1997
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	6.7	6.6	3.9
Permanent difference relating to amortization of goodwill	.3	.2	.9
Other miscellaneous items	--	--	(.8)
	41.0%	40.8%	38.0%

7. Supplemental Disclosures of Cash Flow Information

Cash paid during the year for interest was $71,000, $506,000 and $4,346,000 in 1995, 1996 and 1997, respectively.

Cash paid during the year for income taxes was $2,839,000, $2,490,000 and $3,649,000 in 1995, 1996 and 1997, 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.

8. 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 Existing 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).

In April 1994, the Company's Board of Directors and shareholders adopted and approved the Stock Option Plan ("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 May 26, 2001 and October 23, 2006 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, 1997:

	Option Shares	Exercise Price Range Per Share	Average Price
Outstanding at January 1, 1995	465,000	$3.33	$ 3.33
Granted	345,000	3.33 to 5.58	5.51
Outstanding at December 31, 1995	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
Outstanding at December 31, 1997	1,040,500	3.33 to 17.63	7.31

In addition, 300,000 common stock options were issued 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
1995	270,000	$3.33 to $5.58	$ 3.33
1996	337,250	3.33 to 17.63	3.71
1997	653,833	3.33 to 17.63	7.08

Options available for future grant:	1994 Plan
1997	805,000

The following table summarizes information about stock options outstanding at December 31, 1997:

	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, 1997	641,000	694,500	1,335,500
Weighted average remaining contractual life (years)	5.82	7.36	6.62
Weighted average exercise price	$ 3.84	$ 14.97	$ 9.63
Exercisable options			
Number outstanding at December 31, 1997	471,000	182,833	653,833
Weighted average exercise price	$ 3.79	$ 15.56	$ 7.08

Warrants outstanding have been granted to the underwriters of the Company's initial public offering and to certain officers and directors to purchase Common Stock at prices ranging from $3.33 to $4.00 per share which expire on June 2, 1999 and May 31, 2000.

During 1995, the Company canceled 150,000 warrants which were granted to a former officer of the Company at a price of $3.33 per share and were to expire on May 31, 2000. The 150,000 canceled warrants were replaced with 150,000 shares of common stock purchase options at an exercise price of $3.33 per share. A summary of the warrant transactions follows:

	Warrant Shares	Exercise Price Range Per Share	Weighted Average Price
Warrants outstanding at January 1, 1995	690,000	$3.33 to $4.00	$ 3.85
Warrants canceled	(150,000)	3.33	3.33
Warrants exercised	(45,000)	4.00	4.00
Warrants outstanding at December 31, 1995	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	(46,000)	4.00	4.00
Warrants outstanding at December 31, 1997	149,000	4.00	4.00

During 1995, the FASB adopted Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation", 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,	1995	1996	1997
Net income			
As reported	$ 4,996,000	$ 5,510,000	$ 2,287,000
Pro forma	4,984,000	5,344,000	1,660,000
Basic net income per share			
As reported	$ .39	$ .41	$ .15
Pro forma	.39	.40	.11
Diluted net income per share			
As reported	$ .38	$ .40	$ .15
Pro forma	.38	.39	.11

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 1995, 1996 and 1997: dividend yield of 0%; expected volatility of 20%; risk-free interest rate of 6%; and expected lives of 5 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 and additional awards in future years are anticipated.

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 certain proposed operating sites during 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 off-track wagering 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 $0.09 per share, respectively.

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 20, 1998. 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 20, 1998. 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 20, 1998. 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 20, 1998. 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 NO.	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 8-K, File #0-24206, dated January 30, 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 Associates 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 Lease 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 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 Teleview 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 Mutuels 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, 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.)

10.68 Lease dated July 1, 1997 between Laurel Mall Associates and the Downs Off-Track Wagering, Inc.

10.69 General Contractor Agreement dated August 15, 1997, between Pocono Downs, Inc. and S.G. Mastriani Construction Management.

10.70 General Contractor Agreement dated October 15, 1997, between Pocono Downs, Inc. and S.G.Mastriani Construction Management.

10.71 General Contractor Agreement dated November 12, 1997, between Pocono Downs, Inc. and Warfel Construction Company.

10.72 Totalisator Agreement dated November 19, 1997, between Penn National Gaming, Inc. and AutoTote Systems,Inc.

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.

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.

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 on Form S-3, File #333-18861, dated February 11, 1997.)

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

27.2 Financial Data Schedule Restated for the year 1996.

27.3 Financial Data Schedule Restated for the first three quarters 1997.

27.4 Financial Data Schedule Restated for the year 1995.

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 27, 1998

Pursuant to the requirements of the Securities Exchange 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 27, 1998
\s\ William J. Bork. William J. Bork	Chief Operating Officer and Director (Principal Executive Officer)	March 27, 1998
\s\ Robert S. Ippolito Robert S. Ippolito	Chief Executive Officer (Principal Executive Officer)	March 27, 1998
\s\ Harold Cramer Harold Cramer	Director	March 27, 1998
\s\ David A. Handler David A. Handler	Director	March 27, 1998
\s\ Robert P. Levy Robert P. Levy	Director	March 27, 1998
\s\ John M. Jacquemin John M. Jacquemin	Director	March 27, 1998

EXHIBIT INDEX

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21	Subsidiaries of the Registrant
27.1	Financial Data Schedule.
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27.3	Financial Data Schedule Restated for the first three quarters 1997.
27.4	Financial Data Schedule Restated for the year 1995.

EXHIBIT 1

Penn National Gaming, Inc.

$80,000,000
10 5/8% Senior Notes due 2004g

PURCHASE AGREEMENT

December 12, 1997

BT ALEX. BROWN INCORPORATED
JEFFERIES & COMPANY, INC.
c/o BT Alex. Brown Incorporated
One Bankers Trust Plaza
130 Liberty Street
New York, New York 10006

Ladies and Gentlemen:

Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and the subsidiary guarantors listed on Schedule A hereto (the "Subsidiary Guarantors"), each hereby confirms its agreement with you (the "Initial Purchasers"), as set forth below.

1. The Securities. Subject to the terms and conditions herein contained, the Company proposes to issue and sell to the Initial Purchasers $80,000,000 aggregate principal amount of its 10 5/8% Senior Notes due 2004 (with the Guarantees defined below, the "Notes"). The Notes will be guaranteed (the "Guarantees") by the Subsidiary Guarantors on a senior basis. The Notes are to be issued under an indenture (the "Indenture") to be dated as of December 17, 1997 by and between the Company, the Subsidiary Guarantors and State Street Bank and Trust Company, as Trustee (the "Trustee").

It is contemplated, but not required, that concurrently with the issuance of the Notes, the Company and its subsidiaries will enter into a senior secured credit agreement (together with all documents executed in connection therewith, the "New Credit Agreement") dated December 17, 1997, among the Company, the Subsidiary Guarantors, the lenders party thereto in their capacities as lenders thereunder and Bankers Trust Company, as agent, in the form of a revolving credit facility in the amount of $12.0 million, for working capital, letters of credit and other general corporate purposes, to replace the $61.0 million existing credit facility (the "Existing Credit Agreement" and together with the New Credit Agreement, the "Credit Agreement").

The Notes will be offered and sold to the Initial Purchasers without being registered under the Securities Act of 1933, as amended (the "Act"), in reliance on exemptions therefrom.

In connection with the sale of the Notes, the Company has prepared a preliminary offering memorandum dated November 24, 1997 (the "Preliminary Memorandum") and a final offering memorandum dated December 12, 1997 (the "Final Memorandum"; the Preliminary Memorandum and the Final Memorandum each herein being referred to as a "Memorandum") each setting forth or including a description of the terms of the Notes, the terms of the offering of the Notes, a description of the Company and any material developments relating to the Company occurring after the date of the most recent historical financial statements included therein.

The Company understands that the Initial Purchasers propose to make an offering of the Notes only on the terms and in the manner set forth in the Final Memorandum and Section 8 hereof as soon as the Initial Purchasers deem advisable after this Agreement has been executed and delivered, to qualified institutional buyers ("Qualified Institutional Buyers" or "QIBs") as defined in Rule 144A under the Act, as such rule may be amended from time to time ("Rule 144A"), in transactions under Rule 144A, and outside the United States to certain persons in reliance on Regulation S under the Act.

The Initial Purchasers and their direct and indirect transferees of the Notes will be entitled to the benefits of the Registration Rights Agreement, substantially in the form attached hereto as Schedule A (the "Registration Rights Agreement"), to be dated the Closing Date (as defined in Section 3 below), pursuant to which the Company and the Subsidiary Guarantors have agreed, among other things, to file a registration statement (the "Registration Statement") with the Securities and Exchange Commission (the "Commission") registering the Notes or the Exchange Notes (as defined in the Registration Rights Agreement) under the Act.

2. Representations and Warranties. The Company and the Subsidiary Guarantors, jointly and severally, represent and warrant to and agree with the Initial Purchasers that:

(a) Neither the Preliminary Memorandum as of the date thereof nor the Final Memorandum nor any amendment or supplement thereto as of

the date thereof and at all times subsequent thereto up to the Closing Date contained or contains any untrue state-

ment of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, except that the representations and warranties set forth in this Section 2(a) do not apply to statements or omissions made in reliance upon and in conformity with information relating to the Initial Purchasers furnished to the Company in writing by the Initial Purchasers expressly for use in the Preliminary Memorandum, the Final Memorandum or any amendment or supplement thereto specified in Section 12 hereof.

(b) As of the Closing Date, the Company will have the authorized, issued and outstanding capitalization set forth in the Final Memorandum; all of the subsidiaries of the Company, including the Subsidiary Guarantors and PNGI Charles Town Gaming LLC, an 89% owned joint venture, are listed in Schedule B attached hereto (each, a "Subsidiary" and collectively, the "Subsidiaries"); all of the outstanding shares of capital stock of the Company and the Subsidiaries have been, and as of the Closing Date will be, duly authorized and validly issued, are fully paid and nonassessable and were not issued in violation of any preemptive or similar rights; except as contemplated by the Credit Agreement all of the outstanding shares of capital stock of the Company and the Subsidiaries will be free and clear of all liens, encumbrances, equities and claims or restrictions on transferability (other than those imposed by the Act and the securities or "Blue Sky" laws of certain jurisdictions) or voting; except as issued pursuant to the Company's stock option plans and except for the warrants described in the notes to the Consolidated Financial Statements included in the Final Memorandum, there are no (i) options, warrants or other rights to purchase from the Company or the Subsidiaries, (ii) agreements or other obligations of the Company or the Subsidiaries to issue or (iii) other rights to convert any obligation into, or exchange any securities for, shares of capital stock of or ownership interests in the Company or any of the Subsidiaries outstanding. Except for the Subsidiaries or as disclosed in the Final Memorandum, the Company does not own, directly or indirectly, any shares of capital stock or any other equity or long-term debt securities or have any equity interest in any firm, partnership, joint venture or other entity.

(c) Each of the Company and the Subsidiaries has been duly incorporated or duly formed (as applicable), is validly existing and is in good standing as a corporation or as a limited liability company, as the case may be, under the laws of its respective jurisdiction of incorporation or organization, with all requisite corporate power and authority to own its properties and conduct its business as now conducted and as described in the Final Memorandum; each of the Company and the Subsidiaries is duly qualified to do business as a foreign corporation or as a limited liability company, as the case may be, in good standing in all other jurisdictions where the ownership or leasing of its properties or the conduct of its business requires such qualification, except where the failure to be so qualified would not, individually or in the aggregate, have a material adverse effect on the business, condition

(financial or otherwise), prospects or results of operations of the Company and the Subsidiaries, taken as a whole (any such event, a "Material Adverse Effect").

(d) Each of the Company and the Subsidiary Guarantors has all requisite corporate power and authority to execute, deliver and perform each of its obligations under the Notes, the Exchange Notes and the Private Exchange Notes (as defined in the Registration Rights Agreement). The Notes, the Exchange Notes and the Private Exchange Notes have each been duly and validly authorized by the Company and the Subsidiary Guarantors and, when executed by the Company and authenticated by the Trustee in accordance with the provisions of the Indenture and, in the case of the Notes, when delivered to and paid for by the Initial Purchasers in accordance with the terms of this Agreement, will have been duly executed, issued and delivered and will constitute valid and legally binding obligations of the Company and the Subsidiary Guarantors, entitled to the benefits of the Indenture and enforceable against the Company and the Subsidiary Guarantors in accordance with their terms, except that the enforcement thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally, and (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought.

(e) The Guarantees to be endorsed on the Notes by each Subsidiary Guarantor have been duly authorized by such Subsidiary Guarantor and, on the Closing Date, will have been duly executed and delivered by each such Subsidiary Guarantor. When the Notes have been issued, executed and authenticated in accordance with the Indenture and delivered to and paid for by the Initial Purchasers in accordance with the terms of this Agreement, the Guarantee of each Subsidiary Guarantor endorsed thereon will be entitled to the benefits of the Indenture and will be the valid and binding obligation of such Subsidiary Guarantor, enforceable against such Subsidiary Guarantor in accordance with its terms, except that the enforcement thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally, and (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought.

(f) Each of the Company and the Subsidiary Guarantors has all requisite corporate power and authority to execute, deliver and perform its obligations under the Indenture. The Indenture meets the requirements for qualification under the Trust Indenture Act of 1939, as amended (the "TIA"). The Indenture has been duly and validly authorized by the Company and the Subsidiary Guarantors and, when executed and delivered by the Company and the Subsidiary Guarantors (assuming the due authorization, execution and delivery by the Trustee), will constitute a valid and legally binding agreement of the Company and the Subsidiary Guarantors, enforceable against the Company and the Subsidiary Guarantors in accordance with its terms, except that the enforcement thereof may be subject to

(i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought.

(g) Each of the Company and the Subsidiary Guarantors has all requisite corporate power and authority to execute, deliver and perform its obligations under the Registration Rights Agreement. The Registration Rights Agreement has been duly and validly authorized by the Company and the Subsidiary Guarantors and, when executed and delivered by the Company and the Subsidiary Guarantors, will constitute a valid and legally binding agreement of the Company and the Subsidiary Guarantors enforceable against the Company and the Subsidiary Guarantors in accordance with its terms, except that (i) the enforcement thereof may be subject to (A) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (B) general principles of equity and the discretion of the court before which any proceeding therefor may be brought and (ii) any rights to indemnity or contribution thereunder may be limited by federal and state securities laws and public policy considerations.

(h) Each of the Company and the Subsidiary Guarantors has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement and to consummate the transactions contemplated hereby. This Agreement and the transactions contemplated hereby have been duly and validly authorized, executed and delivered by the Company and the Subsidiary Guarantors.

(i) No consent, approval, authorization or order of any court, governmental agency or body or third party, including without limitation, the Pennsylvania State Horse Racing Commission (the "Horse Racing Commission"), the Pennsylvania State Harness Racing Commission (the "Harness Commission"), the West Virginia State Racing Commission (the "West Virginia Racing Commission") and the West Virginia Lottery Commission (the "Lottery Commission") (collectively, the "Gaming Authorities"), is required for the performance of this Agreement by the Company or the consummation by the Company of the transactions contemplated hereby, except such as have been obtained and such as may be required under state securities or "Blue Sky" laws in connection with the purchase and resale of the Notes by the Initial Purchasers. None of the Company or the Subsidiaries is (i) in violation of its certificate of incorporation or bylaws (or similar organizational document), (ii) in breach or violation of any statute, judgment, decree, order, rule or regulation applicable to it or any of its respective properties or assets, except for any such breach or violation that would not, individually or in the aggregate, have a Material Adverse Effect, or (iii) in breach of or default under (nor has any event occurred that, with notice or passage of time or both, would constitute a default under) or in violation of any of the terms or provisions of any indenture, mortgage, deed of trust, loan agreement, note, lease, license, franchise agreement, permit, certificate, contract or other agreement or instrument to which it is a party or to which it or its

respective properties or assets is subject (collectively, "Contracts"), except for any such breach, default, violation or event that would not, individually or in the aggregate, have a Material Adverse Effect.

(j) The execution, delivery and performance by the Company and the Subsidiary Guarantors of this Agreement, the Indenture, the Registration Rights Agreement and the Credit Agreement and the consummation by each of the Company and the Subsidiary Guarantors of the transactions contemplated hereby and thereby (including, without limitation, the issuance and sale of the Notes to the Initial Purchasers) and the fulfillment of the terms hereof and thereof will not conflict with or constitute or result in a breach of or a default under (or an event that with notice or passage of time or both would constitute a default under) or violation of any of (i) the terms or provisions of any Contract, except for any such conflict, breach, violation, default or event that would not, individually or in the aggregate, have a Material Adverse Effect, (ii) the certificate of incorporation or bylaws (or similar organizational document) of the Company or any of the Subsidiaries or (iii) (assuming compliance with all applicable state securities or "Blue Sky" laws and assuming the accuracy of the representations and warranties of the Initial Purchasers in Section 8 hereof) any statute, judgment, decree, order, rule or regulation applicable to the Company or any of the Subsidiaries or any of their respective properties or assets, except for any such conflict, breach or violation that would not, individually or in the aggregate, have a Material Adverse Effect.

(k) The audited consolidated financial statements of the Company included in the Final Memorandum, taken as a whole, present fairly in all material respects the financial position, results of operations and changes in shareholders' equity and cash flows of the Company at the dates and for the periods to which they relate and have been prepared in accordance with generally accepted accounting principles applied on a consistent basis, except as otherwise stated therein. The summary and selected financial and statistical data in the Final Memorandum, taken as a whole, present fairly, in all material respects, the information shown therein and have been prepared and compiled on a basis consistent with the audited financial statements included therein, except as otherwise stated therein. BDO Seidman, LLP (the "Independent Accountant") is an independent public accounting firm within the meaning of the Act and the rules and regulations promulgated thereunder.

(l) There is not pending or, to the best knowledge of the Company and the Subsidiary Guarantors, threatened any action, suit, proceeding, inquiry or investigation to which the Company or any of the Subsidiaries is a party, or to which the property or assets of the Company or any of the Subsidiaries are subject, before or brought by any court, arbitrator or governmental agency or body that, if determined adversely to the Company or the Subsidiaries, would, individually or in the aggregate, have a Material Adverse Effect or that seeks to restrain, enjoin, prevent the consummation of or otherwise challenge the issuance or

sale of the Notes to be sold hereunder or the consummation of the other transactions described in the Final Memorandum.

(m) Each of the Company and the Subsidiaries owns or possesses adequate licenses or other rights to use all patents, trademarks, service marks, trade names, copyrights and know-how necessary to conduct the businesses now or proposed to be operated, as described in the Final Memorandum, and, except as described in the Final Memorandum, none of the Company or the Subsidiaries has received any notice of infringement of or conflict with (or knows of any such infringement of or conflict with) asserted rights of others with respect to any patents, trademarks, service marks, trade names, copyrights or know-how that, if such assertion of infringement or conflict were sustained, would, individually or in the aggregate, have a Material Adverse Effect.

(n) Each of the Company and the Subsidiaries possesses all licenses, permits, certificates, consents, orders, approvals and other authorizations from, and has made all declarations and filings with, all federal, state, local and other governmental authorities (including, without limitation, all permits, licenses, certificates and franchises necessary to conduct thoroughbred racing, harness racing, wagering on live and simulcast racing and telephone account wagering activities, to operate off-track wagering facilities and video gaming machines and to broadcast live racing), all self-regulatory organizations and all courts and other tribunals, presently required or necessary to own or lease, as the case may be, and to operate its respective properties and to carry on its respective businesses as now or proposed to be conducted as set forth in the Final Memorandum ("Permits"), except where the failure to obtain such Permits would not, individually or in the aggregate, have a Material Adverse Effect; each of the Company and the Subsidiaries has fulfilled and performed all of its obligations with respect to such Permits and no event has occurred that allows, or after notice or lapse of time would allow, revocation or termination thereof or results in any other material impairment of the rights of the holder of any such Permit; and none of the Company or the Subsidiaries has received any notice of any proceeding relating to revocation or modification of any such Permit, except as described in the Final Memorandum and except where such revocation or modification would not, individually or in the aggregate, have a Material Adverse Effect.

(o) Since the date of the most recent financial statements appearing in the Final Memorandum, except as described therein, (i) none of the Company or the Subsidiaries has incurred any liabilities or obligations, direct or contingent, or entered into or agreed to enter into any transactions or contracts (written or oral) not in the ordinary course of business, which liabilities, obligations, transactions or contracts would, individually or in the aggregate, be material to the business, condition (financial or otherwise), prospects or results of operations of the Company and its Subsidiaries, taken as a whole (a "Material Change"), (ii) none of the Company or the Subsidiaries has purchased any of its outstanding capital

stock, nor declared, paid or otherwise made any dividend or distribution of any kind on its capital stock and (iii) there shall not have been any change in the capital stock or long-term indebtedness of the Company or the Subsidiaries that would, individually or in the aggregate, be a Material Change.

(p) Each of the Company and the Subsidiaries has filed all necessary federal, state and foreign income and franchise tax returns, except where the failure to so file such returns would not, individually or in the aggregate, have a Material Adverse Effect, and has paid all taxes shown as due thereon; and other than tax deficiencies that the Company or any Subsidiary is contesting in good faith and for which the Company or such Subsidiary has provided adequate reserves, there is no tax deficiency that has been asserted against the Company or any of the Subsidiaries that would have, individually or in the aggregate, a Material Adverse Effect.

(q) The statistical and market-related data included in the Final Memorandum are based on or derived from sources that the Company believe to be reliable and accurate in all material respects.

(r) None of the Company, the Subsidiaries or any agent acting on their behalf has taken or will take any action that might cause this Agreement or the sale of the Notes to violate Regulation G, T, U or X of the Board of Governors of the Federal Reserve System, in each case as in effect, or as the same may hereafter be in effect, on the Closing Date.

(s) Each of the Company and the Subsidiaries has good and marketable title to all real property and good title to all personal property described in the Final Memorandum as being owned by it and a valid leasehold interest in the real and personal property described in the Final Memorandum as being leased by it free and clear of all liens, charges, encumbrances or restrictions, except as described in the Final Memorandum or to the extent the failure to have such title or the existence of such liens, charges, encumbrances or restrictions would not, individually or in the aggregate, have a Material Adverse Effect. All material leases, contracts and agreements to which any of the Company or the Subsidiaries is a party or by which any of them is bound are valid and enforceable against the Company or such Subsidiary, are, to the Company's knowledge, valid and enforceable against the other party or parties thereto and are in full force and effect with only such exceptions as would not, individually or in the aggregate, have a Material Adverse Effect.

(t) There are no legal or governmental proceedings involving or affecting the Company or the Subsidiaries or any of their respective properties or assets that would be required to be described in a prospectus pursuant to the Act that are not described in the Final Memorandum, nor are there any material contracts or other documents that would be

required to be described in a prospectus pursuant to the Act that are not described in the Final Memorandum.

(u) The Company has no reason to believe that any of the Gaming Authorities is considering modifying, suspending, revoking or not granting renewal of any of the Permits, and, to its knowledge, neither the Gaming Authorities nor any other governmental agency is investigating the Company or any of the Subsidiaries or related parties or any director or executive officer of the Company or any of the Subsidiaries, other than ordinary course administrative reviews. Except as disclosed in the Final Memorandum, to the best knowledge of the Company, no change in any laws or regulations is pending which could reasonably be expected to be adopted and if adopted, could reasonably be expected to have, individually or in the aggregate with all such changes, a Material Adverse Effect.

(v) Except as would not, individually or in the aggregate, have a Material Adverse Effect (i) each of the Company and the Subsidiaries is in compliance with and not subject to liability under applicable Environmental Laws, (ii) each of the Company and the Subsidiaries has made all filings and provided all notices required under any applicable Environmental Law, has and is in compliance with all Permits required under any applicable Environmental Laws and each of them is in full force and effect, (iii) there is no civil, criminal or administrative action, suit, demand, claim, hearing, notice of violation, investigation, proceeding, notice or demand letter or request for information pending or, to the knowledge of the Company or any of the Subsidiaries, threatened against the Company or any of the Subsidiaries under any Environmental Law, (iv) no lien, charge, encumbrance or restriction has been recorded under any Environmental Law with respect to any assets, facility or property owned, operated, leased or controlled by the Company or the Subsidiaries, (v) none of the Company or the Subsidiaries has received notice that it has been identified as a potentially responsible party under the Comprehensive Environmental Response, Compensation and Liability Act of 1980, as amended ("CERCLA"), or any comparable state law, (vi) (A) no property or facility of the Company or the Subsidiaries is listed or proposed for listing on the National Priorities List under CERCLA OR (B) to the knowledge of the Company and the Subsidiary Guarantors is listed in the Comprehensive Environmental Response, Compensation, Liability Information System List promulgated pursuant to CERCLA or any comparable list maintained by any state or local governmental authority.

For purposes of this Agreement, "Environmental Laws" means the common law and all applicable federal, state and local laws or regulations, codes, orders, decrees, judgments or injunctions issued, promulgated, approved or entered thereunder, relating to pollution or protection of public or employee health and safety or the environment, including, without limitation, laws relating to (i) emissions, discharges, releases or threatened releases of hazardous materials, into the environment (including, without limitation, ambient air, surface water, ground water, land surface or subsurface strata), (ii) the manufacture, proc-

essing, distribution, use, generation, treatment, storage, disposal, transport or handling of hazardous materials and (iii) underground and above ground storage tanks, and related piping, and emissions, discharges, releases or threatened releases therefrom.

(w) Except as described in the Final Memorandum, there is no strike, labor dispute, slowdown or work stoppage with the employees of the Company or the Subsidiaries that is pending or, to the knowledge of the Company or the Subsidiaries, threatened.

(x) Each of the Company and the Subsidiaries carries insurance in such amounts and covering such risks as in its reasonable determination are adequate for the conduct of its business and the value of its properties.

(y) None of the Company or the Subsidiaries has any liability for any prohibited transaction or funding deficiency or any complete or partial withdrawal liability with respect to any pension, profit sharing or other plan that is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), to which the Company or any of the Subsidiaries makes or ever has made a contribution and in which any employee of the Company or the Subsidiaries is or has ever been a participant. With respect to such plans, the Company and the Subsidiaries are in compliance in all material respects with all applicable provisions of ERISA.

(z) Each of the Company and the Subsidiaries (i) makes and keeps accurate books and records and (ii) maintains internal accounting controls that provide reasonable assurance that (A) transactions are executed in accordance with management's authorization, (B) trans-actions are recorded as necessary to permit preparation of its financial statements and to maintain accountability for its assets, (C) access to its assets is permitted only in accordance with management's authorization and (D) the reported accountability for its assets is compared with existing assets at reasonable intervals.

(aa) None of the Company or the Subsidiaries will be an "investment company" or "promoter" or "principal underwriter" for an "investment company," as such terms are defined in the Investment Company Act of 1940, as amended, and the rules and regulations thereunder.

(bb) The Notes, the Guarantees, the Exchange Notes, the Indenture, the Credit Agreement and the Registration Rights Agreement will conform in all material respects to the descriptions thereof in the Final Memorandum.

(cc) No holder of securities of the Company or any Subsidiary will be entitled to have such securities registered under the registration statements required to be

filed by the Company pursuant to the Registration Rights Agreement other than as expressly permitted thereby.

(dd) Immediately after the consummation of the transactions contemplated by this Agreement, the fair value and present fair saleable value of the assets of each of the Subsidiary Guarantors (each on a consolidated basis) will exceed the sum of its stated liabilities and identified contingent liabilities; none of the Company or the Subsidiary Guarantors (each on a consolidated basis) is, nor will any of the Company or the Subsidiary Guarantors (each on a consolidated basis) be, after giving effect to the execution, delivery and performance of this Agreement, and the consummation of the transactions contemplated hereby, (i) left with unreasonably small capital with which to carry on its business as it is proposed to be conducted, (ii) unable to pay its debts (contingent or otherwise) as they mature or (iii) otherwise insolvent.

(ee) None of the Company, the Subsidiaries or any of their respective Affiliates (as defined in Rule 501(b) of Regulation D under the Act) has directly, or through any agent, (i) sold, offered for sale, solicited offers to buy or otherwise negotiated in respect of, any "security" (as defined in the Act) that is or could be integrated with the sale of the Notes in a manner that would require the registration under the Act of the Notes or (ii) engaged in any form of general solicitation or general advertising (as those terms are used in Regulation D under the Act) in connection with the offering of the Notes or in any manner involving a public offering within the meaning of Section 4(2) of the Act. Assuming the accuracy of the representations and warranties of the Initial Purchasers in Section 8 hereof, it is not necessary in connection with the offer, sale and delivery of the Notes to the Initial Purchasers in the manner contemplated by this Agreement to register any of the Notes under the Act or to qualify the Indenture under the TIA.

(ff) No securities of the Company or any Subsidiary are of the same class (within the meaning of Rule 144A under the Act) as the Notes and listed on a national securities exchange registered under Section 6 of the Exchange Act, or quoted in a U.S. automated inter-dealer quotation system.

(gg) None of the Company or the Subsidiaries has taken, nor will any of them take, directly or indirectly, any action designed to, or that might be reasonably expected to, cause or result in stabilization or manipulation of the price of the Notes.

Any certificate signed by any officer of the Company or the Subsidiaries and delivered to the Initial Purchasers or to counsel for the Initial Purchasers shall be deemed a joint and several representation and warranty by the Company and each of the Subsidiaries to the Initial Purchasers as to the matters covered thereby.

3. Purchase, Sale and Delivery of the Notes. On the basis of the representations, warranties, agreements and covenants herein contained and subject to the terms and conditions herein set forth, the Company agrees to issue and sell to the Initial Purchasers and the Initial Purchasers, acting severally and not jointly, agree to purchase the Notes, in the respective amounts set forth on Schedule I hereto, from the Company at 97.0% of their principal amount. One or more certificates in definitive form for the Notes that the Initial Purchasers have agreed to purchase hereunder, and in such denomination or denominations and registered in such name or names as the Initial Purchasers request upon notice to the Company at least 36 hours prior to the Closing Date, shall be delivered by or on behalf of the Company to the Initial Purchasers, against payment by or on behalf of the Initial Purchasers of the purchase price therefor by wire transfer (same day funds), to such account or accounts as the Company shall specify prior to the Closing Date, or by such means as the parties hereto shall agree prior to the Closing Date. Such delivery of and payment for the Notes shall be made at the offices of Cahill Gordon & Reindel, 80 Pine Street, New York, New York at 9:00 A.M., New York time, on December 17, 1997, or at such other place, time or date as the Initial Purchasers, on the one hand, and the Company, on the other hand, may agree upon, such time and date of delivery against payment being herein referred to as the "Closing Date." The Company will make such certificate or certificates for the Notes available for checking and packaging by the Initial Purchasers at the offices of BT Alex. Brown Incorporated in New York, New York, or at such other place as BT Alex. Brown Incorporated may designate, at least 24 hours prior to the Closing Date.

4. Offering by the Initial Purchasers. The Initial Purchasers propose to make an offering of the Notes at the price and upon the terms set forth in the Final Memorandum, as soon as practicable after this Agreement is entered into and as in the judgment of the Initial Purchasers is advisable.

5. Covenants of the Company and the Subsidiary Guarantors. Each of the Company and the Subsidiary Guarantors, jointly and severally, covenants and agrees with the Initial Purchasers that:

(a) The Company and the Subsidiary Guarantors will not amend or supplement the Final Memorandum or any amendment or supplement thereto of which the Initial Purchasers shall not previously have been advised and furnished a copy for a reasonable period of time prior to the proposed amendment or supplement and as to which the Initial Purchasers shall not have given its consent. The Company and the Subsidiary Guarantors will promptly, upon the reasonable request of the Initial Purchasers or counsel for the Initial Purchasers, make any amendments or supplements to the Final Memorandum that may

be necessary or advisable in connection with the resale of the Notes by the Initial Purchasers.

(b) The Company and the Subsidiary Guarantors will cooperate with the Initial Purchasers in arranging for the qualification of the Notes for offering and sale under the securities or "Blue Sky" laws of such jurisdictions as the Initial Purchasers may designate and will continue such qualifications in effect for as long as may be necessary to complete the resale of the Notes; provided, however, that in connection therewith, the Company shall not be required to qualify as a foreign corporation or to execute a general consent to service of process in any jurisdiction or subject itself to taxation in excess of a nominal dollar amount in any such jurisdiction where it is not then so subject.

(c) If, at any time prior to the completion of the distribution by the Initial Purchasers of the Notes or the Private Exchange Notes, any event occurs or information becomes known as a result of which the Final Memorandum as then amended or supplemented would include any untrue statement of a material fact, or omit to state a material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, or if for any other reason it is necessary at any time to amend or supplement the Final Memorandum to comply with applicable law, the Company and the Subsidiary Guarantors will promptly notify the Initial Purchasers thereof and will prepare, at the expense of the Company and the Subsidiary Guarantors, an amendment or supplement to the Final Memorandum that corrects such statement or omission or effects such compliance.

(d) The Company and the Subsidiary Guarantors will, without charge, provide to the Initial Purchasers and to counsel for the Initial Purchasers as many copies of the Final Memorandum or any amendment or supplement thereto as the Initial Purchasers may reasonably request.

(e) The Company will apply the net proceeds from the sale of the Notes as set forth under "Use of Proceeds" in the Final Memorandum.

(f) For so long as the Notes remain outstanding, the Company and the Subsidiary Guarantors will furnish to the Initial Purchasers copies of all reports and other communications (financial or otherwise) furnished by the Company to the Trustee or the holders of the Notes and, as soon as available, copies of any reports or financial statements furnished to or filed by the Com-

pany with the Commission or any national securities exchange on which any class of securities of the Company may be listed.

(g) None of the Company, the Subsidiaries or any of their Affiliates will sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any "security" (as defined in the Act) that could be integrated with the sale of the Notes in a manner that would require the registration under the Act of the Notes.

(h) The Company and the Subsidiary Guarantors will not, and will not permit any of the Subsidiaries to, engage in any form of general solicitation or general advertising (as those terms are used in Regulation D under the Act) in connection with the offering of the Notes or in any manner involving a public offering within the meaning of Section 4(2) of the Act.

(i) For so long as any of the Notes remain outstanding, the Company and the Subsidiary Guarantors will make available, upon request, to any seller of such Notes the information specified in Rule 144A(d)(4) under the Act, unless the Company is then subject to Section 13 or 15(d) of the Exchange Act.

(j) The Company will use their best efforts to (i) permit the Notes to be designated PORTAL securities in accordance with the rules and regulations adopted by the NASD relating to trading in the Private Offerings, Resales and Trading through Automated Linkages market (the "Portal Market") and (ii) permit the Notes to be eligible for clearance and settlement through The Depository Trust Company.

6. Expenses. The Company and the Subsidiary Guarantors, jointly and severally, agree to pay all of their costs and expenses incident to the performance of their obligations under this Agreement, whether or not the transactions contemplated herein are consummated or this Agreement is terminated pursuant to Section 11 hereof, including all costs and expenses incident to (i) the printing, word processing or other production of documents with respect to the transactions contemplated hereby, including any costs of printing the Preliminary Memorandum and the Final Memorandum and any amendment or supplement thereto and any "Blue Sky" memoranda, (ii) all arrangements relating to the delivery to the Initial Purchasers of copies of the foregoing documents, (iii) the fees and disbursements of counsel, accountants and any other experts or advisors retained by the Company, (iv) preparation (including printing), issuance and delivery to the Initial Purchasers of the Notes, (v) the qualification of the Notes under state securities and "Blue Sky" laws, including filing fees and fees and disbursements of counsel for the Initial Purchasers relating thereto,

(vi) expenses in connection with any meetings with prospective investors in the Notes, (vii) fees and expenses of the Trustee including fees and expenses of counsel, (viii) all expenses and listing fees incurred in connection with the application for quotation of the Notes on the Portal Market and (ix) any fees charged by investment rating agencies for the rating of the Notes. In addition, if the sale of the Notes provided for herein is not consummated because any condition to the obligations of the Initial Purchasers set forth in Section 7 (other than subsection (b)) hereof is not satisfied, because this Agreement is terminated or because of any failure, refusal or inability on the part of the Company or any Subsidiary Guarantor to perform all obligations and satisfy all conditions on their part to be performed or satisfied hereunder (other than solely by reason of a default by the Initial Purchasers of their obligations hereunder after all conditions hereunder have been satisfied in accordance herewith), the Company and the Subsidiary Guarantors, jointly and severally, agree to promptly reimburse the Initial Purchasers upon demand for all out-of-pocket expenses (including fees, disbursements and charges of Cahill Gordon & Reindel, counsel for the Initial Purchasers) that shall have been incurred by the Initial Purchasers in connection with the proposed purchase and sale of the Notes.

7. Conditions of the Initial Purchasers' Obligations. The obligation of the Initial Purchasers to purchase and pay for the Notes shall, in their sole discretion, be subject to the satisfaction or waiver of the following conditions on or prior to the Closing Date:

(a) On the Closing Date, the Initial Purchasers shall have received the opinion, dated as of the Closing Date and addressed to the Initial Purchasers, from Morgan, Lewis & Bockius LLP, counsel for the Company and the Subsidiary Guarantors, in form and substance satisfactory to counsel for the Initial Purchasers, to the effect that:

(i) The Company and each of the Subsidiaries is validly existing and in good standing under the laws of its respective jurisdiction of incorporation or formation and has all requisite corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Final Memorandum. Neither the Company nor any Subsidiary is registered or qualified to do business in any jurisdiction other than its jurisdiction of organization, the Company and the Subsidiaries having informed such counsel that the nature of the properties and the conduct of the business of each such entity do not require registration or qualification to do business in any jurisdiction other than each such entity's jurisdiction of organization.

(ii) The Company has authorized, under its articles of incorporation, (a) one million shares of preferred stock, $.01 par value per

share and (b) 20 million shares of common stock, $.01 par value per share; all of the outstanding shares of capital stock of the Company and the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and were not issued in violation of any preemptive or similar rights; to the knowledge of such counsel, except as set forth in the Final Memorandum and the Credit Agreement, all of the outstanding shares of capital stock of the Subsidiaries are owned, directly or indirectly, by the Company, free and clear of all perfected security interests and, free and clear of all other liens, encumbrances, equities and claims or restrictions on transferability (other than those imposed by the Act and the securities or "Blue Sky" laws of certain jurisdictions).

(iii) To the knowledge of such counsel, except as set forth in the Final Memorandum and except as issued pursuant to the Company's stock option plans and the warrants described in the Notes to Consolidated Financial Statements included in the Final Memorandum, (A) no options, warrants or other rights to purchase from the Company or the Subsidiaries shares of capital stock or ownership interests in the Company or the Subsidiaries are outstanding, (B) no agreements or other obligations of the Company or the Subsidiaries to issue, or other rights to cause the Company or the Subsidiaries to convert, any obligation into, or exchange any securities for, shares of capital stock or ownership interests in the Company or the Subsidiaries are outstanding and (C) no holder of securities of the Company or the Subsidiaries is entitled to have such securities registered under a registration statement filed by the Company pursuant to the Registration Rights Agreement.

(iv) The Company and the Subsidiary Guarantors has all requisite corporate power and authority to execute, deliver and perform its obligations under the Indenture, the Notes, the Exchange Notes and the Private Exchange Notes; the Indenture is in sufficient form for qualification under the TIA; the Indenture has been duly and validly authorized by the Company and the Subsidiary Guarantors and, when duly executed and delivered by the Company and the Subsidiary Guarantors (assuming the due authorization, execution and delivery thereof by the Trustee), will constitute the valid and legally binding agreement of the Company and the Subsidiary Guarantors, enforceable against the Company and the Subsidiary Guarantors in accordance with its terms, except that the enforcement thereof may be subject to (A) bankruptcy,

insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (B) general principles of equity and the discretion of the court before which any proceeding therefor may be brought.

(v) The Notes are in the form contemplated by the Indenture. The Notes have each been duly and validly authorized by the Company and when duly executed and delivered by the Company and paid for by the Initial Purchasers in accordance with the terms of this Agreement (assuming the due authorization, execution and delivery of the Indenture by the Trustee and due authentication and delivery of the Notes by the Trustee in accordance with the Indenture), will constitute the valid and legally binding obligations of the Company, entitled to the benefits of the Indenture, and enforceable against the Company in accordance with their terms, except that the enforcement thereof may be subject to (A) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (B) general principles of equity and the discretion of the court before which any proceeding therefor may be brought.

(vi) The Exchange Notes and the Private Exchange Notes have been duly and validly authorized by the Company, and when the Exchange Notes and the Private Exchange Notes have been duly executed and delivered by the Company in accordance with the terms of the Registration Rights Agreement and the Indenture (assuming the due authorization, execution and delivery of the Indenture by the Trustee and due authentication and delivery of the Exchange Notes and the Private Exchange Notes by the Trustee in accordance with the Indenture), will constitute the valid and legally binding obligations of the Company, entitled to the benefits of the Indenture, and enforceable against the Company in accordance with their terms, except that the enforcement thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought.

(vii) The Company and the Subsidiary Guarantors have all requisite corporate power and authority to execute, deliver and perform their respective obligations under the Registration Rights Agreement; the Registration Rights Agreement has been duly and validly author-

ized by the Company and the Subsidiary Guarantors and, when duly executed and delivered by the Company and the Subsidiary Guarantors (assuming due authorization, execution and delivery thereof by the Initial Purchasers), will constitute the valid and legally binding agreement of the Company and the Subsidiary Guarantors, enforceable against the Company and the Subsidiary Guarantors in accordance with its terms, except that (A) the enforcement thereof may be subject to (i) bankruptcy, insolvency, reorganization, moratorium or other similar laws now or hereafter in effect relating to creditors' rights generally and (ii) general principles of equity and the discretion of the court before which any proceeding therefor may be brought and (B) any rights to indemnity or contribution thereunder may be limited by federal and state securities laws and public policy considerations.

(viii) The Company and the Subsidiary Guarantors have all requisite corporate power and authority to execute, deliver and perform their respective obligations under this Agreement and to consummate the transactions contemplated hereby; this Agreement and the consummation by the Company and the Subsidiary Guarantors of the transactions contemplated hereby have been duly and validly authorized by the Company and the Subsidiary Guarantors. This Agreement has been duly executed and delivered by the Company and the Subsidiary Guarantors.

(ix) The Indenture, the Notes, the Guarantees, the Exchange Notes, the Registration Rights Agreement and the Credit Agreement conform in all material respects to the descriptions thereof contained in the Final Memorandum.

(x) To the knowledge of such counsel, no legal or governmental proceedings are pending or threatened to which any of the Company or the Subsidiaries is a party or to which the property or assets of the Company or the Subsidiaries are subject that, if determined adversely to the Company or the Subsidiaries, would result, individually or in the aggregate, in a Material Adverse Effect, or that seeks to restrain, enjoin, prevent the consummation of or otherwise challenge the issuance or sale of the Notes to be sold hereunder or except as described in the Final Memorandum the consummation of the other transactions described in the Final Memorandum under the caption "Use of Proceeds."

(xi) None of the Company or the Subsidiaries is (i) in violation of its certificate of incorporation or bylaws (or similar organizational document), (ii) to the knowledge of such counsel, in breach or violation of any statute, judgment, decree, order, rule or regulation applicable to it or its respective properties or assets, except for any such breach or violation that would not, individually or in the aggregate, have a Material Adverse Effect, or (iii) to the knowledge of such counsel in breach or default under or in violation of any of the terms or provisions of any Contract known to such counsel, except for any such breach, default, violation or event that would not, individually or in the aggregate, have a Material Adverse Effect.

(xii) The execution and delivery of this Agreement, the Indenture, the Registration Rights Agreement and the Credit Agreement and the consummation of the transactions contemplated hereby and thereby (including, without limitation, the issuance and sale of the Notes to the Initial Purchasers) will not conflict with or constitute or result in a breach or a default under (or an event that with notice or passage of time or both would constitute a default under) or violation of any of (i) the terms or provisions of any contract described in the Final Memorandum known to such counsel, except for any such conflict, breach, violation, default or event that would not, individually or in the aggregate, have a Material Adverse Effect, (ii) the certificate of incorporation or bylaws (or similar organizational document) of the Company or any of the Subsidiaries or (iii) (assuming compliance with all applicable state securities or "Blue Sky" laws and assuming the accuracy of the representations and warranties of the Initial Purchasers in Section 8 hereof) any statute, judgment, decree, order, rule or regulation known to such counsel to be applicable to the Company or the Subsidiaries or any of their respective properties or assets, except for any such conflict, breach or violation that would not, individually or in the aggregate, have a Material Adverse Effect.

(xiii) To the knowledge of such counsel, no consent, approval, authorization or order of any governmental authority is required for the issuance and sale by the Company of the Notes to the Initial Purchasers or the other transactions contemplated hereby, except such as may be required under Blue Sky laws or such as may be required under the gaming, racing, wagering and/or lottery laws of Pennsylvania or West

Virginia, as to which such counsel need express no opinion, and those that have previously been obtained.

(xiv) None of the Company or the Subsidiaries is, or immediately after the sale of the Notes to be sold hereunder and the application of the proceeds from such sale (as described in the Final Memorandum under the caption "Use of Proceeds") will be, an "investment company" as such term is defined in the Investment Company Act of 1940, as amended.

(xv) No registration under the Act of the Notes is required in connection with the sale of the Notes to the Initial Purchasers as contemplated by this Agreement and the Final Memorandum or in connection with the initial resale of the Notes by the Initial Purchasers in accordance with Section 8 of this Agreement, and prior to the commencement of the Exchange Offer (as defined in the Registration Rights Agreement) or the effectiveness of the Shelf Registration Statement (as defined in the Registration Rights Agreement), the Indenture is not required to be qualified under the TIA, in each case assuming (i) that the purchasers who buy such Notes in the initial resale thereof are qualified institutional buyers as defined in Rule 144A promulgated under the Act ("QIBs") or are purchasing the Notes in offshore transactions in reliance on Regulation S, (ii) the accuracy of the Initial Purchasers' representations in Section 8 and those of the Company, the Subsidiaries and their respective Affiliates contained in this Agreement regarding the absence of a general solicitation in connection with the sale of such Notes to the Initial Purchasers and the initial resale thereof and (iii) the due performance by the Initial Purchasers of the agreements set forth in Section 8 hereof.

(xvi) Neither the consummation of the transactions contemplated by this Agreement nor the sale, issuance, execution or delivery of the Notes will violate Regulation G, T, U or X of the Board of Governors of the Federal Reserve System.

(xvii) The Credit Agreement has been duly authorized, executed and delivered by the Company and the guarantors thereunder.

In rendering such opinion, such counsel may (A) rely as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials and (B) state that they express no opinion

with respect to the laws of any jurisdiction other than the laws of the Commonwealth of Pennsylvania, the State of New York, the General Corporation Law of the State of Delaware and the federal laws of the United States.

At the time the foregoing opinion is delivered, Morgan, Lewis & Bockius LLP shall additionally state that it has participated in conferences with officers and other representatives of the Company and the Subsidiary Guarantors, representatives of the independent public accountants for the Company, representatives of the Initial Purchasers and counsel for the Initial Purchasers, at which conferences the contents of the Final Memorandum and related matters were discussed, and, although it has not independently verified and is not passing upon and assumes no responsibility for the accuracy, completeness or fairness of the statements contained in the Final Memorandum (except to the extent specified in subsection 7(a)(ix)), no facts have come to its attention that lead it to believe that the Final Memorandum excluding Gaming, on the date thereof or at the Closing Date, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary to make the statements contained therein, in the light of the circumstances under which they were made, not misleading (it being understood that such firm need express no opinion with respect to the financial statements and related notes thereto and the other financial, statistical and accounting data included in the Final Memorandum). The opinion of Morgan, Lewis & Bockius LLP described in this Section shall be rendered to the Initial Purchasers at the request of the Company and shall so state therein.

References to the Final Memorandum in this subsection (a) shall include any amendment or supplement thereto prepared in accordance with the provisions of this Agreement at the Closing Date.

(b) On the Closing Date, the Initial Purchasers shall have received the opinion, in form and substance satisfactory to the Initial Purchasers, dated as of the Closing Date and addressed to the Initial Purchasers, of Cahill Gordon & Reindel, counsel for the Initial Purchasers, with respect to certain legal matters relating to this Agreement and such other related matters as the Initial Purchasers may reasonably require. In rendering such opinion, Cahill Gordon & Reindel shall have received and may rely upon such certificates and other documents and information as it may reasonably request to pass upon such matters.

(c) On the Closing Date, the Initial Purchasers shall have received the favorable opinion, dated as of the Closing Date and addressed to the Initial

Purchasers, in form and substance satisfactory to the Initial Purchasers and counsel for the Initial Purchasers, of Mesirov Gelman Jaffe Cramer & Jamieson, special counsel for the Company to the effect that:

(i) Mountainview Thoroughbred Racing Association ("Mountainview") and Pennsylvania National Turf Club ("PNTC") each holds a valid and existing license (the "Thoroughbred Licenses") under the Pennsylvania Industry Race Horse Reform Act (the "Race Horse Act") to conduct thoroughbred horse racing with pari-mutuel wagering in the manner described in the Offering Memorandum; Pocono Downs, Inc. holds a valid and existing license (the "Harness License" and, together with the Thoroughbred Licenses, the "Licenses") under the Race Horse Act to conduct harness racing with pari-mutuel wagering in the manner described in the Offering Memorandum; the Horse Racing Commission and the Harness Commission approved, respectively, five and two non-primary locations in the Commonwealth of Pennsylvania at which the Company (or a Subsidiary thereof) is authorized to conduct pari-mutuel wagering in the manner described in the Offering Memorandum, and to such counsel's knowledge the approvals are in full force and effect; the direct and indirect ownership by the Company, as currently owned, of the capital stock of the entities holding the Licenses does not violate the Race Horse Act or other applicable Pennsylvania law; to such counsel's knowledge, none of the gaming authorities in Pennsylvania is considering modifying, suspending, revoking or not granting renewal of any of the Licenses, and, to such counsel's knowledge, neither of such gaming authorities nor any other governmental agency is investigating the Company or any of its Subsidiaries or related parties or any director or executive officer of the Company or any of its Subsidiaries other than in ordinary course administrative reviews; to the knowledge of such counsel, no change in any laws or regulations is pending which could reasonably be expected to be adopted and if adopted, could reasonably be expected to materially limit the operations currently conducted by the Company or which, individually or in the aggregate with all such changes, would have a Material Adverse Effect;

(ii) the Initial Purchasers are not required to be licensed or approved by the Harness Commission or the Horse Racing Commission as a result of the execution of this Agreement or the consummation of the transactions contemplated hereby;

(iii) to the knowledge of such counsel, there are no legal or governmental proceedings pending or threatened against the Company or any of the Subsidiaries or to which the Company or any of the Subsidiaries, or any of their respective properties, is subject;

(iv) The statements in the Offering Memorandum under the headings, "Offering Memorandum Summary," "Risk Factors - Regulation and Taxation," "Business - Racing and Pari-Mutuel Operations," "Business - Purses; Agreements with Horsemen," and "Business - Regulation and Taxation" which purport to summarize certain provisions of the requirements under the Race Horse Act and any other laws or regulations of the Commonwealth of Pennsylvania, or certain agreements or legal proceedings to which the Company or any of the Subsidiaries is a party, fairly summarize in all material respects the matters therein described; and the conduct of the business of the Company and the Subsidiaries is not subject to any material racing, wagering or gaming law or regulation that is not described in the Offering Memorandum under "Business - Regulation and Taxation";

(v) such counsel has no knowledge that on the date hereof or on the Closing Date the Final Memorandum contained an untrue statement of a material fact regarding Pennsylvania gaming or other laws or regulations or omitted to state any material fact concerning such laws necessary to make the statements therein not misleading or in the light of the circumstances under which they were made, not misleading;

(vi) no consent, approval, authorization or order of, or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official under the gaming, racing, wagering and/or lottery laws of Pennsylvania is required for the issuance, offer, sale or delivery of the Notes, the execution, delivery or performance of this Agreement by the Com-

pany and the Subsidiary Guarantors or the consummation of the transactions contemplated hereby; and

(vii) neither the issue and sale of the Notes nor the consummation of any of the other transactions contemplated hereby will result in a breach of or constitute a default under (A) the certificate of incorporation or by laws (or similar organizational document) of the Company of any of the Subsidiaries or (B) the terms or provisions of any Contract known to such counsel, except for any such conflict, breach, violation, default or event that would not, individually or in the aggregate, have a Material Adverse Effect, to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties is bound or (C) any judgment, order or decree of any court, governmental, regulatory or administrative body or agency or arbitrator having jurisdiction over the Company or any Subsidiary, which judgment, order or decree is known to such counsel to be applicable to the Company or any Subsidiary.

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the laws of the Commonwealth of Pennsylvania, the General Corporation Law of the State of Delaware or the federal laws of the United States, to the extent they deem proper and specified in such opinion, upon the opinion of other counsel of good standing whom they believe to be reliable and who are satisfactory to counsel for the Initial Purchasers and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials. References to the Offering Memorandum in this paragraph (c) include any supplements thereto at the Closing Date.

(d) On the Closing Date, the Initial Purchasers shall have received the favorable opinion, dated as of the Closing Date and addressed to the Initial Purchasers, in form and substance satisfactory to the Initial Purchasers and counsel for the Initial Purchasers, of Hamb & Pollenbarger, special counsel for the Company to the effect that:

(i) each of Penn National Gaming of West Virginia, Inc. ("PNGWV") and PNGI Charles Town (together, the "West Virginia Subsidiaries") is a corporation duly organized, validly existing and in good standing in the jurisdiction of its incorporation, with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in

the Offering Memorandum, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the nature of its properties or the conduct of its business requires such registration or qualification, except where the failure so to register or qualify or be in good standing does not have a Material Adverse Effect; (ii) all the outstanding shares of capital stock of each of the West Virginia Subsidiaries have been duly authorized and validly issued, fully paid and nonassessable, and are wholly owned by the Company directly or indirectly through one of the other Subsidiaries, free and clear of any perfected security interest and, to the knowledge of such counsel, after due inquiry, free and clear of any other lien, adverse claim, security interest, equity or other encumbrance, except in each case as described in the Offering Memorandum; and there are no (A) existing preemptive rights under any West Virginia Subsidiary's articles of incorporation or code of regulations, or other organizational documents, or applicable law or (B) similar rights that entitle or will entitle any person to acquire any shares of any West Virginia Subsidiary;

(iii) PNGI Charles Town holds a valid and existing license (the "West Virginia License") under the West Virginia Racing Act to conduct thoroughbred horse racing with pari-mutuel wagering in the manner described in the Offering Memorandum; PNGI Charles Town also holds a license (the "Lottery License") under the West Virginia Racetrack Video Lottery Act to operate video gaming machines in the manner described in the Offering Memorandum; such counsel has no reason to believe that any of the gaming authorities in West Virginia is considering modifying, suspending, revoking or not granting renewal of the West Virginia License or revoking the Lottery License to such counsel's knowledge, neither of such gaming authorities nor any other governmental agency is investigating the Company or any of its Subsidiaries or related parties or any director or executive officer of the Company or any of its Subsidiaries other than in the normal course of determining whether or not to issue the Lottery License; and, except as disclosed in the Offering Memorandum, to the best knowledge of such counsel, no change in

any laws or regulations is pending which could reasonably be expected to be adopted and, if adopted, could reasonably be expected to have, individually or in the aggregate with all such changes, a Material Adverse Effect;

(iv) PNGWV has all requisite corporate power and authority to execute, deliver and perform its obligations under this Agreement, the Registration Rights Agreement, the Indenture and the Guarantees;

(v) the Initial Purchasers are not required to be licensed or approved by the West Virginia Racing Commission or the Lottery Commission as a result of the execution of this Agreement or the consummation of the transactions contemplated hereby;

(vi) to the knowledge of such counsel, there are no legal or governmental proceedings pending or threatened against the Company or any of the West Virginia Subsidiaries or to which the Company or any of the West Virginia Subsidiaries, or any of their respective properties, is subject, that are required to be described in the Offering Memorandum but are not described as required; there are no statutes or regulations of the State of West Virginia or agreements, contracts, indentures, leases or other instruments to which any of the West Virginia Subsidiaries is a party that are required to be described in the Offering Memorandum that are not described or filed as required by the Act; the statements in the Offering Memorandum under the headings, "Offering Memorandum Summary," "Risk Factors - Regulation and Taxation," "Business - Gaming Machine Operating at Charles Town Entertainment Complex," "Business - Charles Town Joint Venture; Operating Terms," "Business - Racing and Wagering Operations" and "Business - Regulation and Taxation", insofar as such statements purport to summarize certain provisions of the requirements under the West Virginia Racing Act, the West Virginia Racetrack Video Lottery Act and any other laws or regulation of the State of West Virginia, or certain agreements or legal proceedings to which the Company or any of the West Virginia Subsidiaries is a party, fairly summarize the matters therein described; and the conduct of the business of the Company and the Subsidiaries is not subject to any material racing, wagering or gaming law or regulator of the

State of West Virginia that is not described in the Offering Memorandum under "Business Regulation and Taxation";

(vii) no consent, approval, authorization or order of, or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official of the State of West Virginia under the gaming, racing, wagering and/or lottery laws of the State of West Virginia (including the West Virginia Racing Act or the West Virginia Racetrack Video Lottery Act) is required for the issuance, offer, sale or delivery of the Notes, the execution, delivery or performance of this Agreement by the Company and Penn National Gaming of West Virginia, Inc. or the consummation of the transactions contemplated hereby, except such approvals (specified in such opinion) as have been obtained; and

(viii) none of this issuance, offer, sale or delivery of the Notes, the execution, delivery or performance of this Agreement by the Company or the consummation of the other transactions contemplated hereby (A) conflicts or will conflict with or constitutes or will constitute a breach of, or a default under, the articles of incorporation or code of regulations, or other organizational documents, of the West Virginia Subsidiaries or (B) violates or will violate any existing statute, law, regulation, Permit or filing or judgment, injunction, order or decree in each case (1) known to such counsel, (2) applicable to the Company or any of the West Virginia Subsidiaries or any of their respective properties and (3) pertaining to the conduct of racing, wagering, gaming or video lottery operations in the State of West Virginia or (C) will conflict with or constitute or result in a breach or a default under (or an event that with notice or passage of time or both would constitute a default under) or violation of any of the terms or provisions of any Contract known to such counsel, except for any such conflict, breach, violation, default or event that would not, individually or in the aggregate, have a Material Adverse Effect.

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the State of West Virginia or the United States, to the extent they deem proper and specified in such opinion, upon the opinion of other counsel of good standing whom they

believe to be reliable and who are satisfactory to counsel for the Underwriters and (B) as to matters of fact, to the extent they deem proper, on certificates of responsible officers of the Company and public officials. References to the Offering Memorandum in this paragraph (d) include any supplements thereto at the Closing Date.

(e) The Initial Purchasers shall have received from the Independent Accountant a "comfort letter" dated the date hereof and the Closing Date, in form and substance satisfactory to counsel for the Initial Purchasers.

(f) The representations and warranties of the Company and the Subsidiary Guarantors contained in this Agreement shall be true and correct on and as of the date hereof and on and as of the Closing Date as if made on and as of the Closing Date; the statements of the Company's and each Subsidiary Guarantor's officers made pursuant to any certificate delivered in accordance with the provisions hereof shall be true and correct on and as of the date made and on and as of the Closing Date; the Company and each Subsidiary Guarantor shall have performed all covenants and agreements and satisfied all conditions on its part to be performed or satisfied hereunder at or prior to the Closing Date; and, except as described in the Final Memorandum (exclusive of any amendment or supplement thereto after the date hereof), subsequent to the date of the most recent financial statements in such Final Memorandum, there shall have been no event or development that, individually or in the aggregate, has or would be reasonably likely to have a Material Adverse Effect.

(g) The sale of the Notes hereunder shall not be enjoined (temporarily or permanently) on the Closing Date.

(h) The Initial Purchasers shall have received a certificate of the Company and the Subsidiary Guarantors, dated the Closing Date, signed on behalf of the Company and each Subsidiary Guarantor by its Chairman of the Board, President or any Senior Vice President and the Chief Financial Officer, to the effect that:

(i) The representations and warranties of the Company and the Subsidiary Guarantors contained in this Agreement are true and correct in all material respects as of the date hereof and as of the Closing Date, and the Company and the Subsidiary Guarantors have performed all covenants and agreements and satisfied all conditions on their re-

spective parts to be performed or satisfied hereunder at or prior to the Closing Date;

(ii) At the Closing Date, since the date hereof or since the date of the most recent financial statements in the Final Memorandum (exclusive of any amendment or supplement thereto after the date hereof), no event or events have occurred, no information has become known nor does any condition exist that, individually or in the aggregate, would have a Material Adverse Effect; and

(iii) The sale of the Notes hereunder has not been enjoined (temporarily or permanently).

(i) The Credit Agreement shall have been executed and delivered by the parties thereto, shall be in full force and effect and in form and substance satisfactory to the Initial Purchasers.

(j) On the Closing Date, the Initial Purchasers shall have received the Registration Rights Agreement executed by the Company and the Subsidiary Guarantors and such agreement shall be in full force and effect at all times from and after the Closing Date.

On or before the Closing Date, the Initial Purchasers and counsel for the Initial Purchasers shall have received such further documents, opinions, certificates, letters and schedules or instruments relating to the business, corporate, legal and financial affairs of the Company and the Subsidiaries as they shall have heretofore reasonably requested from the Company.

All such documents, opinions, certificates, letters, schedules or instruments delivered pursuant to this Agreement will comply with the provisions hereof only if they are reasonably satisfactory in all material respects to the Initial Purchasers and counsel for the Initial Purchasers. The Company shall furnish to the Initial Purchasers such conformed copies of such documents, opinions, certificates, letters, schedules and instruments in such quantities as the Initial Purchasers shall reasonably request.

8. Offering of Notes; Restrictions on Transfer. Each of the Initial Purchasers represents and warrants that it is a QIB. Each of the Initial Purchasers agrees that (i) it has not and will not solicit offers for, or offer or sell, the Notes by any form of general solicitation or general advertising (as those terms are used in Regulation D under the Act) or in any manner involving a public offering within the meaning of Section 4(2) of the Act; and (ii) it has and will solicit offers for the Notes only from, and will offer the Notes only to, in the case

of offers inside the United States, persons whom the Initial Purchasers reasonably believe to be QIBs or, if any such person is buying for one or more institutional accounts for which such person is acting as fiduciary or agent, only when such person has represented to the Initial Purchasers that each such account is a QIB to whom notice has been given that such sale or delivery is being made in reliance on Rule 144A, and, in each case, in transactions under Rule 144A; and (B) in the case of offers outside the United States, to persons other than U.S. persons ("foreign purchasers," which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for foreign beneficial owners (other than an estate or trust)); provided, however, that, in the case of this clause (B), in purchasing such Notes such persons are deemed to have represented and agreed as provided under the caption "Transfer Restrictions" contained in the Final Memorandum.

9. Indemnification and Contribution. (a) Each of the Company and the Subsidiary Guarantors agrees to indemnify and hold harmless the Initial Purchasers, and each person, if any, who controls any Initial Purchaser within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, against any losses, claims, damages or liabilities to which any Initial Purchaser or such controlling person may become subject under the Act, the Exchange Act or otherwise, insofar as any such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon:

(i) any untrue statement or alleged untrue statement of any material fact contained in any Memorandum or any amendment or supplement thereto or any application or other document; or

(ii) the omission or alleged omission to state, in any Memorandum or any amendment or supplement thereto, a material fact required to be stated therein or necessary to make the statements therein not misleading,

and will reimburse, as incurred, the Initial Purchasers and each such controlling person for any legal or other expenses incurred by the Initial Purchasers or such controlling person in connection with investigating, defending against or appearing as a third-party witness in connection with any such loss, claim, damage, liability or action; provided, however, that the Company and the Subsidiary Guarantors will not be liable (i) in any such case to the extent that any such loss, claim, damage, or liability arises out of or is based upon any untrue statement or alleged untrue statement or omission or alleged omission made in any Memorandum or any amendment or supplement thereto in reliance upon and in conformity with written information concerning the Initial Purchasers furnished to the Company by the Initial Purchasers specifically for use therein or (ii) with respect to the Preliminary Memorandum, to the extent that any such loss, claim, damage or liability arises solely from the fact that the Initial Purchasers sold Notes to a person to whom there was not sent or given a copy of the Final Memorandum (as amended or supplemented) at or prior to the written confirmation of such

sale if the Company shall have previously furnished copies thereof to the Initial Purchasers in accordance with Section 5(d) hereof and the Final Memorandum (as amended or supplemented) would have corrected any such untrue statement or omission. This indemnity agreement will be in addition to any liability that the Company and the Subsidiary Guarantors may otherwise have to the indemnified parties. The Company and the Subsidiary Guarantors shall not be liable under this Section 9 for any settlement of any claim or action effected without its prior written consent, which shall not be unreasonably withheld.

(b) The Initial Purchasers agree to indemnify and hold harmless the Company and the Subsidiary Guarantors, their directors, officers and each person, if any, who controls the Company and the Subsidiary Guarantors within the meaning of Section 15 of the Act or Section 20 of the Exchange Act against any losses, claims, damages or liabilities to which the Company, the Subsidiary Guarantors or any such director, officer or controlling person may become subject under the Act, the Exchange Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon (i) any untrue statement or alleged untrue statement of any material fact contained in any Memorandum or any amendment or supplement thereto, or (ii) the omission or the alleged omission to state therein a material fact required to be stated in any Memorandum or any amendment or supplement thereto, or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information concerning such Initial Purchaser, furnished to the Company by the Initial Purchasers specifically for use therein; and subject to the limitation set forth immediately preceding this clause, will reimburse, as incurred, any legal or other expenses incurred by the Company, the Subsidiary Guarantors or any such director, officer or controlling person in connection with investigating or defending against or appearing as a third party witness in connection with any such loss, claim, damage, liability or action in respect thereof. This indemnity agreement will be in addition to any liability that the Initial Purchasers may otherwise have to the indemnified parties. The Initial Purchasers shall not be liable under this Section 9 for any settlement of any claim or action effected without their consent, which shall not be unreasonably withheld. The Company shall not, without the prior written consent of the Initial Purchasers, effect any settlement or compromise of any pending or threatened proceeding in respect of which any Initial Purchaser is or could have been a party, or indemnity could have been sought hereunder by any Initial Purchaser, unless such settlement (A) includes an unconditional written release of the Initial Purchasers, in form and substance reasonably satisfactory to the Initial Purchasers, from all liability on claims that are the subject matter of such proceeding and (B) does not include any statement as to an admission of fault, culpability or failure to act by or on behalf of any Initial Purchaser.

(c) Promptly after receipt by an indemnified party under this Section 9 of notice of the commencement of any action for which such indemnified party is entitled to indemnification under this Section 9, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 9, notify the indemnifying party of the commencement thereof in writing; but the omission to so notify the indemnifying party (i) will not relieve the indemnifying party from any liability under paragraph (a) or (b) above unless and to the extent such failure results in the forfeiture by the indemnifying party of substantial rights and defenses and (ii) will not, in any event, relieve the indemnifying party from any obligations to any indemnified party other than the indemnification obligation provided in paragraphs (a) and (b) above. In case any such action is brought against any indemnified party, and it notifies the indemnifying party of the commencement thereof, the indemnifying party will be entitled to participate therein and, to the extent that it may wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel reasonably satisfactory to such indemnified party; provided, however, that if (i) the use of counsel chosen by the indemnifying party to represent the indemnified party would present such counsel with a conflict of interest, (ii) the defendants in any such action include both the indemnified party and the indemnifying party and the indemnified party shall have been advised by counsel that there may be one or more legal defenses available to it and/or other indemnified parties that are different from or additional to those available to the indemnifying party, or (iii) the indemnifying party shall not have employed counsel reasonably satisfactory to the indemnified party to represent the indemnified party within a reasonable time after receipt by the indemnifying party of notice of the institution of such action, then, in each such case, the indemnifying party shall not have the right to direct the defense of such action on behalf of such indemnified party or parties and such indemnified party or parties shall have the right to select separate counsel to defend such action on behalf of such indemnified party or parties. After notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof and approval by such indemnified party of counsel appointed to defend such action, the indemnifying party will not be liable to such indemnified party under this Section 9 for any legal or other expenses, other than reasonable costs of investigation, subsequently incurred by such indemnified party in connection with the defense thereof, unless (i) the indemnified party shall have employed separate counsel in accordance with the proviso to the immediately preceding sentence (it being understood, however, that in connection with such action the indemnifying party shall not be liable for the expenses of more than one separate counsel (in addition to local counsel) in any one action or separate but substantially similar actions in the same jurisdiction arising out of the same general allegations or circumstances, designated by the Initial Purchasers in the case of paragraph (a) of this Section 9 or the Company in the case of paragraph (b) of this Section 9, representing the indemnified parties under such paragraph (a) or paragraph (b), as the case may be, who are parties to such action or actions) or (ii) the indemnifying party has authorized in writing the employment of counsel for the indemnified party at the expense of the indemnifying party. After

such notice from the indemnifying party to such indemnified party, the indemnifying party will not be liable for the costs and expenses of any settlement of such action effected by such indemnified party without the prior written consent of the indemnifying party (which consent shall not be unreasonably withheld), unless such indemnified party waived in writing its rights under this Section 9, in which case the indemnified party may effect such a settlement without such consent.

(d) In circumstances in which the indemnity agreement provided for in the preceding paragraphs of this Section 9 is unavailable to, or insufficient to hold harmless, an indemnified party in respect of any losses, claims, damages or liabilities (or actions in respect thereof), each indemnifying party, in order to provide for just and equitable contribution, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect (i) the relative benefits received by the indemnifying party or parties on the one hand and the indemnified party on the other from the offering of the Notes or (ii) if the allocation provided by the foregoing clause (i) is not permitted by applicable law, not only such relative benefits but also the relative fault of the indemnifying party or parties on the one hand and the indemnified party on the other in connection with the statements or omissions or alleged statements or omissions that resulted in such losses, claims, damages or liabilities (or actions in respect thereof). The relative benefits received by the Company and the Subsidiary Guarantors on the one hand and any Initial Purchaser on the other shall be deemed to be in the same proportion as the total proceeds from the offering (before deducting expenses) received by the Company bear to the total discounts and commissions received by such Initial Purchaser. The relative fault of the parties shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the Company and the Subsidiary Guarantors on the one hand, or such Initial Purchaser on the other, the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission or alleged statement or omission, and any other equitable considerations appropriate in the circumstances. The Company, the Subsidiary Guarantors and the Initial Purchasers agree that it would not be equitable if the amount of such contribution were determined by pro rata or per capita allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the first sentence of this paragraph (d). Notwithstanding any other provision of this paragraph (d), no Initial Purchaser shall be obligated to make contributions hereunder that in the aggregate exceed the total discounts, commissions and other compensation received by such Initial Purchaser under this Agreement, less the aggregate amount of any damages that such Initial Purchaser has otherwise been required to pay by reason of the untrue or alleged untrue statements or the omissions or alleged omissions to state a material fact, and no person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Act) shall be entitled

to contribution from any person who was not guilty of such fraudulent misrepresentation. For purposes of this paragraph (d), each person, if any, who controls an Initial Purchaser within the meaning of Section 15 of the Act or Section 20 of the Exchange Act shall have the same rights to contribution as the Initial Purchasers, and each director of the Company and the Subsidiary Guarantors, each officer of the Company and the Subsidiary Guarantors and each person, if any, who controls the Company and the Subsidiary Guarantors within the meaning of Section 15 of the Act or Section 20 of the Exchange Act, shall have the same rights to contribution as the Company and the Subsidiary Guarantors.

10. Survival Clause. The respective representations, warranties, agreements, covenants, indemnities and other statements of the Company and the Subsidiary Guarantors, their officers and the Initial Purchasers set forth in this Agreement or made by or on behalf of them pursuant to this Agreement shall remain in full force and effect, regardless of (i) any investigation made by or on behalf of the Company and the Subsidiary Guarantors, any of their officers or directors, the Initial Purchasers or any controlling person referred to in Section 9 hereof and (ii) delivery of and payment for the Notes. The respective agreements, covenants, indemnities and other statements set forth in Sections 6, 9 and 15 hereof shall remain in full force and effect, regardless of any termination or cancellation of this Agreement.

11. Termination. (a) This Agreement may be terminated in the sole discretion of the Initial Purchasers by notice to the Company given prior to the Closing Date in the event that the Company or any Subsidiary Guarantor shall have failed, refused or been unable to perform all obligations and satisfy all conditions on their part to be performed or satisfied hereunder at or prior thereto or, if at or prior to the Closing Date:

(i) any of the Company or the Subsidiaries shall have sustained any loss or interference with respect to its businesses or properties from fire, flood, hurricane, accident or other calamity, whether or not covered by insurance, or from any strike, labor dispute, slow down or work stoppage or any legal or governmental proceeding, which loss or interference, in the sole judgment of the Initial Purchasers, has had or has a Material Adverse Effect, or there shall have been, in the sole judgment of the Initial Purchasers, any event or development that, individually or in the aggregate, has or could be reasonably likely to have a Material Adverse Effect (including without limitation a change in control of the Company or the Subsidiaries), except in each case as described in the Final Memorandum (exclusive of any amendment or supplement thereto);

(ii) trading in securities of the Company or in securities generally on the New York Stock Exchange, American Stock Exchange or the Nasdaq

National Market shall have been suspended or minimum or maximum prices shall have been established on any such exchange or market;

(iii) a banking moratorium shall have been declared by New York or United States authorities;

(iv) there shall have been (A) an outbreak or escalation of hostilities between the United States and any foreign power, or (B) an outbreak or escalation of any other insurrection or armed conflict involving the United States or any other national or international calamity or emergency or (C) any material change in the financial markets of the United States which, in the case of (A),(B) or (C) above and in the sole judgment of the Initial Purchasers, makes it impracticable or inadvisable to proceed with the offering or the delivery of the Notes as contemplated by the Final Memorandum; or

(v) any securities of the Company shall have been downgraded or placed on any "watch list" for possible downgrading by any nationally recognized statistical rating organization.

(b) Termination of this Agreement pursuant to this Section 11 shall be without liability of any party to any other party except as provided in Section 10 hereof.

12. Information Supplied by the Initial Purchasers. The statements set forth in the last paragraph on the front cover page, and the second and third sentences of the third paragraph and paragraph seven under the heading "Private Placement" in the Final Memorandum (to the extent such statements relate to the Initial Purchasers) constitute the only information furnished by the Initial Purchasers to the Company for the purposes of Sections 2(a) and 9 hereof.

13. Notices. All communications hereunder shall be in writing and, if sent to the Initial Purchasers, shall be mailed or delivered to BT Alex. Brown Incorporated, 130 Liberty Street, New York, New York 10006, Attention: Corporate Finance Department; if sent to the Company or any Subsidiary Guarantors, shall be mailed or delivered to the Company at Penn National Gaming, Inc., 825 Berkshire Boulevard, Suite 200, Wyomissing, PA 19610, Attention: Chairman; with a copy to Morgan, Lewis & Bockius LLP, 2000 One Logan Square, Philadelphia, PA 19103 Attention: Brian Lynch.

All such notices and communications shall be deemed to have been duly given: when delivered by hand, if personally delivered; five business days after being deposited in

the mail, postage prepaid, if mailed; and one business day after being timely delivered to a next-day courier.

14. Successors. This Agreement shall inure to the benefit of and be binding upon the Initial Purchasers, the Company, the Subsidiary Guarantors and their respective successors and legal representatives, and nothing expressed or mentioned in this Agreement is intended or shall be construed to give any other person any legal or equitable right, remedy or claim under or in respect of this Agreement, or any provisions herein contained; this Agreement and all conditions and provisions hereof being intended to be and being for the sole and exclusive benefit of such persons and for the benefit of no other person except that (i) the indemnities of the Company and the Subsidiary Guarantors contained in Section 9 of this Agreement shall also be for the benefit of any person or persons who control the Initial Purchasers within the meaning of Section 15 of the Act or Section 20 of the Exchange Act and (ii) the indemnities of the Initial Purchasers contained in Section 9 of this Agreement shall also be for the benefit of the directors of the Company and the Subsidiary Guarantors, their officers and any person or persons who control the Company and the Subsidiary Guarantors within the meaning of Section 15 of the Act or Section 20 of the Exchange Act. No purchaser of Notes from the Initial Purchasers will be deemed a successor because of such purchase.

15. APPLICABLE LAW. THE VALIDITY AND INTERPRETATION OF THIS AGREEMENT, AND THE TERMS AND CONDITIONS SET FORTH HEREIN SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK APPLICABLE TO CONTRACTS MADE AND TO BE PERFORMED WHOLLY THEREIN, WITHOUT GIVING EFFECT TO ANY PROVISIONS THEREOF RELATING TO CONFLICTS OF LAW.

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

If the foregoing correctly sets forth our understanding, please indicate your acceptance thereof in the space provided below for that purpose, whereupon this letter shall constitute a binding agreement by and among the Company, the Subsidiary Guarantors and the Initial Purchasers.

Very truly yours,
PENN NATIONAL GAMING, INC.

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Chief Financial Officer

THE PLAINS COMPANY, as
Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Assistant Secretary

MOUNTAINVIEW THOROUGHBRED
RACING ASSOCIATION,
as Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Chief Financial Officer

PENNSYLVANIA NATIONAL TURF
CLUB, INC., as Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Treasurer

PENN NATIONAL SPEEDWAY, INC., as
Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Treasurer

PENN NATIONAL HOLDING COMPANY,
as Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Treasurer

PENN NATIONAL GAMING OF WEST VIRGINIA, INC., as Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Treasurer

STERLING AVIATION INC., as Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Treasurer

POCONO DOWNS, INC., as Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Assistant Secretary

NORTHEAST CONCESSIONS, INC., as Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Assistant Secretary

THE DOWNS OFF-TRACK WAGERING, INC., as
Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Treasurer

THE DOWNS RACING, INC., as
Subsidiary Guarantor

By: \s\ Joseph A. Lashinger, Jr.

Name: Joseph A. Lashinger, Jr.
Title: President and Treasurer

PENN NATIONAL GAMING OF INDIANA, INC., as
Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Treasurer

PNGI POCONO, INC., as
Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Treasurer

TENNESSEE DOWNS, INC., as
Subsidiary Guarantor

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito
Title: Treasurer

The foregoing Agreement is hereby confirmed and accepted as of the date first above written.

BT ALEX. BROWN INCORPORATED
JEFFERIES & COMPANY, INC.

By: BT ALEX. BROWN INCORPORATED

By: \s\ Robert Lipps

Name: Robert Lipps
Title: Vice President

SCHEDULE A

Subsidiary Guarantors

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.
Sterling Aviation Inc.
Pocono Downs, Inc.
Northeast Concessions, Inc.
The Downs Off-Track Wagering, Inc.
The Downs Racing, Inc.
Penn National Gaming of Indiana, Inc.
PNGI Pocono, Inc.
Tennessee Downs, Inc.

SCHEDULE B

Subsidiaries

Name	Jurisdiction of Incorporation/ Formation
The Plains Company	Pennsylvania
Mountainview Thoroughbred Racing Association	Pennsylvania
Pennsylvania National Turf Club, Inc.	Pennsylvania
Penn National Speedway, Inc.	Pennsyvlania
Penn National Holding Company	Delaware
Penn National Gaming of West Virginia, Inc.	West Virginia
Sterling Aviation Inc.	Delaware
PNGI Charles Town Gaming LLC	West Virginia
Pocono Downs, Inc.	Pennsylvania
Northeast Concessions, Inc.	Pennsylvania
The Downs Off-Track Wagering, Inc.	Pennsylvania
The Downs Racing, Inc.	Pennsylvania
Penn National Gaming of Indiana, Inc.	Delaware
PNGI Pocono, Inc.	Delaware
Tennessee Downs, Inc.	Tennessee
Backside, Inc.	Pennsylvania
Audio Video Concepts	Pennsylvania
Mill Creek Land, Inc.	Pennsylvania

SCHEDULE 1

Initial Purchaser	Principal Amount of Notes
BT Alex. Brown Incorporated	$56,000,000
Jeffries & Company, Inc	24,000,000
Total	$80,000,000

EXHIBIT 10.67

AGREEMENT

between

PENNSYLVANIA NATIONAL TURF CLUB, INC.

and

MOUNTAINVIEW RACING ASSOCIATION

and

SPORTS ARENA EMPLOYEES' UNION LOCAL NO. 137

October 3, 1996

to

October 3, 1999

THIS AGREEMENT made this 3rd day of October, 1996 by and between PENNSYLVANIA NATIONAL TURF CLUB, INC., and MOUNTAINVIEW RACING ASSOCIATION, hereinafter referred to as the "Employer" and SPORTS ARENA EMPLOYEES' UNION LOCAL NO. 137, affiliated with the Laborers' International Union of North America, AFL-CIO, hereinafter referred to as the "Union",

WITNESSETH:

WHEREAS, it is the intent and purpose of the parties hereto to improve efficiency and promote continued harmony between the Employer and its employees, to establish a basic understanding concerning hours of work, rates of pay, and conditions of employment for said employees, and to establish a peaceful and cooperative method for settling disputes which may arise concerning the application of their understanding.

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

ARTICLE I

Union Recognition

1. The Employer recognizes the Union as the sole and exclusive bargaining agent for all of the Mutuel Department, TeleBet Department and Admissions Department employees at the Employer's racetrack in Grantville, Pennsylvania, excluding the following:

TeleBet Department - TeleBet Supervisors and Assistant Supervisors.

Mutual Department - Director of Mutuels, Assistant Director, Mutuel Department Auditor and Head Cashier.

Admissions Department - Director of Admission, Assistant Director, Auditor-Cashier, Department Secretary, and Turf Club Attendant.

2. In the event the Employer operates establishments for the purposes of betting off the premises of its racetrack in Grantville, Pennsylvania, the Union shall be recognized as the collective bargaining agent for the employees employed in the same classifications as in this Agreement. Upon such recognition, the parties shall then negotiate the applicable wages and benefits. In addition, the Employer agrees to give first consideration to any employee with more than three (3) years seniority who wishes to transfer to an OTB facility operated by the Employer.

ARTICLE II

Union Security

1. It shall be a condition of employment that all employees of the Employer covered by this Agreement, who are members of the Union in good standing and those who are not members of the Union as of the effective date of this Agreement, shall within thirty-one (31) days from the date hereof become and remain members in good standing in the Union. It shall also be a condition of employment that all employees covered by this Agreement and hired on or after its effective date shall on the thirty-first (31st) day following the beginning of such employment become and remain members in good standing in the Union.

2. Commencement of employment shall mean the first day on which an employee begins working for the Employer, whether as a regular or an extra. Employees who have been employed in a previous racing meeting with the Employer shall not be considered new employees when returning to work in a subsequent racing meeting, provided such employee has worked in the preceding racing meeting of the Employer.

ARTICLE III

Check-Off

1. During each racing meet, the Employer shall deduct from the pay of the employees represented by the Union any established Union dues or assessments and/or payments to the Local 137 Credit Union and turn such over to the authorized agent of the Union, by check, after first having received a copy of a separate signed check-off authorization from executed by an employee from the union as to dues or the Credit Union as the case may be.

2. The amount to be deducted shall be shown on a list to be furnished by the Employer to the Secretary-Treasurer of the Union promptly after deducting any Union dues, assessments and initiation fees deducted from the earnings of the employees.

3. The check-off authorization shall be irrevocable for a period of one (1) year of the termination date of the contract then in effect, whichever occurs sooner. In the event the contract is automatically renewed, it shall be for a further period of one (1) year or the termination date of the contract then in effect, whichever occurs sooner, provided the employee shall have the right to revoke the check-off authorization within fifteen (15) days of any irrevocable period by giving written notice to the Employer and the Union within such fifteen (15) day period. The form of the authorization shall be in accordance with the existing state labor laws.

4. The Union hereby agrees to indemnify and save the Employer harmless against any and all suits or other forms of liability which shall arise upon or by reason of action taken by the Employer for the purpose of complying with this Article.

ARTICLE IV

Grievances

1. If a dispute shall arise between the Employer and the Union or between the Employer and any employee with respect to the interpretation, application or claim to violation of any of the terms of this Agreement, an earnest effort shall be made to settle such difference immediately in the following manner.

STEP 1. Any employee having a grievance shall present it, in the first instance, in writing within five (5) calendar days of its occurrence to his steward, who shall refer the grievance to the Business Manager of the Union and Employer within the next following two days. Grievances may be initiated by the Union, if it so desires. The Business Manager shall take up the grievance with the Department Manager.

STEP 2. If a satisfactory settlement cannot be reached in Step 1 above, within two days after it first comes to the attention of the Department Manager, who shall submit a written report to the Business Manger within the same two-day period, the Business Manager shall take up the unsettled grievance with the designated representative of management who has final authority to dispose of grievances and who shall, within five (5) days after presentation to him of the grievance, submit an answer to the Union's representative. In the event that the designated representative of management fails to give his answer within the aforesaid five (5) day period or if the Union is not satisfied with the answer that is given, the Union shall have the right to submit said grievance to arbitration in accordance with the procedure set forth herein.

2. The Union may, after expiration of the five (5) day period or after the receipt of the Employer's answer, whichever is later, but not later than five (5) days thereafter, give the Employer notice of its desire to have the grievance submitted to impartial arbitration. The Union and the Employer shall attempt to agree upon the appointment of an impartial arbitrator. If the parties are unable to agree within five (5) days after the notification from the Union or Employer of its desire to arbitrate, the parties shall request that the American Arbitration Association submit to each of them a list of arbitrators from its panel of impartial arbitrators.

3. The decision of the arbitrator shall be final and binding on all parties and he shall have no authority to add to, detract from, or in any way alter the terms of this Agreement, or change their terms or conditions of this contract or the wage rates therein established, or to decide issues not subject to arbitration under the terms of this Agreement or disputes which have not arisen during the life of this contract, of matters not presented by the Union as a party; nor shall any dispute concerning contracting out of work be subject to arbitration. This arbitration article shall not deprive the Employer or the Union of any remedy or action by either of them for violation of Article XII of this Agreement by appropriate action in a court of law. In the event such action is instituted, the arbitrator shall have no jurisdiction. The expenses incident to the services of any arbitrator shall be paid equally by the Employer and the Union.

4. A decision reached at any stage of the proceedings above shall be binding upon both parties hereto and shall not be subject to reopening by either party except by mutual agreement.

ARTICLE V

Seniority

1. The Employer and the Union accept the principle of seniority. The seniority referred to in this Agreement is departmental seniority except where otherwise stated and employees shall accrue seniority only in the department in which they are employed. Seniority shall be defined as an employee's length of continuous service from the year of hire with the Employer in the Mutuel Department or Admissions Department. Continuous service shall be calculated from the date of the first employment with the Employer, or re-employment following a break in continuous service, without deduction of any time lost which does not constitute a break in continuous service. Effective with this Agreement, no more than 90% of the total racing days may be accrued for seniority purposes in any year. Seniority shall govern layoffs, recalls and promotions when, in the opinion of the Employer, the employee is qualified to perform the job. For purposes of seniority only, all racing associations conducting racing meetings at the Grantville, Pennsylvania track, shall be treated as a single employer.

2. Two seniority lists shall be maintained for each department, one for all Regular employees, and a separate one for all part-time and Extra employees. Employees who have not worked at least 75% of the maximum days (90%) that may be accrued for seniority in the previous calendar year shall be listed on the part-time or extra employees' seniority list for the next calendar year, provided, however, that any regular employee who is absent more than 25% of said days due to bona fide illness or accident which makes him unavailable for work or who has been granted an official leave of absence by the Employer in accordance with this Agreement shall retain the years and days of seniority service credits that he had accrued prior to his leave.

Employees losing their status as regular employees shall be placed on the extra and part-time employees' seniority list, provided they have worked for each employer at least 15% of the days raced in the last previous calendar year unless such absence is due to illness, accident, official leave of absence or other good cause. Such employee shall, if he is assigned to regular employment and works in such regular assignment for at least 75% of the maximum days (90%) that may be accrued for seniority in the calendar year following his loss of regular employment seniority status, have his name placed on the bottom of the regular employees' seniority list at the beginning of the calendar year following the year in which said employee worked the aforesaid 75% or more.

Mutuel, TeleBet and Admissions employees who are on the regular or extra seniority lists and who report and are available for work and are not assigned because of lack of work, shall be given credit for such day or days only for the purpose of retaining seniority.

3. In cases where employees have the same year of hire, the employee who has worked the greatest number of days shall be placed higher on the list. In cases where the year of hire and the number of days worked since the date of hire are the same, employees shall be arranged in alphabetical order, based on the first initial of their last name.

4. Seniority shall be lost for the following reasons:

a) Voluntary quit.

b) Discharge for just cause.

c) Failure to report for work within three (3) days after being notified by the Employer or the Union by telegram, or three (3) days after tender of delivery of letter in the United States mail addressed to the employee's last known address appearing on the Employer's records.

Written notice directed by either the Employer or the Union to the employee's last address on either the Employer's or Union's records shall constitute notice within the meaning of this provision.

d) Unexcused absence. An unexcused absence shall consist of any absence without justifiable cause provided, however, that for purposes of Sunday premium pay, eight (8) absences will be permitted on Saturday nights only in each contract year.

e) Failure to work at least 15% of the days raced in the previous calendar year unless such failure was due to an absence for good cause, or as a result of an approved leave of absence of the Employer.

f) It shall be the sole responsibility of the employee to provide the Employer with his current address.

5. The seniority lists shall be established from the information appearing on the records of the Employer. The seniority lists shall be posted in each department. Anyone having any question concerning his seniority standing shall present his complaint to the Employer and the Union within thirty (30) days after the list have been posted. Failure to object by anyone whose name appears on the seniority list within the aforementioned period will preclude him from raising any objection concerning his seniority standing.

6. All assignments which are available at check-in time shall go to the qualified employees who have filed request cards in order of seniority. Assignments which become available after that time shall be given to the most senior qualified employee not yet assigned. Request cards will be valid for six months. Employees desiring these assignments will remain in the check-in area 15 minutes after check-in time. Any employee who is called twice for such an assignment and is not available shall not then be eligible until new request cards are filed. Request cards will be filed every six months starting with October 3rd and every six months thereafter.

7. In the event of layoffs or demotions due to layoffs, the employees with the least seniority shall be laid off or demoted first. In recalling after layoffs, employees with the most seniority who are on layoff shall be first recalled and shall be assigned by the Employer to jobs that are open, provided they have the skill, ability and qualifications to perform the work.

8. No layoff of regular employees shall become effective until at least one (1) calendar day has elapsed following notification to the Union of the Employer's desire to make such layoff.

9. If, prior to the opening of any racing meetings, vacancies occur in either the Mutuel or Admissions Department, notice of this vacancy will be posted in either department; employees in the department with the vacancy shall be given consideration for such vacancies if they are qualified to perform the work and said vacancies shall be filled within ten (10) working days of posting. Employees may be transferred from on department to another only with the consent of the Employer and the Union. In the event of such a transfer, employees shall not carry any seniority already accrued to the new department but shall be considered as a new employee for the purposes of seniority.

10. Any employee on any Extra List who works a simulcast shift shall receive a one-half (1/2) day of seniority credit for such a shift but only for the purpose of "attaining" regular status.

11. All money room counter/skimmer jobs shall be assigned by seniority.

12. Any employee who would not otherwise maintain their "Regular" or "Extra" status due to a Pennsylvania Racing Commission Ruling, suspension or disciplinary action shall retain their year of seniority on the appropriate seniority list. Nothing in this paragraph is intended or shall interfere with or reduce the rights which the Employer otherwise may have to terminate such employee for just cause.

13. Any employee who begins a period of absence from work by reason of a bona fide illness or accident, either work-related or non-work related, subsequent to the date of this contract shall accrue seniority for up to the first 180 days of the absence, after which time no additional seniority shall accrue until the employee returns to work.

ARTICLE VI

Hiring and Promotion

1. Employees shall be recalled as needed for each meeting on the basis of seniority as defined and established in Article V hereof. Any person on said list, who has seniority as herein defined, may be rejected by the Employer only for just cause, and such determination shall be subject to the grievance and arbitration procedure herein set forth. In recalling or hiring prior to the commencement of the racing meeting, the Employer shall give notice to the union of any employee who has seniority as herein defined, but who is rejected and the reasons for rejection.

2. During the course of the racing meeting, if additional employees are required, they shall be recalled or hired from the part-time or extra seniority list described in Article V hereof. Employees on the part-time or extra seniority list who have seniority standing with the Employer shall be called for extra assignment in order of seniority. If the persons with seniority on the part-time or extra list who are available for work have been exhausted, then the Employer may hire additional employees form other sources, but shall give the Union equal opportunity with such sources to provide suitable applicants, and such additional employees shall be hired on the basis of their qualifications, competence, ability and honesty. In the event that all employees on the regular employees' seniority list have been recalled, any vacancy in a regular position, which exists after the provisions of this Article have been followed, shall be filled from the part-time or extra seniority list. If there are insufficient regular assignments to give employment to those with regular employee seniority, those regular employees not given a regular assignment shall be placed at the top of the part-time or extra employees' seniority list and shall be called for work in accordance therewith.

3. There shall be no discrimination against any person with respect to referral for work or placement on the hiring lists because of Union membership or lack of Union membership.

4. All employees shall have the right to be placed in the classification they held during the last previous meeting when returning to work if such jobs are available, and they shall remain in such jobs or positions until they lose the same by the operation of the seniority provisions of this contract, or there are not enough places to be filled in such jobs.

5. The Employer shall have the right to hire, rehire, discharge for just cause, lay off, transfer and promote all employees subject, however, to the terms, procedures and provisions of this entire Agreement.

6. Whenever a vacancy occurs in any position in any department, it shall be filled by the most senior qualified employee in that department, except that, any employee who has bid for and been assigned to a money room position, shall be ineligible to bid on any other position outside of the money room for a period of two (2) years.

All temporary vacancies, vacancies to which permanent replacements have not as yet been assigned and all temporary or additional posts, windows, or assignments shall be offered to qualified regular employees according to seniority before such positions are filled by extra employees. It is the intention of the parties to offer all higher paying jobs, even if temporary, to regular employees and to utilize extra employees in the lowest paying classifications.

7. The Employer shall submit copies of the payroll of each department to the Union on a weekly basis and copies of the auditor's report on overages and shortages on a daily basis. In addition, the Employer shall continue to furnish such other records which it has in the past furnished to the Union.

8. All regularly assigned employees shall, prior to their required check-in time, provide notice for excused absence, unless the absence is a justifiable emergency.

ARTICLE VII

Reporting Time and Scheduling

A. Reporting Time

1. Reporting time for the Mutuel and Department shall not be less than fifteen (15) minutes prior to the start of actual work. Reporting time for TeleBet Department shall not be less than five (5) minutes prior to the start of actual work. These 15 and 5 minute periods shall be considered part of the shift for all purposes including pay. Management reserves the right to start shifts at the times it deems necessary for proper staffing. The shift starting time for Sunday in TeleBet shall not be more than one (1) hour and fifteen (15) minutes before the first scheduled post.

It is agreed that during each racing meeting of the Employer, reporting time for all Admissions Department employees shall not be more than two and one-quarter (2-1/4) hours before the advertised post time.

2. Any employee reporting for work who begins to perform any duties of his job shall be entitled to one shift's pay at straight-time rates, unless he leaves work for a reason other than by the direction of the Employer. However, in case of the cancellation of a racing program, employees who have not been notified at least three (3) hours before their regular reporting time of such cancellation shall, if they do report, receive no less than one-half (1/2) shift pay for so reporting. Notification of the cancellation of the racing program shall be made by the Employer by broadcasting such notice over radio stations to be selected by mutual agreement of the parties. However, in the event that the cancellation is caused by an Act of God, weather conditions or other causes beyond the Employer's control and no notification is given to the employees in accordance with the above provisions, those employees who have reported and have begun their work shall be paid a minimum of one-half (1/2) shift's pay.

3. If a racing program is cancelled at any time after five (5) minutes prior to the midpoint of any shift length as described in Schedule "A", then employees in the mutuel and TeleBet Departments and the money room who have reported and worked shall receive their full shift pay. Admissions Department employees shall receive a full day's pay after the first two races of a racing program have been completed.

4. Those employees who have reported but have not begun their day's work due to a cancellation without notification, shall be paid the sum of Seven Dollars and Fifty Cents ($7.50) to compensate them for expenses. The sum of Seven Dollars and Fifty Cents ($7.50) shall also be paid to employees who cannot continue working, after having reported, because of personal illness or injury, after the injury or illness has been verified or approved by the Employer's medical department.

5. The five (5) most senior employees signing in shall be paid Seven Dollars and Fifty Cents ($7.50) for that day unless they are assigned. For example, if two of the four most senior employees do receive assignments, then the remaining three employees shall be entitled to this pay for signing in.

B. Scheduling

1. a. All Mutuel Teller regulars with guaranteed regular assignments are to report for all live events.

b. The Mutuel Manager or his designee shall post a blank schedule/calendar no less than two weeks prior to the commencement of the four (4) week scheduling period reflected on that calendar. The weeks shall commence with any shifts on Monday and go through Sunday. Each of the shifts (i.e. starting times) shall be reflected for each day on the scheduling calendar at the time it is posted.

c. Each employee shall, by the Wednesday prior to the commencement of the term, select each of the specific days and shifts during any of the twenty-eight days posted which they desire to work during that scheduling period.

2. Assignments for specific shifts among employees signing-up shall be awarded according to seniority among those requesting a specific shift, subject to a required preference for live shifts noted above for mutuel tellers.

3. Employees shall be permitted to work up to eight (8) shifts in a regular work week or as many shifts as do not require that the employer pay overtime.

4. All other aspects of the scheduling and assignments shall remain as had been the current practice, except Telebet Tellers shall be scheduled every two weeks.

ARTICLE VIII

Management Rights

1. The Employer alone shall have the right to determine the number of employees to be employed, work assignments subject to seniority and other provisions of this Agreement, equipment to be used, methods of operations, lease or subcontract its operations and, in general, the Employer shall have the sole right to exercise all managerial functions not in conflict with the terms of this Agreement.

2. The Employer shall have the right to discharge or discipline for just cause or violation of any term of this Agreement.

ARTICLE IX

Validity of Contract

The parties hereto agree that should any Article, part or paragraph of this Agreement be declared by a federal or state court of competent and final jurisdiction in the premises, to be unlawful, invalid, ineffective or unenforceable, said Article, part or paragraph shall not affect the validity and enforceability of any other Article, part or paragraph hereof and the remainder of this Agreement shall continue in full force and effect. Moreover, anything herein to the contrary notwithstanding, this entire contract is subject to the provisions of the Pennsylvania State Racing Law, the provisions whereof take precedence over and supplant any provision of this contract which may be in conflict therewith.

ARTICLE X

Conduct of Union Business

1. Union Visitation. A Union representative shall be permitted entry for Union business upon the Employer's premises where the Union's members are employed. It is agreed that such Union representative will not interfere in any way with the Employer's business and will give notice to the Employer of his presence.

2. Union Bulletin Board. The Union shall have the privilege of installing a bulletin board in the Employer's facilities at a suitable location, but use of such bulletin board shall be restricted to the following purposes: notice of recreational and social activities; notice of election and results; notice of appointment of Union representatives; notice of meetings.

Use of the bulletin board for any other purpose shall be subject to approval by the Employer. Under no circumstances will the Union or its representatives post any matter of a libelous, obscene, or scandalous character. The Union shall assume full responsibility for the items there posted and all such notices posted shall first be approved by the Union.

ARTICLE XI

No Strikes or Lockouts

1. During the term of this Agreement neither the Union nor any employees shall authorize, cause, engage in, sanction or assist in any work stoppage, strike, picketing, slowdown or curtailment of the Employer's business.

2. In addition to any other remedies available to the Employer any employee or employees, either individually or collectively, who violate Section 1 above are subject to discharge by the Employer.

3. The Employer agrees that during the term of this Agreement, it shall not cause, permit or engage in any lockout of its employees, provided, however, that neither this provision nor any other provision of this Agreement shall be interpreted as requiring the Employer to stay in continuous operation. The Employer shall have the right at all times to reduce or close the number of shifts, departments or jobs and any such action by the Employer shall not be considered a lockout.

ARTICLE XII

Wages

1. The wage schedule and job classifications applicable to the employees covered by this Agreement is attached hereto and made a part hereof as Schedule "A".

The wages paid under this contract are premised on a shift concept for each department. Any extra time worked over the set shift hours shall be compensated in increments of fifteen (15) minutes by paying an amount per hour based upon the shift rate divided by the number of hours in the shift, one minute into the next fifteen minutes is paid at 1/4 hour overtime. Any employee who actually worked over forty (40) hours in a week shall receive premium pay of one and one-half (1 1/2) times his/her hourly shift rate for all hours of work (as opposed to pay) over forth (40).

2. It is the intent that every employee within the bargaining unit shall be covered by the terms of this Agreement; any omissions or new non-supervisory classifications shall be subject to the terms, procedures and provisions of this Agreement.

3. In the event that the content of any job, classification or title covered by this Agreement is changed either with respect to the duties performed therein or the responsibilities thereof, the matter of appropriate conditions and rates of pay therefor shall be negotiated with the Union and be subject to the grievance procedure of Article IV if no agreement is reached by the parties.

4. Any dealer who is required to sell or cash tickets during any portion of a dealer's shift shall be compensated by an additional $3.00 per day.

5. Assistant head cashier shifts shall be eight (8) hours. Assistant head cashier shall receive an additional $8.00 per shift if he/she performs the duties of the first floor dealer.

6. The extra duty of Stationary Room shall be paid an additional $15.00 per shift.

7. Counters shall receive appropriate extra duty pay in fifteen (15) minute increments based on a prorated daily shift rate when required to stay on a window past a five (5) hour shift.

8. SSTman extra duty shall be paid in the appropriate fifteen (15) minute increments based on a prorated daily shift rate of five (5) hours.

9. The Employer shall cease late sales as of November 1, 1996 and shall if resurrected pay any additional time at the appropriate pay rate in fifteen (15) minute increments;

10. Black light job shall be bid out separately and shall not be in a rotation with any other jobs in the department;

11. Non-racing events shall be paid at the appropriate hourly rate in fifteen (15) minute increments. Current practice had been $10.00/hour;

12. The employees shall be permitted to raise the cost of pencils to $.25 without any additional cost of such supplies by the Employer effective 01/01/97.

13. New Hire Rates: Schedule "A" notwithstanding:

A. Any Mutuel Department Teller initially hired
after 10/03/96 shall be paid $48.00 per shift; and
after 10/03/97 shall be paid $49.20 per shift; and
after 10/03/98 shall be paid $50.43 per shift.

B. Telebet Operators initially hired
after 10/03/96 shall be paid $45.00 per shift; and
after 10/03/97 shall be paid $46.13 per shift; and
after 10/03/98 shall be paid $47.28 per shift.

C. Any Admissions employees initially hired
after 10/03/96 shall be paid $35.00 per shift; and
after 10/03/97 shall be paid $36.05 per shift; and
after 10/03/98 shall be paid $37.13 per shift.

D. In addition, anything to the contrary herein notwithstanding, every employee hired under the New Hire Rate shall be paid in accordance with the "catch-up" formula which shall be applied according to the position they are filling:

1) Beginning with the anniversary date of hire commencing the first day of their 25th month of employment they shall be paid at 90% of the then current applicable shift rate detailed herein for the job being performed;

2) Beginning with the anniversary date of hire commencing the first day of their 37th month of employment they shall be paid at 95% of the then current applicable shift rate detailed herein for the job being performed;

3) Beginning with the anniversary date of hire commencing the first day of their 49th month of employment they shall be paid at 100% of the then current applicable shift rate detailed herein for the job being performed;

14. In addition to all other compensation, Tellers, Counter/Skimmers and TeleBet Operators, shall be eligible to be paid a production premium of any additional $1/hour for each hour worked in those positions in accordance with the terms set forth in Schedule "B" for Mutuel Department, and Schedule "C" to be mutually arrived at between the parties regarding the TeleBet Department.

ARTICLE XIII

Life Insurance

The Employer shall provide each employee on the regular seniority list, who has worked at least 75% of the 90% of the preceding racing meeting and who is at work during the current meeting, with group life insurance in the sum of Three Thousand Dollars ($3,000) on a year-round basis, so long as he remains on the regular seniority list.

Each employee on the extra seniority list and who is at work during the current meeting, shall be provided with One Thousand Dollars ($1,000) of group life insurance on a year-round basis, so long as he remains on the extra seniority list and works 110 days per calendar year.

ARTICLE XIV

Pension Plan

A pension plan (Sports Arena Employees' Local 137 Retirement Fund) costing $3.40 per employee per day shall begin the first day of the calendar year following the calendar year when the track has had an average daily handle for the total number of days raced by all thoroughbred licenses at Penn National Race Course for such year of $605,000; a double-header shall be treated as two racing days for the purpose of this Article.

ARTICLE XV

Vacation Plan

After an employee has worked the number of Live or Seniority shifts in a calendar year as set forth below, that employee shall be entitled to the following paid vacation:

Live or Seniority Shifts Worked	Employees With Less than 10 Years Seniority Vacation Days	Employees With 10 or More Years Seniority Vacation Days
*90%	5	10
*70%	4	7
*60%	2	4

*Percent of live days run at Penn National Racetrack in the prior calendar year.

An employee must work a minimum number of days in each category to be eligible for the prescribed vacation days. No fractional vacation days shall be granted.

ARTICLE XVI

Notice of Discharge or Suspension

The Business Manager of the Union shall be notified in writing immediately after discharge or suspension takes place, which notice shall contain the name of the employee involved and the reason for such discharge or suspension.

ARTICLE XVII

Ticket Errors, Overages and Shortages

1. The Employer agrees to have posted as quickly as possible listings of shortages and overages at locations where they are readily accessible to employees.

2. The Employer agrees that a shortage and overage report will be made available to employees and a copy submitted to the Union daily. Shortages shall be settled on a current basis in accordance with the provision detailed herein after at Schedule "D".

3. It is the intention of the parties that overages shall be used to set off shortages. The Employer and the Union shall mutually agree as to the amount in each specific case. Overages not so applied shall be paid to the employee at the conclusion of each racing meeting.

4. Those employees handling money or tickets shall be fully accountable to the Employer for any loss or shortage therein, except when such loss or shortage is caused by:

a. Force or threat of bodily harm;

b. Acceptance of counterfeit money which is not clearly detectible;

c. Theft - The burden of proving a loss as a result of theft is place on the employee and such proof must be more than a surmise or suspicion. It must clearly establish that the employee's shortage is due to theft and not his own negligence.

ARTICLE XVIII

Rules and Regulations

The Employer shall have the right, from time to time, to make such reasonable rules and regulations for the conduct of its business, not inconsistent with the provisions hereof, as it may deem necessary and advisable, and all employees shall be obligated to comply with such rules and regulations. Before such rules and regulations become effective, they shall be in writing and a copy shall be given to the Business Manager of the Union and sufficient copies shall be posted throughout each department in order to apprise the employees of their obligation thereunder.

ARTICLE XIX

Technological Improvements and Job Security

1. Should new machines be introduced in the operations of the Mutuel Department, such machines, insofar as they require human operation or servicing, shall be operated or serviced by employees covered by this Agreement unless such machines are leased to the Employer and the Employer is unable to negotiate with the lessor that such machines be operated by the Employer's employees.

2. Vacancies in new classification created by the instruction of new machines shall be filled in accordance with the procedure set forth in Articles V and VI herein.

3. Should a technological displacement of employees occur by reason of technological improvements, the Employer will endeavor to relocate employees in new classifications on the basis of their seniority, ability and qualifications, and will meet with the Union to negotiate mutually satisfactory rates of pay new classifications created.

4. Should the Employer lease its property to a lessee for the purpose of conducting racing, provisions shall be made in said lease for the observance by the lessee of the terms of this Agreement.

5. Should any new form of gambling or gaming be introduced, all current employees shall be permitted the opportunity to apply for any new positions created thereby with the Employer and management shall have sole discretion as to allowing any such transfers.

ARTICLE XX

Leaves of Absence

No employee shall be granted a leave of absence without the prior written approval of the Employer and the Union. At the end of such leave of absence, such employee shall be reemployed in the same classification in which he was employed at the commencement of his leave, without prejudice to his previous status and without loss of seniority accrued at the commencement of the leave of absence. In the event that an employee exceeds the time specified in the leave of absence granted, the employee shall go to the bottom of the seniority list and shall be offered employment based on seniority as set forth in Article V of this Agreement. No seniority shall accrue during the period of the employee's leave of absence as provided in this article but the employee shall retain only the years and days of seniority service credits that he had accrued prior to the leave.

ARTICLE XXI

Death in Family

Any regular employee who, during the racing meeting, suffers a death in his family as hereinafter defined, shall be entitled to three (3) consecutive working days off and shall be compensated for all pay lost during that absence. A member of the family is defined as: wife or husband, child (natural, adopted or foster), stepchild, sister, brother, parent, parent-in-law or grandparent.

Extras shall be entitled to miss work for a death in the family (as described herein) with no compensation for lost pay but with no loss of seniority status.

ARTICLE XXII

Premium Pay

1. With respect to the following listed holidays, triple crown days, Breeders Cup, and with respect to all meetings held on Sundays, the Employer agrees to pay all employees covered by this Agreement who perform work on any such days one and one-half (1-1/2) times their then prevailing shift rates of pay, and extra race compensation (if applicable), provided the handle exceeds $570,000 on the day in question. This $570,000 handle figure includes TeleBet, on-track and simulcast wagering for the entire day and up until the end of the last shift of the day. The premium pay shall go to those individuals working any shift during the premium "day" or in the case of special events, i.e. Breeders' Cup, those working during that event.

New Year's Day
Washington's Birthday
Easter Sunday
Memorial Day
Independence Day
Labor Day
Veterans' Day
Thanksgiving Day
Christmas Day
New Year's Eve

2. In the event that one of the above listed holidays falls on a Sunday, the premium shall be paid on the Monday following such holiday if it is mandated by federal law to be so celebrated on such a Monday, and a meeting day is scheduled on such a Monday.

3. In the event the pari-mutuel handle on any Sunday when racing is conducted is $1,000,000 or more, then the Employer shall pay all employees covered by this Agreement who perform work on that Sunday two (2) times their shift rate of pay and extra race compensation. If the pari-mutuel handle is less than $1,000,000 the provisions of Section 1 above shall apply. In order to be eligible for Sunday premium pay employees must work the preceding Saturday, where so scheduled, unless excused because of illness or other compelling personal reasons.

4. A premium of $3.00 shall be paid to all regular employees for each Saturday worked when such Saturdays fall within a week in which six (6) days of racing is conducted.

ARTICLE XXIII

General Conditions

1. This Agreement when accepted by the parties hereto and signed by the respective agents thereunto duly authorized shall constitute the sole Agreement between them involving the employees in this bargaining unit. Any alteration or modification to this Agreement must be made by and between the parties hereto and must be in writing.

2. Either party hereto shall be entitled to require specific performance of the provisions of this Agreement.

3. The waiver of any breach or condition of this Agreement by either party shall not constitute a precedent for any future waiver of such breach or condition.

4. In addition to any other remedies available to the Employer, any employee or employees, either individually or collectively, who violate Article XII of this Agreement shall be subject to discharge by the Employer.

5. Whenever an employee is unable to perform his duties because of illness or accident, he shall, if requested by the Employer, submit a doctor's certificate certifying to his illness, or at the option of the Employer, he shall submit to an examination by a doctor selected by the Employer.

6. Any notice in writing required to be given to the Employer under this Agreement shall be directed in writing to the General Manager of Pennsylvania National Turf Club, Inc., Grantville, Pennsylvania, and any notice required to be given to the Union shall be addressed in writing to it at 1012 Haddonfield Road, Suite 106, Cherry Hill, New Jersey 08002.

7 The Employer shall make Blue Cross and Blue Shield coverage available to those employees who desire it at group rates but at the employee's expense. Premiums shall be deducted from the employee's wages in advance.

8. All working areas shall be cleaned daily and all rest rooms shall be cleaned at least daily and a sanitary napkin dispenser shall be installed in all rest rooms used by female employees.

9. The floors of the sheds in the parking lot and oil heaters in these sheds shall be maintained in good repair.

10. Four jackets will be kept available in the Admissions Department for Parkers and rain suits shall be provided for Collectors only. Parkers will be given programs on request.

11. Additional help will be provided to Turnstile Collectors during promotions for busy windows or busy periods.

12. Where there is an early gate opening, Admissions Department employees who report early shall be paid $5.00 per hour for each hour, in half hour increments, prior to normal reporting time. If such employees report three (3) hours or more prior to normal reporting, they shall receive a hot meal.

13. Heaters shall be provided in Admissions Booth where needed.

14. Mutuel Department employees may have their own coffee makers and refrigerators behind the lines.

ARTICLE XXIV

Uniforms

1. Employees are required to wear the following items of clothing:

a. Solid white shirt with collar. If the shirt extends below the red vest, then the shirt must be tucked into the pants/skirt. Shirts may be long or short sleeves.

b. Dark colored pants/skirt, culottes or split skirts optional for female employees only.

c. Red vest. 1

2. Optional items of clothing permitted are as follows:

a. Dark blue blazer is permitted to be worn over the required uniform as stated in Section 1 of this Dress Code.

b. A dark blue jacket/windbreaker is permitted to be worn only if the temperature is 65 degrees or below. If this article is completely zipped or buttoned up so as not to expose items of clothing underneath then the employee is free to deviate from the white shirt and red vest.

c. A white sweater may be worn in addition to the required uniform as stated in Section 1 of this Dress Code. If a white sweater is worn, the red vest is to be worn on top of the sweater in keeping with the uniform theme.

d. During warm weather (Memorial Day through Labor Day inclusive) light-colored lightweight pants may be worn.

ARTICLE XXV

Term of Agreement

This Agreement shall be made effective the 3rd day of October, 1996, and shall continue in full force and effect without any further reopening or renegotiation until October 3, 1999 and shall continue in full force and effect from year to year thereafter unless either party hereto shall give written notice at least sixty (60) days prior to the expiration of this Agreement, of the intention of the party to amend, modify, or to terminate, whereupon the Agreement shall terminate on the date set forth.

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1 Upon determination of excessive heat (in excess of 85 degrees at one hour before first post) according to the thermometers placed on each line, vests may be taken off. If during periods of excessive heat vests are taken off on any division, all employees of those divisions will not wear vests during this period. The Employer shall provide cotton vests for summer racing days.

The foregoing represents the complete agreement of the parties. In all other respects the terms and conditions of employment and past practices shall remain in full force and effect and shall be renewed for the term of the upcoming three (3) years. All other proposals by either party made in the course of this bargaining shall be deemed withdrawn and without effect.

IN WITNESS WHEREOF, and intending to be legally bound hereby the parties have caused their properly authorized officers to sign this Agreement.

FOR	FOR
PENNSYLVANIA NATIONAL TURF CLUB, INC.	SPORTS ARENA EMPLOYEES' UNION LOCAL NO. 137
BY: \s\ Philip T. O'Hara Jr.	BY: \s\ Robert LiGouri
FOR	WITNESS:
MOUNTAINVIEW RACING ASSOCIATION	
BY: \s\ Philip T. O'Hara Jr.	BY: \s\ Ray Garganes

LEASE AGREEMENT

ARTICLE I
TERM

SECTION 1.01. Commencement of the Term.

(a) Notwithstanding anything herein contained to the contrary, the term of this Lease and Tenant's obligation to pay rent and occupy the Demised Premises in accordance with the terms hereof shall commence on the following date (such date being hereinafter called the "Commencement Date"): the later of: (i) the date on which Landlord delivers possession of the Premises to Tenant with Landlord's work substantially complete (unless otherwise agreed to by Tenant) or (ii) the earlier of: (a) date Tenant receives Approvals (as defined in Rider 11), or (b) sixty (60) days following the execution of this Lease. (See Rider #1 and #11.) For the purpose of this Lease, the words, "the term of this Lease" and "term hereof" shall be deemed to mean both the original term of this Lease and all extensions or renewals thereof.

(b) At any time after the Commencement Date of the term of the Lease, the parties shall execute and deliver to each other, at the option of Landlord, either an instrument in recordable form or a letter agreement prepared by Landlord wherein Tenant shall: (1) certify that the Lease is in full force and effect, and (2) certify the commencement and termination dates of the original term of this Lease. Tenant shall have ten (10) days from date of Tenant's receipt of said instrument or said letter agreement to execute and return same to Landlord. In the event Tenant fails to execute and return said instrument or said letter agreement within the aforestated specified period of time, Landlord and Tenant shall consider the terms therein written to be binding upon Tenant.

(c) Deleted.

(d) This Lease and the tenancy hereby created shall cease and determine at the end of the term hereof without the necessity of any notice from either Landlord or Tenant to terminate the same, and Tenant hereby waives notice to vacate the premises and agrees that Landlord shall be entitled to the benefit of all provisions of law respecting the summary recovery of possession of premises from a tenant holding over to the same extent as if statutory notice had been given.

SECTION 1.02. Failure of Tenant to Open; Failure to Operate. If Tenant fails to open for business within one hundred twenty (120) days after the Commencement Date and/or thereafter (subject to Force Majeure pursuant to Section 20.22 and national holidays), if Tenant fails to continuously operate its business in accordance with the terms of this Lease or vacates the premises prior to the expiration of the term hereof, Landlord will suffer damages in an amount which are not readily ascertainable and thus in any such event, Landlord shall have the right, at its option, to collect as liquidated damages, and not as a penalty, in addition to all other charges which are due hereunder, one-thirtieth (1/3Oth) of an amount equal so the monthly installment of Fixed Minimum Rent for each day which Tenant fails to so operate.

ARTICLE II
RENT

SECTION 2.01. Percentage Rent. Deleted.

SECTION 2.02. Gross Receipts Defined. Deleted.

SECTION 2.03. Taxes.

(a) For the purposes of this Section 2.03, the word "taxes" shall include all taxes attributable to improvements now or hereafter made to the "Shopping Center" or any part thereof or attributable to the present or future installation in the Shopping Center or any part thereof of fixtures, machinery or equipment, all real estate taxes, assessments, water and sewer fees, rents or charges, and other governmental impositions and charges of every kind and nature whatsoever, nonrecurring as well as recurring, special or extraordinary as well as ordinary, foreseen and unforeseen, and each and every installment thereof, which shall or may during the term of this Lease be levied, assessed or imposed, or become due and payable or become liens upon or arise in connection with the use, occupancy or possession of, or any interest in the Shopping Center or any part thereof, or any land, buildings or other improvements therein, excluding, however, any of the foregoing relating to any "Separately Assessed Premises" (as defined in Section 2.03(d) hereof). The word "taxes" shall not include any charge, such as water meter charge and sewer rent based thereon, which is measured by the consumption by the actual user or the item or service for which the charge is made.

(b) For each "Tax Year" (as defined in Section 2.03(e) hereof) during the term of this Lease, Tenant shall pay to Landlord as additional rent (hereinafter called "Tax Rent"), the amount obtained by multiplying the total of all taxes payable during such Tax Year by a fraction, the numerator of which shall be the square feet of floor area of the Demised Premises and the denominator of which shall be the square feet of all "leasable floor area" (as defined in Section 2.03(d) hereof) in the Shopping Center computed as of each date Landlord has a right under Section 2.03(c) to bill Tenant for an installment of Tax Rent. On account of Tax Rent, Tenant shall pay monthly, in advance, as additional rent, together with each monthly installment of Fixed Minimum Rent, without demand or setoff, an amount equal to one-twelfth of the sum obtained by multiplying the square feet of floor area of the Demised Premises by ONE DOLLAR FORTY CENTS ($1.40). Such amount may be adjusted by Landlord at any time during the term

hereof to an amount equal to one-twelfth (1/l2th) of the Tax Rent payable by Tenant for the current Tax Year. If Tenant's payment on account of Tax Rent for any Tax Year exceeds the actual amount payable by Tenant as Tax Rent for such Tax Year and Tenant is not in default hereunder or otherwise indebted to Landlord, Landlord shall refund such excess to Tenant within thirty (30) days; provided, if such overpayment is for the last Tax Year, Landlord shall not be obligated to refund to Tenant the amount of such overpayment until Tenant has fully performed all of its obligations under this Lease, is not indebted to Landlord and has vacated the Demised Premises in accordance with the provisions hereof. In the event Tenant is indebted to Landlord for any reason whatsoever, Landlord may deduct such amount owed from such overpayment.

(c) Landlord shall have the right to bill Tenant for an installment on account of Tax Rent during each Tax Year after each receipt by Landlord of a bill, assessment, levy, notice of imposition or other evidence of taxes due or payable, all of which are hereinafter collectively referred to as a "tax bill" (whether such bill is a final bill, an estimate of annual taxes or represents a tax bill based upon a final or partial assessment or determination). Tenant shall pay each installment of Tax Rent within twenty (20) days of receipt from Landlord of a written statement setting forth the taxes for which Landlord has received a tax bill and on account of which Tenant has never been billed and the amount of the installment of Tenant's Tax Rent based upon such tax bill. In making the computations as aforesaid, a tax bill or photocopy thereof submitted by Landlord to Tenant shall be conclusive evidence of the amount of the taxes included in the computation of the installment of a Tax Rent in question; provided, however, Landlord shall have the right to bill Tenant for the last installment of Tax Rent for the last lease year in the term hereof whether or not Landlord shall theretofore have received a tax bill covering the period from the date of the tax bill which formed the basis of the most recent installment on account of Tax Rent billed to Tenant to the expiration of the term hereof. If Landlord has not received a tax bill for such period, Landlord shall estimate the amount of such last installments of Tax Rent on the basis of information contained in the tax bill most currently received by Landlord, subject to adjustment when Landlord receives a tax bill which includes the period for the date of such tax bill to the expiration of the term hereof. Tenant shall pay such adjusted amount upon billing by Landlord.

(d) For the purposes of this Lease, the words "Separately Assessed Premises" shall mean only each of the following portions of the Shopping Center which are in fact separately assessed or for which the amount of taxes actually assessed is readily ascertainable: (i) portions of the Shopping Center designated as Auxiliary in Exhibit "A". For the purposes of this Section 2.03 the words "leasable floor area" shall mean the square feet of floor area in the Shopping Center other than Separately Assessed Premises on the date of Landlord's tax computation.

(e) For the purposes of this Lease the words "Tax Year" shall mean the twelve (12) full calendar months of the term commencing with the January 1 immediately following the Commencement Date and ending December 31 of such calendar year and each succeeding twelve (12) month period thereafter commencing in the term of this Lease; provided, however, the first Tax Year shall commence on the date that the Tenant shall open for business with the public and terminate on the immediately succeeding December 31.

(f) If the Commencement Date shall occur after the date the Shopping Center shall first open to the public or (for reasons other than Tenant's default) the term of this Lease terminates on a day other than the last day of a Tax Year, Tenant's Tax Rent shall be equitably prorated for such Tax Year.

(g) If, after Tenant shall have made the required payment of any installment of Tax Rent, Landlord shall receive a refund of any portion of the taxes included in the computation of such installment of Tax Rent, provided Tenant is not in default hereunder, within forty-five (45) days after receipt of the refund, Landlord shall pay to Tenant that percentage of the net refund after deducting all costs and expenses (including, but not limited to, attorneys' and appraisers' fees) expended or incurred in obtaining such refund, which the portion of the taxes in question paid by Tenant bears to the entire amount of such taxes immediately prior to the refund. Tenant

shall not institute any proceedings with respect to the assessed valuation of the Shopping Center or any part thereof for the purpose of securing a tax reduction.

(h) If at any time during the term of this Lease, under the laws of any one or more jurisdictions in which the Shopping Center is located, a tax, imposition, charge, assessment, levy, excise or license fee is levied on, imposed against, or measured, computed or determined, in whole or in part, by: (1) rents payable hereunder (Fixed Minimum, tax and/or additional) or (2) the value of any lien placed against the Shopping Center or any obligations secured thereby, or if any other tax (except income tax), imposition, charge, assessment, levy, excise or license fee which is not referred to in Section 2.03(a) however described or denoted, shall be levied or imposed by any such jurisdiction, to the extent that the cost of any of the foregoing shall be imposed, either directly or indirectly on Landlord, such tax, imposition, charge, assessment, levy, excise or license fee, shall be deemed to constitute "taxes" for the purposes of this Section 2.03.

(i) Tenant's obligation under this Section 2.03 shall survive the expiration or earlier termination of the term of this Lease.

(j) In the event of any dispute as to the floor area in the Shopping Center, or any portion thereof (other than the Leased Premises which shall be determined by the provisions of the Indenture of Lease) the determination of Landlord's Architect shall be binding upon the parties. In the event Tenant challenges the determination of Landlord's architect, unless Landlord and Tenant reach agreement within thirty (30) days, the dispute shall be resolved by Landlord's architect and Tenant's architect, who, after making such surveys or measurements as either consider to be appropriate, shall submit their joint determination and resolution of the gross leasable area of the Demised Premises; provided that if such architects reach different conclusions and for that reason do not agree on the amount of the gross leasable area of the Demised Premises within thirty (30) days of their first meeting on the issue (which shall be scheduled, if possible, within 10 days after the parties have determined that they cannot reach agreement and that the issue should be decided by the architects), the two architects shall select a third and independent architect to resolve the lack of agreement either by agreeing with the conclusions of Tenant's architect or with those of Landlord's architect, or by such third architect's own determination. If the two architects cannot agree on the selection of a third architect, each shall designate two independent architects, and the third architect then shall be selected by lot from the four names. Each party shall be responsible for the fees and charges of its architect, and shall equally share in and be responsible for those of the third architect, if one is appointed. The resultant square footage figure and changes, if any, in the rent and in Tenant's proportionate share, shall be confirmed by a written supplement to this Lease.

SECTION 2.04. Additional Rent. All sums of money or charges required to be paid by Tenant under this Lease, whether or not the same are designated "additional rent", shall for all purposes hereunder be deemed and shall be paid by Tenant as rent. If such amounts or charges are not paid at the time provided in this Lease, they shall nevertheless, bear interest from the due date thereof to the date of payment at the highest rate allowed by law, but not more than twelve percent (12%) per annum.

ARTICLE III
BOOKS OF ACCOUNT AND AUDIT

SECTION 3.01. Tenant's Records. Deleted.

SECTION 3.02. Audit. Deleted.

ARTICLE IV
CONSTRUCTION OF LEASED PREMISES

SECTION 4.01. Tenant's Improvements and Fixtures. Within ten (10) days after the written notice referred to in Section 1.01(b) hereof, Tenant shall, at its sole cost and expense, commence and thereafter promptly complete all of the work required of Tenant in Exhibit "B" (all such items being herein referred to as "Tenant's work"). All work completed by Landlord and Tenant except for those items enumerated in Section 8.02, shall remain as part of the premises and become the property of Landlord upon installation, and shall not be removed by Tenant. For the purpose of commencing and completing such work and installing its fixtures and other equipment Tenant, may enter the Demised Premises prior to the commencement of the term hereof subject to the following conditions: (1) all such work shall be conducted in such a manner as will not interfere with Landlord's construction activities; (2) Tenant at its own expense, shall keep the common areas (as described in Section 4.02 hereof), free of building material and equipment used in connection with Tenant's work, and Landlord shall designate space, at Landlord's sole discretion, for Tenant's and Tenant's contractors' trailers temporarily during Tenant's initial build-out of the Premises and (3) Tenant shall perform duties and obligations imposed by this Lease, including, but not limited to, those provisions relating to utilities, insurance and indemnification, and the provisions of Exhibit "B", saving and excepting only the obligations to make periodic payment of Fixed Minimum Rent and other rent which commence on or after the Commencement Date. In the event Landlord, on Tenant's behalf and with Tenant's consent, shall perform any work or install any equipment included in Tenant's work, Tenant, within fifteen (15) days after receipt of a bill therefore, shall pay to Landlord, as additional rent, a sum equal to all sums paid and cost incurred by Landlord in performing such work and/or installing such equipment plus administrative costs of Landlord in a sum equal to twenty percent (20%) of such sums and/or costs. Notwithstanding anything contained in this Section 4.01 to the contrary, Landlord shall not be responsible or liable to Tenant, its agents, servants, employees, licensees, or contractors, or their respective agents, servants, employees, licensees, or contractors, for any loss or damage to the property of such party occurring prior to or subsequent to the commencement of the term unless caused by Landlord's negligence or willful misconduct.

SECTION 4.02. Parking Areas and Facilities. All parking areas and facilities furnished by Landlord in or near the Center, including employee parking areas, truck ways, loading docks, package pick-up stations, pedestrian sidewalks, malls, courts, corridors, ramps, landscaped areas, exterior stairways, first-aid stations, comfort stations and other areas and improvements provided by Landlord for the general use, in common, of tenants, their officers, agents, employees and customers, (sometimes referred to herein as "common areas") shall at all times be subject to the exclusive control and management of Landlord, and the malls, courts, and corridor areas may contain landscaping, decorative items, structures designed and leased for retail sales and areas for promotional activities, provided, however, that all sales structures in such areas shall be at least

six feet (6') from the front of the Demised Premises. Landlord shall have the right from time to time to establish, modify and enforce reasonable rules and regulations with respect to all facilities and areas mentioned in this Section; to construct, maintain and operate lighting facilities on all said areas and improvements; to police the same; from time to time to change the area, level location and arrangement of parking areas and other facilities hereinabove referred to, provided same does not adversely and materially affect parking for visibility of and access to the Premises; to restrict parking by tenants, their officers, agents and employees to employee parking areas; to close all or any portion of said areas or facilities to such extent as may, in the opinion of Landlord's counsel, be legally sufficient to prevent a dedication thereof or the accrual of any rights to any person or the public therein; to close temporarily all or any portion of the parking areas or facilities; to discourage non-customer parking; and to do and perform such other acts in and to said areas and improvements as, in the use of good business judgment, Landlord shall determine to be advisable with a view to the improvement of the convenience and use thereof by tenants, their officers, agents, employees and customers. Landlord will operate and maintain the common facilities referred to above in such manner as Landlord, in its sole discretion, shall determine from time to time. Without limiting the scope of such discretion, Landlord shall have the full right and authority to employ all personnel and to make all rules and regulations pertaining to and necessary for the proper operation and maintenance of the common facilities. Tenant and Tenant's employees shall park their cars only in those portions of the parking area designated for that purpose by Landlord. Tenant shall furnish Landlord with State automobile license numbers assigned Tenant's car or cars, and cars of Tenant's employees, within five (5) days after taking possession of the premises and shall thereafter notify Landlord of any changes within ten (10) days after written request, no more often than two (2) times in any one calendar year. In the event that Tenant or its employees fail to park their cars in designated parking areas as aforesaid, then Landlord, at its option, shall charge Tenant Ten Dollars ($10.00) per day per car parked in any area other than those designated, as and for liquidated damages.

SECTION 4.03. Right to Relocate; License. The purpose of the site plan attached hereto as Exhibit "A" is to show the location of the leased premises. Landlord reserves the unrestricted right to change and relocate building (other than Tenant's building) and mall perimeters, driveways, automobile parking areas and other common areas shown on the site plan, store sizes, and the identity type and number of other buildings or tenants, provided only that the size of the leased premises, access to Tenant's premises, visibility of the Premises and parking facilities as herein provided shall not be substantially or materially impaired. Landlord agrees that ingress and egress to Shopping Center and Tenant's premises shall not be materially changed or re-directed. Landlord has made no representations to identity, type, size or number of other stores or tenants, other than as indicated in Section 4.02.

SECTION 4.04. Changes and Additions to Building. Landlord hereby reserves the right at any time to make alterations or additions to the building in which the premises are contained and to build adjoining the same. Landlord also reserves the right to construct other buildings or improvements in the Shopping Center from time to time and to make alterations thereof or additions thereto on any such building or buildings and to build adjoining same, and to construct double-deck or elevated or subterranean parking facilities, and to substitute from time to time for any parking areas or part thereof, provided Landlord does not materially and adversely affect parking for, visibility of, or access to the Premises.

SECTION 4.05. Financing. Deleted.

ARTICLE V
CONDUCT OF BUSINESS

SECTION 5.01. Use of Premises. In addition to any authorization of and restrictions on the use of the Demised Premises elsewhere set forth herein, Tenant shall not conduct any other business in or from the Leased Premises except that which Tenant is permitted pursuant to the provisions of the Indenture of Lease. Tenant shall occupy the Leased Premises promptly upon the Commencement Date and thereafter shall continuously conduct in the Leased Premises the business herein permitted. Tenant will not use or permit or suffer the use of the Leased Premises for any other business or other purpose. Furthermore, Tenant agrees to restrict the use and occupancy of the Demised Premises against any use thereof, in violation of any of the uses or purposes set forth in Exhibit "C" attached hereto and made part hereof notwithstanding that such use might otherwise be permitted herein. The authorization of the use of the premises for the business purpose set forth herein shall not constitute a representation by Landlord that any particular use of the premises is now or will continue to be permitted under applicable laws or regulations.

SECTION 5.02. Operations of Business. Throughout the term of this Lease, Tenant shall cause its store to remain open from 11:30 A.M. through at least 10:00 P.M. Mondays through Saturdays and Sundays from 11:30 A.M. through 5:00 P.M. Tenant agrees the hours which Tenant is obligated to operate may be changed by Landlord from time to time, provided that Landlord will not act in a discriminatory manner. Tenant shall keep the signs, if any, in the Leased Premises well lit during the hours from opening until one hour after the close of the Center as provided for above for each and every day of the week.

SECTION 5.03. No Injurious Acts. Tenant shall not perform any acts or carry on any practice which may injure the building or be a nuisance or menace to other tenants and business invitees of Tenant and the general public in the Shopping Center.

SECTION 5.04. Storage, Office Space. Tenant shall store and/or stock in the Leased Premises only such items as Tenant is permitted to offer for sale at, in, from or upon the Leased Premises. Tenant shall use for office, clerical or other non-selling purposes only such space in the Leased Premises as is from time to time reasonably required for Tenant's business in the Leased Premises.

ARTICLE VI
GRANT OF CONCESSIONS

SECTION 6.01. Condition to Grant. The provision against subletting elsewhere contained in this Lease shall be applicable so as to prohibit Tenant from granting concessions without the consent of Landlord for the operation of one or more departments of the business of Tenant; and any grant of concessions consented to by Landlord shall be subject to the conditions that (a) each such concession which may be granted by Tenant shall be subject to all the terms and provisions of this Lease; (b) all of the provisions hereunder applying to the business of Tenant shall apply to each such concession; (c) unless otherwise approved in writing by Landlord, such department

or departments shall be operated only as part of the business operation generally conducted by Tenant on the Demised Premises and under the advertised name of Tenant; and (d) at least seventy-five percent (75%) of the floor area of the Leased Premises shall at all times be operated directly by Tenant.

ARTICLE VII
COMMON COSTS OF OPERATION AND MAINTENANCE

SECTION 7.01. Expenses. Landlord (subject to reimbursement as set forth in Section 7.02) will at its expense operate and maintain or cause to be operated and maintained the Common Areas and the Shopping Center consistent with first-class shopping centers of similar size and nature in Luzerne County. For the purposes of this Lease, "Operating Costs" shall be those costs of operating and maintaining, or of causing the operation and maintenance of, the Common Areas and the Shopping Center of which the Demised Premises forms a part in a manner deemed by Landlord to be reasonable and appropriate including, but not limited to, all costs and expenses, whether expended or incurred of repairing, lighting, cleaning, painting, and maintaining (including, but not limited to, preventive maintenance) and insuring the same with such policies and companies and in such limits as selected by Landlord (including, but not limited to, fire insurance with extended coverage, liability insurance covering personal injury, deaths and property damage with a personal injury endorsement covering false arrest, detention or imprisonment, malicious prosecution, libel and slander, and wrongful entry or eviction, workmen's compensation insurance, plate glass insurance, contractual liability insurance and fidelity bonds; removing snow, ice, rubbish and debris; inspecting, policing, providing security and regulating traffic; rental and depreciation (over a period not exceeding sixty (60) months) of machinery and equipment and other non-real estate assets used in the operation and maintenance of the Shopping Center; repairing and/or replacing of paving, curbs, walkways, landscaping, drainage, on-site water lines, sanitary sewer lines, storm water lines, electrical lines and other equipment serving the property on which the Shopping Center or any part thereof is constructed or is to be constructed; the rental of music programs, services and loudspeaker systems including the furnishing of electricity therefor; all parking surcharges that may result from any environmental or other laws, rules, regulations, guidelines or orders; the gross compensation of all personnel required to supervise and accomplish the foregoing and an administrative charge equal to fifteen percent (15%) of the total of all Operating Costs (exclusive of such administrative charge), which administrative charge shall be first applied to the expenses of the organization employed as Landlord's Agent for furnishing to Landlord the services of executive supervisors, personnel to collect rent and personnel to negotiate renewal and/or replacement leases, and shall then be applied to other administrative charges. Operating Costs shall not include depreciation other than as specifically referred to above. In the event of any dispute as to whether an item represents an expense or a capital item, Landlord's accounting practices shall be determinative and binding on the parties.

SECTION 7.02. Reimbursement of Landlord. (See Rider #3.)

(a) For each "Accounting Period" (as defined in Section 7.02(f) during the term of this Lease, Tenant shall pay to Landlord, as additional rent, as Tenant's proportionate share of the Operating Costs, a sum equal to the product obtained by multiplying (i) the total Operating Costs for such Accounting Period less all contributions thereto actually made to Landlord by occupants

of any Separately Assessed Premises by (ii) a fraction, the numerator of which shall be the square feet of floor area of the Demised Premises, and the denominator of which shall be the square feet of leasable floor area in the Shopping Center. For the purposes of this Section, leasable floor area shall mean the square feet of floor area in buildings which are erected in the Shopping Center other than Separately Assessed Premises, which are designed exclusively for use and occupancy by Tenants other than occupants of Separately Assessed Premises.

(b) On the first day of each calendar month during that portion of the term hereof falling within the first Accounting Period, Tenant shall pay to Landlord, in advance, without demand and without any setoff or deduction, as an estimated payment on account of Tenant's proportionate share of the Operating Costs an amount equal to one-twelfth (1/l2th) of the sum obtained by multiplying the square feet of floor area of the Demised Premises by the sum of ONE DOLLAR FORTY CENTS ($1.40). If the Commencement Date hereof shall not be the first day of a calendar month, Tenant's payment of its proportionate share of Operating Costs for the fractional month between the Commencement Date and the first day of the first full calendar month in the term shall be prorated on a per diem basis (calculated on a thirty (30) day month) and shall be paid together with the first payment of Fixed Minimum Rent.

(c) After the first Accounting Period, Tenant shall continue to pay such estimated amount of Tenant's proportionate share of Operating Costs on the first day of each month in advance without demand and without any setoff or deduction, but the aforesaid estimated amount of Tenant's proportionate share of Operating Costs may be adjusted and revised by Landlord after the end of each Accounting Period during the term hereof on the basis of the actual Operating Costs for the immediately preceding Accounting Period. Upon Landlord furnishing to Tenant a statement setting forth such revised estimated Operating Costs, Tenant shall pay to Landlord such revised estimated share in equal monthly installments, each such installment to be a sum of one-twelfth (1/l2th) of such revised estimated Operating Costs, in advance on the first day of each calendar month thereafter until the next succeeding revision in such estimate.

(d) Following the end of each Accounting Period, Landlord shall furnish to Tenant a written statement in reasonable detail covering the Accounting Period just expired showing the total Operating Costs for such Accounting Period, the amount of Tenant's proportionate share thereof and payments made by Tenant with respect thereto. In making the computations as aforesaid, Landlord's statement shall be persuasive evidence of Operating Costs.

Notwithstanding Tenant's obligation to continue to make payments pursuant to Section 7.01 on a timely basis, within three (3) months of Tenant's receipt of such a statement from Landlord, Tenant may, upon thirty (30) days' written notice to Landlord, and at Tenants sole cost and expense, conduct an audit of Landlord's books and records with respect to Operating Costs. Officers or agents of Tenant shall conduct such audit during regular business hours at Landlord's offices. If such audit shall disclose an error in Landlord's calculation of Operating Costs for such Accounting Period, proper adjustment shall forthwith be made between Landlord and Tenant to correct any overpayment or underpayment of Operating Costs by Tenant (with any adjustment by Landlord in favor of Tenant to be in the form of a credit against future rent). In the event such audit discloses an overstatement of Operating Costs by Landlord of more than seven percent (7%), Landlord shall pay the cost of such audit.

(e) If Tenant's proportionate share of Operating Costs exceeds Tenant's payments with respect to any Accounting Period, Tenant shall pay to Landlord the deficiency within thirty (30) days after the date of the furnishing of the statement from Landlord; if Tenant's payments exceed Tenant's share of the Operating Costs and Tenant is not in default hereunder or otherwise indebted to Landlord, Landlord shall refund such excess to Tenant within thirty (30) days; provided, however, if such overpayment is for the last lease year, Landlord shall not be obligated to refund to Tenant the amount of such overpayment until Tenant has fully performed all of its obligations under this Lease, is not indebted to Landlord and has vacated in accordance with the provisions of this Lease. In the event Tenant is indebted to Landlord for any reason whatsoever, Landlord may deduct such amount owed from such overpayment.

(f) For the purpose of this Lease, the words "Accounting Period" shall mean the period consisting of twelve (12) consecutive calendar months commencing on a date determined by Landlord and each succeeding twelve (12) calendar month period commencing during the term of this Lease; provided, however, the first Accounting Period shall commence on the date the Tenant shall open for business with the public and shall terminate on the date immediately preceding the date so determined by Landlord.

(g) If the term of this Lease commences after the date the Shopping Center first opens for business with the public or terminates (other than by reason of Tenant's default) during an Accounting Period, Tenant's obligation for Tenant's proportionate share of Operating Costs for such Accounting Period shall be equitably prorated.

(h) Tenant's obligations under this Section 7.02 shall survive the expiration or earlier termination of the term of this Lease.

ARTICLE VIII
SIGNS, AWNINGS, CANOPIES, FIXTURES, ALTERATIONS

SECTION 8.01. Sign, Awnings and Canopies. Tenant will not place, alter or suffer to be placed, altered or maintained on the exterior of the Leased Premises any sign, awning or canopy of advertising matter or other thing of any kind and will not place or maintain any decoration, lettering or advertising matter on the glass of any window or door of the Leased Premises nor within three (3) feet of any such glass (other than neatly lettered signs of reasonable size placed on the floor of the display window identifying articles offered for sale and the price thereof) without first obtaining Landlord's written approval and consent. Tenant further agrees to maintain such sign, awning, canopy, decoration, lettering, advertising matter or other things as may be approved in good condition and repair at all times. Any permitted sign shall at all times comply with the requirements of the sign specification, attached hereto as Exhibit "D". In accordance with the provisions of Section 8.01, Tenant shall remove such sign, awning or canopy at the expiration or earlier termination of the term of this Lease, or Tenant, upon taking possession of the premises shall replace an existing sign, awning, or canopy. Tenant shall, at Tenant's sole cost and expense, as a result of such removal, provide and install material necessary to correct to Landlord's satisfaction any damage or penetration on the facade, sign band or wall utilized to identify the premises. None of the foregoing work shall be commenced or performed by Tenant unless Tenant has submitted plans for approval by Landlord in accordance with the provisions of Exhibit "D" attached hereto and made a part hereof and Tenant has received such

prior written approval from Landlord. Notwithstanding anything herein or elsewhere to the contrary, but subject to all applicable codes, Tenant shall submit Tenant's signage for Landlord's approval, which shall not be unreasonably withheld, and Landlord shall attach such signage as Exhibit D-1.

SECTION 8.02. Trade Fixtures. All trade fixtures utilized and installed by Tenant in the Leased Premises shall be new or completely reconditioned, shall not become the property of Landlord and shall be removable at the expiration or sooner termination of the term of this Lease or any renewal or extension hereof, provided Tenant shall not at such time be in default under any covenant or agreement contained in this Lease, and provided further that in the event of such removal, Tenant shall promptly restore the premises to the same good order and condition they were in prior to the installation thereof, reasonable wear and tear excepted, but not excepting any damage caused by the installation, maintenance or removal of same. If Tenant fails to remove such fixtures as aforesaid, then upon Tenant's removal from the premises all such fixtures shall become the property of Landlord. Tenant shall give notice to Landlord of its intent to leave said fixtures on the premises. Nevertheless, If Landlord requires removal of same, Tenant shall remove as aforesaid.

SECTION 8.03. Alterations. Excluding wall and floor finishes, Tenant shall not make or cause to be made any non-structural alterations, additions or improvements in the Demised Premises costing in excess of Twenty-Five Thousand Dollars ($25,000.00) or any structural alterations whatsoever or install or cause to be installed any changes to the store front without first obtaining Landlord's written approval and consent which consent shall not be unreasonably withheld or delayed. Tenant shall present to Landlord plans and specifications for such alterations, additions, improvements or changes at the time approval is sought. Tenant agrees that any alterations, additions, improvements or changes made by it shall immediately become the property of Landlord and shall remain upon the premises in the absence of an agreement to the contrary.

SECTION 8.04. Tenant Shall Discharge All Liens. Tenant shall promptly pay all contractors and materialmen so as to minimize the possibility of a mechanic's or materialmen's lien attaching to the Leased Premises. Should any such lien be made or filed, Tenant shall bond against or discharge the same within ten (10) days after written request by Landlord, and in the event that Tenant shall fail to do so, Landlord may discharge the lien by payment of the amount secured thereby, or otherwise as provided by law, and any amount so paid by Landlord, along with any attorney's fees or other costs relating to the discharge of such lien, shall be deemed additional rent and shall be immediately payable by Tenant to Landlord.

SECTION 8.05. Contractors and Labor. To the end that there shall be no labor dispute which would interfere with the construction, completion or operation of the Shopping Center or with any other work being carried on therein, in connection with any construction, alteration, fixturing or other work done upon the Demised Premises, Tenant shall engage the services of only such contractors and subcontractors as will work in harmony with each other, with those of Landlord and with any others then working in the Shopping Center, and Tenant shall employ and shall require its contractors and subcontractors to employ only such labor as will work in harmony with all other labor then working in the Shopping Center.

ARTICLE IX
MAINTENANCE, REPAIR AND SURRENDER OF LEASED PREMISES

SECTION 9.01. Maintenance by Tenant.

(a) Tenant shall at all times maintain the interior of the Leased Premises (including all entrances and the inside and outside of all glass in the doors and windows and show window moldings) and all partitions, doors, fixtures, signs, equipment and appurtenances thereof (including, but not limited to all electrical and plumbing fixtures and other mechanical installations therein including reasonable periodic painting as determined by Landlord) in good order, condition, replacement and repair at its own expense, damage by unavoidable casualty excepted to the extent that the same is covered by Landlord's fire insurance policy with extended coverage endorsement, except for structural portions of the premises, which shall be maintained by Landlord and except damage caused by Landlord's negligence or willful misconduct; but if Landlord is required to make repairs to structural portions by reason of Tenant's negligent acts or omissions to act, or by reason of any unusual use of the Demised Premises by Tenant, Landlord may add the cost of such repairs to the rent which shall thereafter become due as additional rent. The materials, equipment and workmanship utilized by Tenant in any repairs or replacements shall be equal in quality to those originally supplied by Landlord.

(b) In addition to the foregoing, Tenant will maintain the premises at its own expense in a clean, orderly and sanitary condition free of insects, rodents, vermin and other pests and will not permit accumulation of garbage, trash, rubbish and other refuse, but will remove the same at its own expense, and will keep such refuse in proper containers as specified by Landlord on the interior of the premises until called for to be removed, and the same shall be prepared for collection and deposited in the manner and at the times and places specified by Landlord. If Landlord shall provide or designate a place and manner for picking up refuse and garbage, Tenant shall use same at Tenant's cost.

(c) Tenant further covenants that Tenant:

(1) will promptly replace at its own expense with glass of like kind and quality any plate glass, door or window glass of the Leased Premises which may become cracked or broken;

(2) will not use or permit the use of any apparatus, or sound reproduction or transmission, or any musical instrument in such manner that the sound so reproduced, transmitted or produced shall be audible beyond the confines of the premises;

(3) will keep all mechanical apparatus free of vibrations and noise which may be transmitted beyond the confines of the premises;

(4) will not cause or permit objectionable odors to emanate or be dispelled from the premises;

(5) Deleted.

(6) will keep the premises at a temperature sufficiently high to prevent the freezing of water and pipes and fixtures;

(7) will not use the plumbing facilities for any other purpose than that for which they are constructed and will not permit any foreign substance of any kind to be thrown therein and the expense of repairing any breakage, stoppage, seepage or damage whether occurring on or off the premises resulting from a violation of this provision by Tenant or Tenant's employees, agents or invitees shall be borne by Tenant. All grease traps and other plumbing traps should be kept clean and operable by Tenant at Tenant's own cost and expense;

(8) will, notwithstanding anything in this Lease to the contrary, be responsible for all repairs and replacements to the Leased Premises necessitated by a burglary or attempted burglary, or any illegal or forcible entry into the Demised Premises;

(9) will not burn any trash or garbage of any kind in or about the Leased Premises, the Shopping Center or within one mile of the outside property lines of the Shopping Center;

(10) will not receive or ship truck deliveries of any kind except through the rear door;

(11) will comply at its own expense with all laws and ordinances and all rules and regulations of governmental authorities and all recommendations of the Association of Fire Underwriters, Factory Mutual Insurance Companies, The Insurance Services Organization of Pennsylvania, or other similar body establishing standards for fire insurance ratings with respect to the use or occupancy of the premises by Tenant; and Tenant further agrees to participate in periodic fire brigade instruction and drills at the request of Landlord and to supply, maintain, repair and replace for the Demised Premises at Tenant's own cost and expense, any fire extinguisher or other fire prevention equipment and safety equipment (including installation of approved hoods and ducts if cooking activity is conducted on the premises) required by the aforementioned rules, regulations and Association or other body in order to obtain insurance at the lowest available premium rate throughout the term of this Lease or any renewal thereof;

(12) will cause the heating and air conditioning unit to be serviced no less than two (2) times annually;

(13) agrees that Landlord may amend, modify, delete or add new and additional reasonable rules and regulations for the use and care of the Leased Premises, the buildings of which the Leased Premises are a part and the common facilities as defined herein before;

(14) agrees to comply with all such further rules and regulations upon notice to Tenant from Landlord;

(15) will conduct its business in the premises in all respects in a dignified manner in accordance with high standards of business operation.

SECTION 9.02. Maintenance by Landlord. If Tenant refuses or neglects to repair, replace and maintain property as required hereunder and to the reasonable satisfaction of Landlord as soon as reasonably possible after written notice from Landlord to do so, Landlord may make such repairs and replacements without liability to Tenant for any loss or damage that may accrue to Tenant's merchandise, fixtures or other property or to Tenant's business by reason thereof, and upon completion thereof, Tenant shall pay Landlord's cost for making such repairs and/or replacements upon presentation of a bill therefor plus twenty percent (20%) for overhead and supervision as additional rent. Said bill shall include interest on said cost in accordance with Section 2.04 hereof from the date of completion by Landlord.

SECTION 9.03. Roof. Landlord will make all needed repairs to the roof and make the roof water tight as soon as reasonably possible after receiving Tenant's notice and shall make all needed repairs to the exterior of the premises, excepting any glass, provided that Tenant shall give Landlord written notice of the necessity of such repairs. Anything herein contained to the contrary notwithstanding, any work done or alterations made by Tenant to the roof with Landlord's roofing contractor and with Landlord's written approval, exterior walls or affecting the structural integrity of the building of which the Leased Premises are a part shall release and discharge Landlord of and from its duty of repairing that portion of the same in good order and repair. Tenant agrees to be solely responsible for and thereafter maintain that portion of the roof, exterior walls and structural integrity of the building to or on which Tenant has caused any work to be done or alterations made.

In the event an emergency roof repair is required in Tenant's reasonable opinion, Tenant, at its sole cost and expense, and after providing Landlord, Agent and the Laurel Mall manager notice of the existence of need to make immediate roof repairs and the failure of Landlord, Agent and the Laurel Mall manager to respond to such notice within two (2) hours of such notice, shall have the right to make such roof repair using Landlord's approved roofing contractor.

In the event the roof requires repair (yet emergency roof repair is not required) and should Landlord refuse or neglect to commence to repair the roof in good faith and utilizing reasonable methods, as soon as reasonably possible after receiving notice from Tenant to do so and proceed diligently thereafter to fully remedy same, Tenant may, after the expiration of an additional ten (10) day notice period, make such repairs using Landlord's approved roofing contractor, and upon completion thereof, Landlord shall pay Tenant's reasonable costs for making such repairs within thirty (30) days of presentation of a bill thereof.

Landlord shall have the exclusive right to use all or any part of the roof of the premises for any purpose not inconsistent with Tenant's use of Leased Premises; to erect additional stores or other structures over all or any part of the Leased Premises; and to erect in connection with, the construction thereof temporary scaffolds and other aids to construction on the exterior of the premises, provided that access to the premises shall not be denied. Tenant further agrees that Landlord may make any use it desires, excepting advertising, other than the advertising of the Center, of the side or rear walls of the premises, provided that there shall be no encroachment upon the interior of the Leased Premises.

SECTION 9.04. Surrender of Premises. At the expiration of or sooner termination of the tenancy hereby created, Tenant shall peaceably surrender the Leased Premises in the same

condition of cleanliness, repair and order as the Leased Premises were in upon the commencement of business under this Lease, reasonable wear and tear and damage by unavoidable casualty excepted to the extent that the same is covered by Landlord's fire insurance policy with extended coverage endorsement, and Tenant shall surrender all keys for the Leased Premises to Landlord at the place then fixed for the payment of rent and shall inform Landlord of all combinations on locks, safes and vaults, if any, in the Leased Premises. Tenant shall comply with Section 8.02 hereof respecting the removal of its trade fixtures before surrendering the premises as aforesaid. Tenant's obligation to observe or perform this covenant shall survive the expiration or other termination of the term of this Lease.

ARTICLE X
INSURANCE AND INDEMNITY

SECTION 10.01. Insurance Coverage.

(a) At all times during the term of this Lease and such other times as Tenant occupies the Demised Premises or any part thereof, Tenant shall pay all premiums for and maintain in effect, with a responsible insurance company or companies acceptable to Landlord and authorized to do business in the Commonwealth of Pennsylvania, policies of insurance in form acceptable to Landlord for the benefit of Landlord and any mortgagee and Tenant, as their interests may appear, as follows:

(1) Comprehensive public liability insurance in the amount of at least $500,000 for any occurrence resulting in bodily harm and personal injury to or the death of one person and consequential damages arising therefrom, and in the amount of at least $1 million for any occurrence resulting in bodily harm and personal injury to or death of more than one person and consequential damages arising therefrom.

(2) Comprehensive property damage insurance covering liability for damages to all property in the amount of at least $100,000 for each occurrence, which shall not contain the "care, custody and control" exclusion.

(3) Insurance covering Tenant's trade fixtures, furniture, furnishings, equipment, betterments and improvements and other installations of Tenant, providing protection to the extent of the full insurable value thereof against all casualties included under standard insurance industry practices within the classification "Fire and Extended Coverage, Vandalism and Malicious Mischief" and insurance covering sprinkler leakage unless Tenant's insurance otherwise includes sprinkler leakage coverage.

(4) Plate glass insurance covering the plate glass in the Demised Premises in the event plate glass exists in, upon or on the Premises.

(5) Such Workmen's Compensation Insurance as shall comply with the applicable laws of the Commonwealth of Pennsylvania.

(6) Business interruption insurance in such amount as Landlord may reasonably require or approve but in no event less than one full year's minimum rent and all additional rent payable hereunder.

(7) Deleted.

(b) Such insurance and certificates shall name Landlord, Landlord's Mortgagee, Landlord's Agent and owners of all interests in the Center as additional insureds for the full amount of insurance herein required with respect to the operations and activities of Tenant on or in connection with the Shopping Center. With respect to each and every policy of such insurance and each renewal thereof, Tenant, at the beginning of the term of this Lease and thereafter not less than thirty (30) days prior to the expiration of each such policy, shall furnish Landlord with a certificate of insurance executed by the insurer which shall contain, in addition to matters customarily set forth in such certificate under standard industry practices, an undertaking by the insurer to give Landlord ten (10) days prior written notice of any cancellation, non-renewal or change in scope or amount of coverage of such policy. In addition, all such policies shall contain a provision substantially as follows: "The insurance afforded by this policy for more than one named insured shall not operate to increase the limits of the company's liability, but otherwise, shall not operate to limit or void the coverage of any one named insured as respects claims against the same named insured by any other named insured or the employees of such other named insured".

(c) Landlord (subject to reimbursement) shall at all times maintain in effect a policy or policies of commercial liability insurance in such limits as reasonably selected by Landlord and commonly found in comparable retail shopping centers and all risk insurance covering the Shopping Center and the building in which the Premises are located in an amount equal to 100% of the full replacement cost.

SECTION 10.02. Increase of Insurance Rates.

(a) Tenant will not do, omit to do, or suffer to be done or keep or suffer to be kept anything in, upon or about the Leased Premises which will violate the provisions of Landlord's policies insuring against loss or damage by fire or other hazards (including, but not limited to, public liability), which will adversely affect Landlord's fire or liability insurance premium rating or which will prevent Landlord from procuring such policies in companies acceptable to Landlord, provided Tenant is first given adequate notice of the requirements of such policies. If anything done, omitted to be done or suffered to be done by Tenant, or kept or suffered by Tenant to be kept in, or upon or about the premises shall by itself or in combination with other circumstances existing at the Shopping Center cause the premium rate of fire or other insurance on the Leased Premises or other property of the Shopping Center in companies acceptable to Landlord to be increased beyond the established rate fixed by the appropriate underwriters from time to time applicable to the premises for use for the purposes permitted under this Lease or to such other property in the Shopping Center for the use or uses made thereof, Tenant will pay the amount of such increase or, in the event that other circumstances existing at the Shopping Center shall have contributed to such increase, an equitable portion of such increase as reasonably determined by Landlord, promptly upon Landlord's demand and will thereafter pay the amount of such increase, as the same may vary from time to time, with respect to every premium relating

to coverage of the Demised Premises during a period falling within the term of this Lease until such increase is eliminated. In addition if applicable, Landlord may at its option rectify the condition existing on the Demised Premises which caused or was a contributing cause of the increased premium rate in the event that Tenant should fail to do so and may charge the cost of such action to Tenant as additional rent, payable on demand. In determining whether increased premiums are the result of Tenant's use of the Leased Premises, a schedule, issued by the organization making the insurance rate on the Leased Premises, showing the various components of such rate, shall be conclusive evidence of the several items and charges which make up the fire insurance rate on the Leased Premises.

(b) Any flammable or combustible material kept by Tenant in or upon the Demised Premises must be kept in special containers and at such locations as may be specified by the insurance carrier, fire insurance underwriter and any and all state, local or other governmental authorities, and no explosive material, high pressure steam generating equipment or similarly hazardous material or equipment, shall be kept on the Demised Premises.

SECTION 10.03. Plate Glass. Tenant shall obtain insurance at Tenant's expense on all plate and other glass in the Leased Premises in the event plate glass exists in, upon or on the Premises.

SECTION 10.04. Mutual Indemnification. Nothing in this Lease to the contrary withstanding, and except with respect to the negligence or willful misconduct of Landlord or Landlord's agents or employees, Tenant will indemnify Landlord and Agent and save them harmless from and against any and all claims, actions, damages, liability and expenses in connection with loss of life, personal injury and/or damage to property arising from or out of any occurrence including, but not limited to, burglary, robbery or attempted burglary or robbery in, upon or at the Leased Premises or the occupancy or use by Tenant of the Leased Premises or any part thereof, or occasioned wholly or in part by an act or omission of Tenant, its agents, contractors, employees, servants, lessees, licensees, franchisees or concessionaires. In case Landlord and/or Agent shall be made a party to any litigation commenced by or against Tenant, then Tenant shall protect and hold Landlord and/or Agent harmless and shall pay all costs, expenses and reasonable attorney's fees incurred or paid by Landlord and/or Agent in connection with such litigation.

Nothing in this Lease to the contrary withstanding, and except with respect to the negligence or willful misconduct of Tenant or Tenant's agents or employees, Landlord will indemnify Tenant and save Tenant harmless from and against any and all claims, actions, damages, liability and expenses in connection with loss of life, personal injury and/or damage to property arising from or out of any occurrence at the Shopping Center (excluding Tenant's Premises) including, but not limited to the occupancy or use of the Common Areas by Landlord, or occasioned wholly or in part by an act or omission of Landlord, its agents, contractors, employees, servants, lessees, licensees, franchisees or concessionaires. In case Tenant shall be made a party to any litigation commenced by or against Landlord, then Landlord shall protect and hold Tenant harmless and shall pay all costs, expenses and reasonable attorney's fees incurred or paid by Tenant in connection with such litigation.

SECTION 10.05. General Provisions of Insurance. Tenant agrees that all insurance Tenant is required to maintain under this Lease shall be in insurance companies of good credit, satisfactory to Landlord and that the original policies or true copies or abstracts evidencing all of the

aforementioned insurance coverage shall be delivered to Landlord within twenty (20) days prior to the Commencement Date and shall contain a clause that the insurer will not cancel or change the insurance without first giving Landlord twenty (20) days prior written notice thereof and, further, that new or renewal policies shall be delivered by Tenant to Landlord at least twenty (20) days before the expiration date or sooner termination of each policy. If Tenant shall not comply with its covenants made in this Section, Landlord may, at its option, either consider Tenant's failure to comply a default under this entire Lease Agreement or may cause such insurance as aforesaid to be issued and, in such event, Tenant agrees to pay the premium for such insurance promptly upon Landlord's demand as additional rent.

ARTICLE XI
UTILITIES

SECTION 11.01. Utilities.

(a) Tenant shall be solely responsible for and promptly pay all charges for heat, water, gas, electricity, sewer rents or charges and any other utility used or consumed in the Leased Premises or in providing heating and air-conditioning to the Leased Premises, without limitation, said responsibility commencing on the date Landlord notifies Tenant that the Leased Premises are ready for Tenant's work. Should Landlord elect to supply said utilities, Tenant agrees to purchase and pay for same, as additional rent every month, at rates equal to the rates that Tenant would be obligated to pay to the local utility companies supplying such utility services.

(b) In the event that Tenant does not have a water meter installed in the Leased Premises, Tenant will pay to Landlord, as additional rent every month, the minimum charge for the size of the line installed in the Leased Premises in accordance with the rates established from time to time by the utility company or authority supplying water to the premises.

(c) In the event the local authority, municipality or other body collects for the water and/or sewerage or sanitary consumption, as aforesaid, Tenant covenants and agrees to pay the sewer rent charge and any other tax, rent, levy or charge which now or hereafter is assessed, imposed or becomes a lien upon the Demised Premises, or the realty of which they are a part, pursuant to law, order or regulation made or issued in connection with the use, consumption, maintenance or supply of water, water system or sewerage connection system.

(d) In no event shall Landlord be liable to Tenant in damages or otherwise for any interruption, curtailment or suspension of any of the foregoing utility services in the event of a default by Tenant under this Lease or due to repairs, action of public authority, strikes, acts of God or public enemy, unless caused by Landlord's negligence or willful misconduct.

SECTION 11.02. Application for Utilities. Tenant shall make all appropriate applications to the local utility companies and pay all required deposits for meters and service for all utilities serving the Demised Premises within five (5) days after the Commencement Date. In the event any public utility or public or municipal authority supplying any utility or service to Tenant, as a condition to Tenant's receiving such utility or service, shall require Landlord to guarantee Tenant's payment to such public utility or public or municipal authority, Landlord shall do so;

and in consideration of the foregoing, Tenant hereby covenants and agrees to indemnify Landlord and hold it harmless from and against any and all expenses, claims, charges and sums incurred by Landlord as a result of such guarantee.

SECTION 11.03. Operation of Heating and Air-Conditioning. Tenant must operate heating and cooling equipment within the range of normal operating temperatures.

ARTICLE XII
OFFSET STATEMENT, ATTORNMENT, SUBORDINATION

SECTION 12.01. Offset Statement. Within fifteen (15) days after request therefor by Landlord or in the event that upon any sale, assignment or hypothecation of the Leased Premises and/or the land thereunder by Landlord, a statement shall be required from Tenant. Tenant agrees to execute and deliver to any proposed mortgagee or purchaser, or to Landlord, a certificate in recordable form satisfactory to the requesting party, signed by a duly authorized officer of Tenant, certifying (if such be the case) that this Lease is in full force and effect and that there are no defenses or offsets thereto or modifications thereof, or stating those claimed by Tenant, and providing also such additional information concerning the status or conditions of this Lease and the rental payments hereunder as may reasonably be requested by Landlord or such mortgagee or purchaser. Any failure of Tenant to comply within such ten (10) day period shall be deemed a material breach of this Lease, and it is intended that any statement delivered hereunder may be relied upon by any prospective purchaser of the Leased Premises, or any holder or prospective holder of a mortgage on the fee title of the premises or premises of which they are a part, or any assignee of any such mortgage or any landlord in any sale-leaseback of the Shopping Center or part thereof.

SECTION 12.02. Subordination and Attornment. Tenant agrees: (a) that, except as hereinafter provided, this Lease is, and all of Tenant's rights hereunder are and shall always be, subject and subordinate to any mortgage, leases of Landlord's property (in sale-leaseback) pursuant to which Landlord has or shall retain the right of possession of the Demised Premises or security instruments (collectively called "Mortgage") that now exist, or may hereinafter be placed upon the Demised Premises or the Shopping Center or any part thereof and to all advances made or to be made thereunder and to the interest thereon, and all renewals, replacements, modifications, consolidations, or extensions thereof; and (b) that if the holder of any such Mortgage ("Mortgagee") or if the purchaser at any foreclosure sale or at any sale under a power of sale contained in any Mortgage shall at its sole option so request, Tenant will attorn to, and recognize such Mortgagee or purchaser, as the case may be, as Landlord under this Lease for the balance then remaining of the term of this Lease, subject to all terms of this Lease; and (c) that the aforesaid provisions shall be self-operative and no further instrument or document shall be necessary unless required by any such Mortgagee or purchaser. Notwithstanding anything to the contrary set forth above, any Mortgagee may at any time subordinate its Mortgage to this Lease, without Tenant's consent, by execution of a written document subordinating such Mortgage to this Lease to the extent set forth therein, and thereupon this Lease shall be deemed prior to such Mortgage to the extent set forth in such written document without regard to their respective dates of execution, delivery and/or recording and in that event, to the extent set forth in such written document such Mortgagee shall have the same rights with respect to this Lease as though this Lease had been executed and a memorandum thereof recorded prior to the execution, delivery

and recording of the Mortgage and as though this Lease had been assigned to such Mortgagee. Should Landlord or any Mortgagee or purchaser desire confirmation of either such subordination or such attornment, as the case may be, Tenant upon written request, and from time to time, will execute and deliver without charge and in form satisfactory to Landlord, the Mortgagee or the purchaser all instruments and/or documents that may be requested to acknowledge such subordination and/or agreement to attorn, in recordable form.

With respect to the current mortgagee, Landlord shall use reasonable efforts to procure within sixty (60) days after the Commencement Date, a subordination, non-disturbance and attornment agreement, providing in substance that Tenant shall subordinate this Lease to the mortgage and that as long as Tenant shall faithfully discharge the obligations on its part to be kept and performed under the terms of this Lease and is not in default under the terms hereof, its tenancy will not be disturbed nor this Lease affected by any default under the mortgage. Provided Tenant is not in default under the terms and conditions of the Lease, with respect to future mortgagees who require a subordination agreement from Tenant, Landlord shall use reasonable efforts to ensure that such subordination agreement also contains a non-disturbance and attornment agreement for the benefit of Tenant.

SECTION 12.03. Failure to Execute Instruments and Documents. In the event Tenant fails to execute and deliver the instruments and documents as provided for in Section 12.02 within the time period set forth in Section 12.01, Landlord may treat such failure as an Event of Default.

ARTICLE XIII
ASSIGNMENT AND SUBLETTING

SECTION 13.01. Assignment and Subletting. (See Rider #12.)

(a) Tenant shall not voluntarily, involuntarily, or by operation of law, assign, transfer, mortgage or otherwise encumber (herein collectively referred to as an "assignment") this Lease or any interest of Tenant herein, in whole or in part, nor sublet the whole or any part of the Demised Premises, nor permit the Demised Premises or any part thereof to be used or occupied by others, without first obtaining in each and every instance the prior written consent of Landlord. Any consent by Landlord to an assignment or subletting or use or occupancy by others shall be held to apply only to the specific transaction thereby authorized and shall not constitute a waiver of the necessity for such consent to any subsequent assignment or subletting or use or occupancy by others, including, but not limited to a subsequent assignment or subletting by any trustee, receiver, liquidator, or personal representative of Tenant, nor shall the references anywhere in this Lease to subtenants, licensees and concessionaires be construed as a consent by Landlord to an assignment. If this Lease or any interest herein be assigned or if the Demised Premises or any part thereof be sublet or used or occupied by anyone other than Tenant without Landlord's prior written consent having been obtained thereto, Landlord may nevertheless collect rent (including, but not limited to, Fixed Minimum Rent, Tax Rent, Tenant's proportionate share of Landlord's Operating Costs, and additional rent) from the assignee, sublessee, user or occupant and apply the net amount collected to the rents herein reserved and furthermore in any such event, Tenant shall pay to Landlord monthly, as additional rent, the excess of the consideration received or to be received during such month for such assignment, sublease, or occupancy (whether or not denoted as rent) over the rental reserved for such month in this Lease applicable

to such portion of the Demised Premises so assigned, sublet or occupied. No such assignment, subletting, use, occupancy or collection shall be deemed a waiver of the covenant herein against assignment, subletting or use or occupancy by others, or the acceptance of the assignee, subtenant, user or occupant as Tenant hereunder, or constitute a release of Tenant from the further performance by Tenant of the terms and provisions of this Lease. If this Lease or any interest of Tenant herein be assigned or if the whole or any part of the Demised Premises be sublet or used or occupied by others, after having obtained Landlord's prior written consent thereto, Tenant shall nevertheless remain fully liable for the full performance of all obligations under this Lease to be performed by Tenant and Tenant shall not be released therefrom in any manner.

(b) If at any time during the term of this Lease any part or all of the corporate shares of Tenant, or of a parent corporation of which the Tenant is a direct or indirect subsidiary, shall be transferred by sale, assignment, bequest, inheritance, operation of law or other disposition so as to result in a change in the present effective voting control of Tenant or of such parent corporation by the person or persons owning or controlling a majority of the shares of Tenant or of such parent corporation on the date of this Lease, Tenant shall promptly notify Landlord in writing of such change, and such change in voting control shall constitute an assignment of this Lease for all purposes of this Section; provided, however, that this provision shall not apply in the event that over fifty percent (50%) of the voting power of the Tenant corporation or of such parent corporation is held by fifty (50) or more unrelated shareholders or distributed to such number of unrelated shareholders in a public distribution of securities.

(c) If Tenant is a partnership and if at any time during the term of this Lease any person who at the time of the execution of this Lease owns a general partner's interest ceases to own such general partner's interest, such cessation of ownership shall constitute an assignment of this Lease for all purposes of this Section.

(d) Upon the occurrence of any of such events as described in Section 13.O1(a), 13.O1(b), or 13.O1(c) hereof whether voluntary, involuntary, by operation of law, or otherwise, without the prior written consent of Landlord (whether or not Tenant shall have given notice thereof to Landlord), Landlord may treat any such occurrence as a Deliberate Event of Default.

(e) Tenant agrees that if the services of a real estate representative are used by Tenant in connection with any such assignment or subletting, Agent (or such other agent as may be designated by Landlord) shall be the sole and exclusive real estate representative of Tenant, and Tenant agrees to pay Agent (or such other agent designated by Landlord) on the date of consummation of such assignment or subletting, a commission at the rate then being generally charged by Agent (or such other agent designated by Landlord) for similar representation. Notwithstanding the provisions of the immediately preceding sentence, Tenant shall have the option of designating a real estate representative to act jointly with Landlord or Landlord's Agent, in which event, all commissions payable in connection with any such assignment or sublease shall be equitably shared between Tenant's real estate representative and Landlord's Agent, provided, however, that the aggregate of such commissions shall not exceed the commissions customarily payable to a single real estate representative for similar services.

ARTICLE XIV
WASTE, GOVERNMENTAL REGULATIONS

SECTION 14.01. Waste or Nuisance. Except as specifically permitted under this Lease, Tenant shall not commit or suffer to be committed any waste upon the Leased Premises or any nuisance or other act or thing which may disturb the quiet enjoyment of any other tenant in the building in which the Leased Premises are located or in the Shopping Center.

SECTION 14.02. Governmental Regulations. Tenant shall, at Tenant's sole cost and expense, without notice or demand from Landlord, comply with and faithfully observe all requirements of all municipal, county, state, federal and other governmental authorities having jurisdiction now in force or which may hereafter be in force pertaining to the Leased Premises or the repair, maintenance, equipping, design or use thereof.

ARTICLE XV
DESTRUCTION OF LEASED PREMISES

SECTION 15.01. Total or Partial Destruction. If the Leased Premises shall be damaged by fire or other casualty covered by Landlord's policies of fire and broad form extended coverage insurance but are not thereby rendered untenantable in whole or in part, and provided sufficient funds are made available by Landlord's Mortgagee, Landlord shall at its own expense cause such damage to be repaired, and the rent shall not be abated. If by reason of such occurrence, the premises shall be rendered untenantable in whole or in part, Landlord shall at its own expense cause the damage to be repaired and the Fixed Minimum Rent and additional rent meanwhile shall be abated proportionately until Landlord has restored the premises as to the portion of the premises rendered untenantable. If the Leased Premises shall be damaged or destroyed by a fire or casualty not covered by Landlord's policies of fire and broad form extended coverage insurance, which casualty renders the Premises untenantable in whole or in part, and Landlord decides not to repair and restore the premises, Landlord shall have the right to be exercised by notice in writing delivered to Tenant within sixty (60) days from and after the occurrence of such damage or destruction, to elect to cancel and terminate this Lease. Either party shall have the right, to be exercised by notice in writing, delivered to the other within thirty (30) days from and after any occurrence which renders the premises wholly untenantable to cancel this Lease if said destruction of the premises occurs within the last three (3) years of the term hereof, said cancellation to take effect thirty (30) days from and after the receipt of such notice by the other party, and in such event this Lease and the tenancy hereby created shall cease as of the aforesaid cancellation date, the rent to be adjusted as of such date; provided, however, that if Landlord shall commence repairs or reconstruction of the destroyed premises during the period prior to the cancellation date, the tenancy shall remain in effect and said notice of cancellation shall be considered void. In no event shall Landlord be obligated to expend for any repair or reconstruction pursuant to this Section 15.01 an amount in excess of the insurance proceeds recovered by it and allocable to the damage to the Leased Premises after deduction therefrom of any amounts required to be paid to Landlord's Mortgagee.

If Landlord is required to repair or reconstruct the Leased Premises pursuant to the provision of this Section 15.01, its obligation shall be limited to the building shell and other construction performed by Landlord pursuant to Exhibit "B" hereof. Landlord shall not be liable

for delays occasioned by adjustment of losses with insurance carriers or by any other cause so long as Landlord shall proceed in good faith.

SECTION 15.02. Partial Destruction of Shopping Center. In the event that fifty percent (50%) or more of the gross leasable area of the building in the Shopping Center of which Tenant's Premises forms a part, shall be damaged or destroyed by fire or other causes notwithstanding that the Leased Premises may be unaffected by such fire or other cause, Landlord shall have the right, to be exercised by notice in writing delivered to Tenant within sixty (60) days from and after said occurrence, to cancel and terminate this Lease. Upon the giving of such notice to Tenant, the term of this Lease shall expire by lapse of time upon the fifteenth (15th) day after such notice is given and Tenant shall vacate the Leased Premises and surrender the same to Landlord.

ARTICLE XVI
EMINENT DOMAIN

SECTION 16.01. Total Condemnation. If the whole of the Leased Premises shall be acquired or condemned by eminent domain for any public or quasi-public use or purpose, then the term of this Lease shall cease and terminate as of the date on which possession of the Demised Premises is required to be surrendered to the condemning authority, and all rentals shall be paid up to that date and Tenant shall have no claim against Landlord nor the condemning authority for the value of any unexpired term of this Lease.

SECTION 16.02. Total Parking Area. If the whole of the common parking areas in the Shopping Center shall be acquired or condemned by eminent domain for any public or quasi-public use or purpose, then the term of this Lease shall cease and terminate as of the date on which possession of the parking area is required to be surrendered to the condemning authority, unless Landlord shall prior to such date notify Tenant of its intention to provide other parking facilities which shall not violate the requirements of the applicable zoning or similar law (or any permitted variance thereof or exception thereto) regulating the size, layout and location of parking facilities at the Shopping Center, and shall thereafter provide such substantially similar alternate parking facilities within thirty (30) days of the date of such taking, with a Minimum Rent abatement in proportion to the loss of Tenant's sales as a result of the loss of parking during the period until Landlord provides such substantially similar alternate parking. In the event that Landlord shall provide such other parking facilities, then this Lease shall continue in full force and effect without any reduction or abatement of rent. In any event, Tenant shall have no claim against the Landlord nor the condemning authority for the value of any unexpired term of this Lease.

SECTION 16.03. Partial Condemnation. If any part of the Leased Premises shall be acquired or condemned by eminent domain for any public or quasi-public use or purpose, and in the event that such partial taking or condemnation shall render the Leased Premises unsuitable for the business of Tenant, then the term of this Lease shall cease and terminate as of the date on which possession of the Demised Premises is required to be surrendered to the condemning authority and Tenant shall have no claim against Landlord nor the condemning authority for the value of any unexpired term of this Lease. In the event of a partial taking or condemnation which is not extensive enough to render the premises unsuitable for the business of Tenant, then Landlord

shall promptly restore the Leased Premises to the extent of condemnation proceeds available for such purpose to a condition comparable to their condition at the time of such condemnation less the portion lost in the taking, this Lease shall continue in full force and effect and the Fixed Minimum Rent and all additional rent shall abate proportionately. For purposes of determining the amount of funds available for restoration of the Leased Premises from the condemnation award said amount will be deemed to be that part of the award which remains after payment of Landlord's reasonable expenses incurred in recovering same and of any amounts due to any mortgagee of Landlord, and which represents a portion of the total sum so available (excluding any award or other compensation for land) which is equitably allocable to the Leased Premises.

SECTION 16.04. Partial Condemnation of Parking Area. If any part of the parking area in the Shopping Center shall be acquired or condemned by eminent domain for any public or quasi-public use or purpose and if, as the result of such partial taking, the size, layout or location of the remaining parking facilities will violate the requirements of the applicable zoning or similar law or any permitted variance thereof or exception thereto regulating same, then Landlord shall have the right and power to declare the term of this Lease at an end as of the date on which possession of the condemned property is required to be surrendered to the condemning authority, unless Landlord shall take immediate steps toward eliminating such violation, in which event this Lease shall be unaffected and remain in full force and effect as between the parties. In any event, Tenant shall have no claim against Landlord nor the condemning authority for the value of any unexpired term of this Lease.

SECTION 16.05. Landlord's Damages. In the event of any condemnation or taking as hereinbefore provided, whether whole or partial, Tenant shall not be entitled to any part of the award, as damages or otherwise, for such condemnation and Landlord and any mortgagee of Landlord are to receive the full amount of such award as their respective interests may appear, Tenant hereby expressly waiving any right or claim to any part thereof and assigning to Landlord any such right or claim to which it might become entitled.

SECTION 16.06. Tenant's Damages. Although all damages in the event of any condemnation are to belong to Landlord and any mortgagee of Landlord as aforesaid, whether such damages are awarded as full compensation for diminution in value of the leasehold or to the fee of the Leased Premises, Tenant shall have the right to the extent that same shall not diminish Landlord's or such mortgagee's award to claim and recover from the condemning authority, but not from Landlord or such mortgagee, such compensation as may be separately awarded or recoverable by Tenant in Tenant's own right for or on account of any cost to which Tenant might be put in removing Tenant's goods, wares, furniture, fixtures, leasehold improvements and equipment.

Notwithstanding anything in the Lease to the contrary, Tenant, in a separate action, and provided such action does not reduce Landlord's award, shall be entitled to claim against the condemning authority an award for the unamortized cost to Tenant of any leasehold improvements made at Tenant's own expense, loss of business, damage to merchandise and fixtures, removal and reinstallation costs, and moving expenses.

SECTION 16.07. Condemnation of Less Than a Fee. In the event of a condemnation which results in the condemning authority having secured only a leasehold interest in all or a portion of the Leased Premises without the condemnation of the fee simple title also, this Lease shall not

terminate and such condemnation shall not excuse Tenant from full performance of all of its covenants hereunder, but Tenant in such event shall be entitled to present or pursue against the condemning authority its claim for and to receive all compensation of damages sustained by it by reason of such condemnation and Landlord's right to recover compensation or damages shall be limited to compensation for damages, if any, to its reversionary interest.

ARTICLE XVII
BANKRUPTCY; LANDLORD'S REMEDIES AND DAMAGES

SECTION 17.01. Bankruptcy. Subject at all times to the U.S. Bankruptcy Code, if there shall be filed against Tenant or any guarantor or surety of this Lease or any of Tenant's obligations under this Lease, in any court, pursuant to any statute either of the United States or of any state, a petition in bankruptcy or insolvency or for reorganization or for the appointment of a receiver or trustee of all or any portion of Tenant's or such guarantor's or surety's property, and if, within thirty (30) days thereof, Tenant or such guarantor or surety fails to secure a discharge thereof, or if Tenant or such guarantor or surety shall voluntarily file any such petition or make an assignment for the benefit of creditors or petition for or enter into such an arrangement, this Lease, at the option of Landlord, may be canceled or terminated, in which event neither Tenant nor any person claiming through or under Tenant by virtue of any statute or of an order of any court shall be entitled to acquire or remain in possession of the Demised Premises, as the case may be, and Landlord shall have no further liability hereunder to Tenant or such person, and Tenant or any such person shall forthwith quit and surrender the Demised Premises. If this Lease shall be so canceled or terminated, Landlord, in addition to the other rights and remedies of Landlord under Article XVII hereof, or contained elsewhere in this Lease, or by virtue of any statute or rule of law, may retain as liquidated damages any rent, security deposit and any other money received by Landlord from Tenant or others on behalf of Tenant.

SECTION 17.02. Damages.

(a) It is stipulated and agreed that in the event of the cancellation or termination of this Lease pursuant to Section 17.01 hereof, Landlord shall forthwith, notwithstanding any other provision of this Lease to the contrary, be entitled to recover from Tenant as and for liquidated damages, in addition to the liquidated damages set forth in Section 17.01 hereof, an amount equal to the difference between: the sum of the annual Fixed Minimum Rent, the Tax Rent payable in the Tax Year immediately preceding such termination, Tenant's proportionate share of the Operating Costs payable in the last preceding Accounting Period, all multiplied by the number of years and fraction of a year then constituting the unexpired term or portion thereof, discounted at the rate of four percent (4%) per annum to present worth, minus the fair and reasonable annual rental value of the Demised Premises for such period, also discounted at the rate of four percent (4%) per annum to present worth. If the Demised Premises or any part thereof be relet by Landlord for the balance of the term hereof, or any part thereof, prior to presentation of proof of such liquidated damages to any court, commission or tribunal, the amount of rent reserved upon such reletting shall be deemed prima facie to be the fair and reasonable rental value for the part or the whole of the premises so relet during the term of the reletting. Nothing herein contained, however, shall limit or prejudice the right of Landlord to prove for and obtain as liquidated damages by reason of such termination an amount equal to the maximum allowed by any statute or rule of law in effect at the time when, and governing the

proceedings in which, such damages are to be proved, whether or not such amount be greater than, equal to or less than the amount of the liquidated damages referred to above.

(b) In addition to the liquidated damages provided in this Section, Landlord shall also be entitled to recover as damages from Tenant all nonrecurring sums and charges remaining unpaid and which are due or becoming due from Tenant pursuant to this Lease including, but not limited to, those under Exhibit "B" hereto and interest thereon as provided in Section 2.04 hereof.

ARTICLE XVIII
EVENTS OF DEFAULT: LANDLORD'S REMEDIES

SECTION 18.01. Events of Default.

The following shall constitute Events of Default:

(a) If Tenant defaults in the payment of any sum of money (whether Fixed Minimum Rent, Tax Rent, Tenant's proportionate share of Operating Costs, additional rent or otherwise) when due and such default shall continue for ten (10) days after the date of written notice from Landlord to Tenant.

(b) Except as to acts, defaults, omissions and/or occurrences characterized, defined, denoted, or identified in this Lease as Deliberate Events of Default, if Tenant defaults in fulfilling any of the other covenants of this Lease on Tenant's part to be performed hereunder and such default shall continue for twenty (20) days after the date of written notice from Landlord to Tenant specifying the nature of said default, or, if the default so specified shall be of such a nature that the same cannot be reasonably cured or remedied within said twenty (20) day period, if Tenant shall not in good faith have commenced the curing or remedying of such default within such twenty (20) day period and shall not thereafter diligently proceed therewith to completion.

(c) If any execution or attachment shall be issued against Tenant or any of Tenant's property and shall not be discharged or vacated within thirty (30) days after the issuance thereof.

(d) Any event described in Section 17.01.

(e) If Tenant shall abandon the Demised Premises or if the Demised Premises shall be permitted to become vacant.

SECTION 18.02. Deliberate Events of Default.

(a) Notwithstanding anything to the contrary set forth in this Lease, if Tenant shall default (1) in the timely payment of Fixed Minimum Rent, Tax Rent, Tenant's proportionate share of Operating Costs and any such default shall be repeated two (2) times in any period of twelve (12) months; or (2) in the performance of any other covenant of this Lease more than three (3) times in any period of twelve (12) months, then, notwithstanding that such defaults shall have been cured within the period after notice as above provided, any further similar default within such twelve (12) month period shall be deemed to be a Deliberate Event of Default.

(b) Any default, act, omission or occurrence characterized, defined, denoted, or identified elsewhere in this Lease as a Deliberate Event of Default shall also be a Deliberate Event of Default.

(c) In the event of a Deliberate Event of Default, Landlord, without giving Tenant any notice and without affording Tenant an opportunity to cure the default (Tenant hereby specifically waiving any right of tender), may exercise any or all of its rights under this Lease in addition to those it may have at law or in equity.

SECTION 18.03. Termination. Upon or after the occurrence of any one or more of such Events of Default or Deliberate Events of Default, if the term shall not have commenced Landlord may immediately cancel this Lease by written notice, or if the term shall have commenced Landlord may serve upon Tenant a written notice that this Lease and the term will terminate on a date to be specified therein, which shall not be less than ten (10) days after the date of such notice and in either event, Tenant shall have no right to avoid the cancellation or termination by payment of any sum due or by other performance of any condition, term or covenant broken. Upon the date specified in the aforesaid notice of termination, this Lease and the term hereof shall terminate and come to an end as fully and completely as if such date were the day herein definitely fixed for the end and expiration of this Lease and such term, and Tenant shall then quit and surrender the Demised Premises to Landlord, but notwithstanding any statute, rule of law, or decision of any court to the contrary, Tenant shall remain liable as set forth hereinafter. Notwithstanding Landlord's election to terminate this Lease, Landlord may, at its option, reinstate this Lease at any time thereafter, and a letter from Landlord, Agent or the attorney for Landlord or Agent setting forth Landlord's exercise of its option to reinstate the Lease shall be sufficient to reinstate this Lease upon all of its terms and conditions, without any other notice to or from either party to the other.

SECTION 18.04. Right of Possession. Upon or after any one or more Events of Default or Deliberate Events of Default; or if the notice provided for above in Section 18.03 hereof shall have been given and this Lease shall be terminated; or if the Demised Premises became vacant or deserted; then, in all or any of such events, in addition to, and not in lieu of, all other remedies of Landlord, Landlord may without notice terminate all services (including, but not limited to, the furnishing of utilities) and/or re-enter the Demised Premises by summary proceeding or otherwise dispossess Tenant and the legal representative of Tenant or other occupant of the Demised Premises, and remove their effects and repossess and enjoy the Demised Premises, together with all alterations, additions and improvements, all without being liable to prosecution or damages therefor.

SECTION 18.05. Additional Remedies of Landlord.

(a) In the event of any Event of Default, Deliberate Event of Default, re-entry, termination and/or dispossession by summary proceedings or otherwise, in addition to, and not in lieu of, all other remedies which Landlord has under this Lease, at law or in equity: (1) the Fixed Minimum Rent shall become due thereupon and be paid up to the time of such re-entry, dispossession and/or expiration; and (2) Landlord may relet the Demised Premises or any part or parts thereof, either in the name of Landlord or otherwise, for a term which may at Landlord's option be less than or exceed the period which would otherwise have constituted the balance of

the term of this Lease, and may grant concessions or free rent and (3) Tenant or the legal representative of Tenant shall also pay Landlord at Landlord's option and whether or not Landlord has terminated or canceled this Lease, either liquidated damages calculated by the formula set forth in Section 17.02 hereof and the other damages referred to in Section 17.02(b), or as liquidated damages for the failure of Tenant to observe and perform said Tenant's covenants herein contained, for each month of the period which would otherwise have constituted the balance of the term, the excess, if any, of the sum of one monthly installment of Fixed Minimum Rent, the monthly portion of the payment of Tax Rent that would have been payable for the period in question but for such re-entry or termination, the monthly payment of Tenant's current proportionate share of Operating Costs over the net amount, if any, of the rents actually collected on account of the lease or leases of the Demised Premises for such month. The refusal or failure of Landlord to relet the Demised Premises or any part or parts thereof shall not release or affect Tenant's liability for damages. In computing such liquidated damages there shall be added to the said deficiency the damages set forth in Section 17.02(a) hereof and such expenses as Landlord may incur in connection with reletting, such as court costs, attorney's fees and disbursements, brokerage, and management fees and commissions, cost of putting and keeping the Demised Premises in good order and costs of preparing the Demised Premises for reletting as hereinafter provided. Any such liquidated damages shall be paid in monthly installments by Tenant on the day specified in this Lease for the payment of Fixed Minimum Rent and any action brought to collect the amount of deficiency for any month shall not prejudice in any way either the rights of Landlord to collect the deficiency for any subsequent month by a similar proceeding, or the rights of Landlord to elect to collect liquidated damages calculated by the formula set forth in Section 17.02 hereof, provided only that such liquidated damages shall be reduced by the amount, if any, of monthly liquidated damages collected by Landlord minus the actual cost (including attorney's fees and costs) of collecting such monthly liquidated damages. Landlord, at Landlord's option, may make such alterations, repairs, replacements and/or decorations in the Demised Premises as Landlord in Landlord's sole judgment considers advisable and necessary for the purpose of reletting the Demised Premises; and the making of such alterations and/or decorations shall not operate or be construed to release Tenant from liability hereunder as aforesaid. Landlord shall in no event be liable in any way whatsoever for failure to relet the Demised Premises, or in the event that the Demised Premises are relet, for failure to collect the rent thereof under such reletting.

(b) In lieu of the damages provided in Section 18.05(a), Landlord shall be entitled to: any and all rental arrearages, all such expenses as Landlord may incur in connection with the collection of such liquidated damages, such as court costs and reasonable attorney's fees, and disbursements (if any) necessary to return the Premises to the same condition of cleanliness, repair and order as the Premises were in upon the commencement of business under this Lease (excluding Tenant's personal property), reasonable wear and tear excepted, plus the lesser of: (i) two (2) times the sum of the then current annual Fixed Minimum Rent and all additional rent or (ii) a sum equal to the Fixed Minimum Rent and all additional rent multiplied by the number of months and/or fractional months which would have constituted the balance of the term.

(c) In the event of a breach or threatened breach by Tenant of any of the covenants or provisions hereof, Landlord shall have the right or injunction and the right to invoke any remedy allowed at law or in equity as if re-entry, summary proceedings and other remedies were not

herein provided for. Mention in this Lease of any particular remedy shall not preclude Landlord from any other remedies under this Lease, or now or hereafter existing at law or in equity or by statute.

(d) Tenant hereby expressly waives the service of notice of intention to re-enter or to institute legal proceedings to that end and any and all rights of redemption granted by or under any present or future laws in the event of Tenant being evicted or dispossessed for any cause, or in the event of Landlord obtaining possession of the Demised Premises by reason of the violation by Tenant of any of the covenants and conditions of this Lease or otherwise. The words "re-enter" and "re-entry" as used in this Lease are not restricted to their technical legal meaning.

Notwithstanding anything herein to the contrary, Landlord shall use commercially reasonable efforts to mitigate its damages.

SECTION 18.06. Confession of Judgment. When this Lease shall be terminated or canceled by reason of the breach of any provision hereof, either during the original term of this Lease or any renewal thereof and after the expiration of the applicable notice period, and also as soon as the term hereby created or any renewal thereof shall have expired, it shall be lawful for any attorney as attorney for Tenant to file an agreement for entering in any court of competent jurisdiction, confession of judgment in ejectment against Tenant and all persons claiming under Tenant for the recovery by Landlord of possession of the Demised Premises, for which this Lease or a true and correct copy thereof shall be his sufficient warrant; whereupon, if Landlord so desires, a writ of possession may issue forthwith, without any prior writ or proceedings whatsoever, and provided that if for any reason after such action shall have been commenced, the same shall be terminated and possession remain in or be restored to Tenant, Landlord shall have the right upon any subsequent default or defaults, or upon the termination or cancellation of this Lease as hereinbefore set forth, to bring one or more actions as hereinbefore set forth to recover possession as aforesaid.

SECTION 18.07. Waivers.

Tenant expressly waives:

(a) The benefit of all laws, now or hereafter in force, exempting any goods on the Demised Premises, or elsewhere, from distraint, levy or sale in any legal proceedings taken by Landlord to enforce any rights under this Lease.

(b) The benefit of all laws now made or which may hereafter be made regarding any limitation as to the goods upon which, or the time within which, distress is to be made after the removal of goods, and further relieves Landlord of the obligation of proving or identifying such goods, it being the purpose and intent of this provision that all goods of Tenant, whether upon the Demised Premises or not, shall be liable to distress for rent.

(c) The right to issue a writ of replevin for the recovery of any goods seized under a distress for rent or levy upon an execution for rent, damages or otherwise.

(d) The right to delay execution on any real estate that may be levied upon to collect any amount which may become due under the terms and conditions of this Lease and any right to have the same appraised, and Tenant authorizes any Prothonotary or clerk to enter a writ of execution or other process upon Tenant's voluntary waiver and further agrees that said real estate may be sold on a writ of execution or other process.

(e) All rights under any law, ordinance or statute relating to Landlord and Tenant rights to the extent of hereby authorizing the sale of any goods distrained for rent at anytime after seven (7) days from said distraint without appraisement and condemnation thereof.

(f) The right to three (3) months notice and/or fifteen (15) or thirty (30) days notice required under certain circumstances by the Landlord and Tenant Act of 1951, hereby agreeing that seven (7) days notice shall be sufficient in either or any such case.

ARTICLE XIX
TENANT'S PROPERTY

SECTION 19.01. Taxes on Leasehold. Tenant shall be responsible for and shall pay before delinquency all municipal, county or state taxes assessed during the term of this Lease against any leasehold interest or personal property of any kind owned by Tenant or placed in, upon or about the Leased Premises by Tenant, whether such taxes shall be assessed against and billed to Tenant or shall be incorporated in the tax base upon which taxes of Landlord shall be calculated.

SECTION 19.02. Waiver as to Loss and Damage. Unless caused by the negligence or willful misconduct of Landlord, neither Landlord nor Agent shall be liable for any damage to property of Tenant or of others located on the Leased Premises, nor for the loss of or damage to any property of Tenant or of others by theft or otherwise. Unless caused by the negligence or willful misconduct of Landlord, neither Landlord nor Agent shall be liable for any injury or damage to persons or property resulting from fire, explosion, collapse, falling plaster, steam, gas, electricity, water, rain or snow or leaks from any part of the Leased Premises or of the Shopping Center or from the pipes, sprinklers, appliances or plumbing works or from the roof, street or subsurface or from any other place or by dampness or from any other cause of whatsoever nature. Unless caused by the negligence or willful misconduct of Landlord, neither Landlord nor Agent shall be liable for any such damage caused by other tenants or persons in the Leased Premises, occupants of adjacent property, of the Shopping Center, or the public, or caused by operations in construction of any private, public or quasi-public work. Neither Landlord nor Agent shall be liable for any latent defect in the Leased Premises or in the building of which they form a part except for a period of one (1) year from the date the first tenant takes possession of the Leased Premises. All property of Tenant kept or stored on the Leased Premises shall be so kept or stored at the risk of Tenant only and Tenant shall hold Landlord and Agent harmless from any claims arising out of damage to the same, including subrogation claims by Tenant's insurance carriers, unless such damage shall be caused by the willful act or negligence of Landlord or Agent occurring after the Commencement Date. Except as specifically provided herein to the contrary, this Section and the waiver herein contained shall pertain to matters existing before as well as after the execution of this Lease and the Commencement Date.

In addition to the foregoing waivers, Landlord and Tenant agree that in the event the Demised Premises, or the building or Shopping Center of which the Demised Premises are a part, or the contents of the Demised Premises, are damaged or destroyed by fire or other insured casualty, the rights, claims, and causes of action, if any, of either party against the other with respect to recovery for such damage or destruction are hereby waived to the extent that such damage or destruction is covered by such insurance, and Landlord and Tenant agree that all policies of fire and extended coverage insurance carried by Landlord and Tenant covering the Demised Premises or the building or Shopping Center of which the Demised Premises are a part, or the contents of the Demised Premises, shall to the extent possible without additional cost contain a clause or endorsement in the usual form evidencing such waiver of subrogation.

SECTION 19.03. Notice by Tenant. Tenant shall give immediate notice to Landlord in case of fire or accidents in the Leased Premises or in the building of which the premises are a part.

ARTICLE XX
MISCELLANEOUS

SECTION 20.01. Access by Landlord. Upon reasonable notice (except in the case of an emergency in which case no notice is required) Landlord may at all reasonable times during the term of this Lease enter to inspect the Demised Premises and/or may show the Demised Premises and building to others. At any time within one (1) year immediately preceding the expiration of the term of this Lease, Landlord shall have the right to display on the exterior of the Demised Premises (but not so as to unreasonably obstruct the view thereof or access thereto) the customary "For Rent" sign and during such period Landlord may show the premises and all parts thereof to prospective tenants between the hours of 9:00 a.m. and 9:00 p.m. on any day except Sunday and any legal or religious holiday on which Tenant shall not be open for business. Landlord also reserves the right after reasonable (being not less than twenty-four (24) hours) notice of intention to so enter (except that in the event of an emergency, no notice shall be required) to enter the premises at any time and from time to time to make such repairs, additions or alterations as it may deem necessary for the safety, improvement or preservation thereof, or of the building in which the Demised Premises is contained, but Landlord assumes no obligation to do so, and the performances thereof by Landlord shall not constitute a waiver of Tenant's default in failing to perform the same. Landlord shall in no event be liable for any inconvenience, disturbances, loss of business or other damage to Tenant by reason of the performance by Landlord of any work in, upon, above or under the Demised Premises. If tenant shall have vacated or deserted the Demised Premises or, in the event of an emergency, or if in any other instance after Landlord has given notice of Landlord's intention to enter, Tenant or Tenant's employees shall not be personally present to permit an entry into the Demised Premises, then in any such event, Landlord or its agents or employees may enter the same by the use of force or otherwise without rendering Landlord liable therefor, and without in any manner affecting Tenant's obligations under this Lease. The exercise of any such reserved right by Landlord shall not be deemed an eviction or disturbance of Tenant's use and possession of the Premises and shall not render Landlord liable in any manner to Tenant or to any other person except Landlord shall be responsible for damage caused as a result of Landlord's entry through use of force, nor shall the same constitute any grounds for an abatement of any rent hereunder.

SECTION 20.02. Holding Over. Should Tenant hold over in possession of the Demised Premises after the expiration of the term hereof without the execution of a new lease agreement or extension or renewal agreement, Tenant, at the option of Landlord, shall be deemed to be occupying the Demised Premises from month to month, subject to such occupancy being terminated by Landlord upon ten (10) days written notice, at the rental, including, but not limited to, Fixed Minimum Rent, Tax Rent, Tenant's proportionate share of Operating Costs, and additional rent all calculated, from time to time, as though the term of Lease had continued and otherwise subject to all of the other terms, covenants and conditions of the Lease insofar as the same may be applicable to a month to month tenancy.

SECTION 20.03. Successors. All rights, obligations and liabilities herein given to, or imposed upon, the respective parties hereto shall extend to and bind the several respective heirs, executors, administrators, trustees, receivers, legal representatives, successors and assigns of the said parties; and if there shall be more than one (1) tenant, they shall all be bound jointly and severally by the terms, covenants, and agreements herein. No rights, however, shall inure to the benefit of any assignee, legal representative, trustee, receiver, legatee or other personal representative of Tenant unless the assignment to such party has been approved by Landlord in writing as provided in Section 13.01(a) hereof.

SECTION 20.04. Quiet Enjoyment. So long as Tenant shall pay the rents herein provided within the respective times provided therefor, and provided and so long as Tenant observes and performs all the covenants, terms and conditions on Tenant's part to be observed and performed, Tenant shall peaceably and quietly hold and enjoy the Demised Premises for the term hereby demised without hindrance or interruption by Landlord or any other person or persons lawfully claiming by, through or under Landlord, subject, nevertheless, to the terms and conditions of this Lease. Laurel Mall Associates' liability under this Section shall cease upon a conveyance by Landlord of the Premises.

SECTION 20.05. Waiver. The waiver by Landlord of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver or any subsequent breach of the same or a waiver of any other term, covenant or condition herein contained. The subsequent acceptance by Landlord of rent due hereunder or any or all other monetary obligations of Tenant hereunder, whether or not denoted as rent hereunder, shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, other than the failure of Tenant to make the particular payment so accepted, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of such rent. No covenant, term or condition of this Lease shall be deemed to have been waived by Landlord, unless such waiver be in writing and executed by Landlord.

SECTION 20.06. Custom and Usage. Any law, usage or custom to the contrary notwithstanding, Landlord shall have the right at all times to enforce the covenants and conditions of this Lease in strict accordance with the terms hereof, notwithstanding any conduct or custom on the part of the Landlord in refraining from so doing at any time or times with respect to the Tenant hereunder or with respect to other tenants of the Shopping Center. The failure of Landlord at any time or times to enforce its rights under said covenants and provisions strictly in accordance with the same shall not be construed as having created a custom in any way or manner contrary to the specific terms, provisions and covenants of this Lease or as having in

any way or manner modified the same.

SECTION 20.07. Accord and Satisfaction. No payment by Tenant or receipt by Landlord of a lesser amount than any payment of rent or additional rent herein stipulated shall be deemed to be other than on account of the earliest stipulated rent or additional rent then due and payable, nor shall any endorsement or statement on any check or any letter accompanying any check or payment as rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of such rent or pursue any other remedy provided in this Lease, at law or in equity.

SECTION 20.08. Performance of Tenant's Covenants. Tenant covenants and agrees that it will perform all agreements and observe all covenants herein expressed on its part to be performed and observed and that it will promptly, upon receipt of written notice specifying action desired by Landlord in connection with any such agreement or covenant, comply with such notice if the requested action is consistent with the terms of this Lease; and further, that if Tenant shall not comply with any such notice to the satisfaction of Landlord prior to the date on which such noncompliance would constitute an Event of Default, in addition to, and not in lieu of or in limitation of any other remedy which Landlord may have pursuant to this Lease, at law or in equity, Landlord may, but shall not be obligated to, enter upon the premises and do the things specified in said notice. Landlord shall have no liability to Tenant for any loss or damage resulting in any way from such action and Tenant agrees to pay upon demand, as additional rent, any expense incurred by Landlord in taking such action. Notwithstanding the foregoing, Landlord's performance of any or all of Tenant's covenants shall not release Tenant from liability for nonperformance.

SECTION 20.09. Entire Agreement. The Indenture of Lease, the Lease Agreement the Exhibits and Rider, if any, set forth all the covenants, promises, agreements, conditions and understandings between Landlord and Tenant concerning the Demised Premises and there are no covenants, promises, agreements, conditions or understandings, either oral or written, between them other than as herein set forth. All prior communications, negotiations, arrangements, representations, agreements and understandings, whether oral, written or both, between the parties hereto, and their representatives, are merged herein and extinguished, this Lease superseding and canceling the same. Except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and executed by the party against which such subsequent alteration, amendment, change or modification is to be enforced. If any provision contained in any Rider hereto is inconsistent with any printed provisions of this Lease, the provisions contained in such Rider shall supersede said printed provision. Tenant hereby acknowledges that: (a) this Lease contains no restrictive covenants or exclusives in favor of Tenant; (b) this Lease shall not be deemed or interpreted to contain, by implication or otherwise, any warranty, representation or agreement on the part of Landlord that any regional or national chain store or any other merchant shall open for business or occupy or continue to occupy any premises in or adjoining the Shopping Center during the term of this Lease or any part thereof and Tenant hereby expressly waives all claim with respect thereto and acknowledges Tenant is not relying on any such warranty, representation or agreement by Landlord either as a matter of inducement in entering into this Lease or as a condition of this Lease or as a covenant by Landlord.

SECTION 20.10. No Partnership. Landlord does not, in any way or for any purpose, become a partner of Tenant in the conduct of its business, or otherwise, or joint venturer or a member of a joint enterprise with Tenant.

SECTION 20.11. Notices. All payments of rent and any and all other monetary obligations of Tenant accruing hereunder, whether or not denoted as rent, shall be paid to Agent at Plymouth Plaza, 580 West Germantown Pike, Suite 200, Plymouth Meeting, Pennsylvania 19462, until Tenant is notified otherwise in writing, and all notices given to Landlord hereunder shall be in writing and forwarded to it at such address, postage prepaid, by certified mail, return receipt requested. All notices to Tenant shall be in writing and shall be deemed to have been duly given (a) on the date of receipt if (i) personally delivered or (ii) delivered by a recognized overnight courier (with receipt required) or (b) three (3) days after mailing with adequate postage by certified mail, return receipt requested, addressed to Tenant at the address set forth in the Indenture of Lease, the address of the Leased Premises, or at such other address as Tenant may hereafter designate to the Landlord in writing with a copy to Steven J. Weingarten, Esquire; McNees, Wallace & Nurick, 100 Pine Street, Harrisburg, Pennsylvania 17108. Notices by Landlord may be given on its behalf by Agent or by an attorney for Landlord or Agent.

SECTION 20.12. Captions. The captions appearing in this Lease are inserted only as a matter of convenience and in no way define, limit, construe or describe the scope or intent of such sections or articles of this Lease nor in any way affect this Lease.

SECTION 20.13. Tenant Defined; Use of Pronoun. The word "Tenant" shall be deemed and taken to mean each and every person or party mentioned as a Tenant herein, be the same one or more; and if there shall be more than one Tenant, any notice required or permitted by the terms of this Lease may be given by or to any one thereof, and shall have the same force and effect as if given by or to all thereof. The use of the neuter singular pronoun to refer to Landlord or Tenant shall be deemed a proper reference even though Landlord or Tenant may be an individual, a partnership, a corporation, or a group of two or more individuals or corporations. The necessary grammatical changes required to make the provisions of this Lease apply in the plural number where there is more than one Landlord or Tenant and to either corporations, associations, partnerships or individuals, males or females, shall in all instances be assumed as though in each case fully expressed.

SECTION 20.14. Negation of Personal Liability. Notwithstanding anything contained herein to the contrary, Tenant agrees that Landlord shall have no personal liability with respect to any of the provisions of this Lease and Tenant shall look solely to the estate and property of Landlord in the land and buildings comprising the Shopping Center of which the Demised Premises forms a part for the satisfaction of Tenant's remedies, including without limitation, the collection of any judgment or the enforcement of any other judicial process requiring the payment or expenditure of money by Landlord in the event of any default or breach by Landlord with respect to any of the terms and provisions of this Lease to be observed and/or performed by Landlord, subject however, to the prior rights of any holder of any mortgage covering all or part of the Shopping Center, and no other assets of Landlord or any principal of Landlord shall be subject to levy, execution or other judicial process for the satisfaction of Tenant's claim and in the event Tenant obtains a judgment against Landlord, the judgment docket shall be so noted. This Section shall inure to the benefit of Landlord's successors and assigns and their respective principals.

SECTION 20.15. Liability of Agent. Montgomery Realty Company, in its capacity as Agent, is acting as Agent only and in such capacity shall not in any event be held liable to the Landlord or to Tenant for the fulfillment or nonfulfillment of any of the terms, covenants or conditions of this Lease or for any action or proceedings that may be taken by Landlord against Tenant, or by Tenant against Landlord. Any waiver of Landlord's liability hereunder, including any waiver of subrogation rights shall apply with equal force and effect to such Agent.

SECTION 20.16. Effect of Governmental Limitations on Rents and Other Charges. In the event that any law, decision, rule or regulation of any governmental body having jurisdiction shall have the effect of limiting for any period of time the amount of rent or other charges payable by Tenant to any amount less than that otherwise provided pursuant to this Lease, the following amounts shall nevertheless be payable by Tenant: (a) throughout such period of limitation, Tenant shall remain liable for the maximum amount of rent and other charges which are legally payable (without regard to any limitation to the amount thereof expressed in this Lease except that all amounts payable by reason of this Section 20.16 shall not in the aggregate exceed the total of all amounts which would otherwise be payable by Tenant pursuant to the terms of this Lease for the period of limitation), (b) at the termination of such period of limitation, Tenant shall pay to Landlord, on demand but only to the extent legally collectible by Landlord, any amounts which would have been due from the Tenant during the period of limitation but which were not paid because of such limiting law, decision, rule or regulation, and (c) for the remaining term of this Lease following the period of limitation, Tenant shall pay to Landlord all amounts due for such portion of the term of this Lease in accordance with the terms hereof calculated as though there had been no intervening period of limitation.

SECTION 20.17. Partial Invalidity; Separate Covenants. If any term, covenant or condition of this Lease or the application thereof to any person or circumstances shall to any extent, be invalid or unenforceable, the remainder of this Lease or the application of such term, covenant or condition to persons or circumstances other than those as to which it is held invalid or unenforceable shall not be affected thereby and each term, covenant and condition of this Lease shall be valid and be enforced to the fullest extent permitted by law. Furthermore, each covenant, agreement, obligation and other provision contained in this Lease is, and shall be deemed and construed as a separate and independent covenant of the party bound by, undertaking or making the same, and not dependent on any other provision of this Lease unless expressly so provided.

SECTION 20.18. Recording. Tenant shall not record this Lease without the written consent of Landlord. If either party requests, the parties shall execute and acknowledge a short or memorandum form of lease for recording purposes which shall be recorded at the requesting party's expense.

SECTION 20.19. Brokerage Commission. Tenant represents and warrants to Landlord that Tenant has had no dealing, negotiations or consultations with respect to the premises, the Shopping Center or this transaction with any broker or finder except Agent and that with the exception of Agent no broker or finder called the premises or any other space in the Shopping Center to Tenant's attention for lease. In the event that any other broker or finder other than Agent claims to have submitted the premises or any other spaces in the Shopping Center to Tenant, to have induced Tenant to lease the premises or to have taken part in any dealings, negotiations or consultations with respect to the premises, the Shopping Center or this

transaction, Tenant will be responsible for and will defend, indemnify and save Landlord and Agent harmless from and against all costs, fees (including without limitation attorneys fees) expenses, liabilities and claims incurred or suffered by Landlord and/or Agent as a result thereof.

SECTION 20.20. Construction. It is the intent of the parties hereto that if any term, covenant, condition or agreement of this Lease is capable of two or more constructions, one or more of which would render the provision void, and the other or others of which would render the provision valid, then the provision shall have the meaning or meanings which would render it valid.

SECTION 20.21. Submission of Lease to Tenant. The submission by Landlord to Tenant of this Lease shall have no binding force or effect, shall not constitute an option for the leasing of the Demised Premises, nor confer any rights or impose any obligations upon either party until the execution thereof by Landlord and the delivery of an executed original copy thereof to Tenant or its representative.

SECTION 20.22. Force Majeure. In the event that either party hereto shall be delayed or hindered in or prevented from the performance of any act required hereunder by reason of strikes, lock-outs, labor troubles, inability to procure materials resulting from reasons other than insufficient financial resources, failure of power, restrictive governmental laws or regulations, riots, insurrection, war or other reasons of a like nature not the fault of the party delayed in performing work or doing acts required under the terms of this Lease, then performance of such acts shall be excused for the period of the delay and the period for the performance of any such acts shall be extended for a period equivalent to the period of such delay. The provisions of this Section 20.22 shall not excuse Tenant from the prompt payment of rent, additional rent or any other payments required by the terms of this Lease.

SECTION 20.23. Cost of Living. Deleted.

SECTION 20.24. Collection Fees. In the event Landlord engages the services of an attorney to collect any rent or other sum when due hereunder or to enforce the provisions of this Lease for Tenant's failure to keep and perform any other term, covenant or condition of this Lease, then the costs associated with such services including a reasonable attorney's fee shall be the responsibility of Tenant, payable to Landlord upon written demand as additional rent in accordance with the provisions of Section 2.04 hereof.

SECTION 20.25. Hazardous Material.

(a) As used herein, the term "hazardous material" means any hazardous or toxic substance, material or waste (including, without limitation, asbestos) which, subsequent to Tenant taking possession of the Leased Premises, is determined by any state, federal or local governmental authority to be capable of posing a risk of injury to health, safety or property and/or the use and/or disposal of which is regulated by any governmental authority. If the Leased Premises, any equipment, trade fixtures or other mechanical apparatus therein contains any hazardous material (other than in accordance with and as permitted by applicable law), introduced by Tenant, its agents, contractors or employees, Landlord, at its election, shall have the right to (i) cause Tenant to remove and properly dispose of same, all at Tenant's sole cost and

expense and in compliance with the provisions hereof, or (ii) perform the removal and disposal thereof itself, in which event Tenant shall reimburse Landlord, on demand, for the cost incurred by Landlord in doing so and securing the certifications referred to below. Tenant shall not cause or permit any hazardous material to be brought upon, kept or used in or about the Leased Premises by Tenant, its agents, employees, contractors or invitees (other than in accordance with and as permitted by applicable law).

(b) If Landlord requires Tenant to remove the hazardous material introduced by Tenant, its agents, contractors or employees, Tenant shall retain the services of an environmental engineer and a contractor, both of whom must be previously approved in writing by Landlord. Tenant shall submit to Landlord for approval the insurance certificates of Tenant's environmental engineer and contractor, a written removal plan and detailed plans and specifications which shall disclose, without limitation, the dates on which such work is to be performed and the steps to be taken to protect the public, all public areas in the Center, and the HVAC, water, sanitary and storm systems from contamination during the removal and disposal process. No work disclosed in the removal plan shall be commenced until Landlord has approved all aspects of such removal and disposal process and Tenant shall only perform such work in strict accordance with the process as approved by Landlord. Tenant shall close for business while such work is being performed. Landlord reserves the right to monitor the performance of such work from time to time and, if Landlord believes that such work is being done in a manner which permits hazardous material to escape from the Leased Premises or otherwise constitutes an unsafe condition, at Landlord's direction, Tenant shall immediately cease such work until such problem has been corrected to Landlord's satisfaction. Tenant shall replace any contaminated equipment or materials removed from the Leased Premises with new equipment or material performing the same function. If asbestos is removed from the premises, prior to replacing the asbestos with an approved fire retardant material, Tenant shall cause its consulting engineer to perform an air quality test in the Leased Premises and to certify the results thereof in a letter directed from such engineer to Landlord and Agent. Tenant shall not install such fire retardant or reopen for business, until the results of such air quality tests are accepted by Landlord. Tenant shall perform such further acts as may be required to make such results acceptable to Landlord. Upon Landlord's acceptance of the air quality test, Tenant shall install the fire retardant material and promptly reopen for business.

(c) If Landlord elects to perform the removal of the hazardous material from the Leased Premises, Landlord shall so notify Tenant of Landlord's anticipated commencement date of such work and Tenant shall close for business not later than such date and remain closed until notified by Landlord to reopen where upon Tenant shall promptly reopen for business. If Landlord performs such work it shall do so in compliance with all applicable codes, laws and governmental requirements. If directed to do so by Landlord, Tenant shall remove such of its goods, wares, personal property and trade fixtures as shall be required by Landlord for the completion of such work of Landlord, its contractors and subcontractors, and may relocate the same within the Demised Premises or elsewhere in the Center during the performance of such work. Neither Landlord, Agent nor their contractors or subcontractors shall be liable to Tenant in any regard for any damage to or loss of such items or for any other acts occurring in the Leased Premises during the performance of such work.

Landlord warrants and represents that, to the best of its knowledge, as of the execution of this Lease, there exist no hazardous materials (as defined herein) in the Premises.

Section 20.26. Agent Commission. It is agreed between Landlord and Agent that the Agent is due a Real Estate Commission as a result of the execution of this Lease, said commission to be paid to Agent by Landlord, Landlord's beneficiary or successor in interest to this Lease, pursuant to the terms of a management and leasing agreement. Tenant shall have no responsibility for the payment of said commission.

ARTICLE XXI
SECURITY DEPOSIT

SECTION 21.01. Use and Return of Deposit. In the event of the failure of Tenant to pay any rent or other sum when due hereunder or to keep and perform any other term, covenant or condition of this Lease to be kept and performed by Tenant, then at the option of Landlord said Landlord may, either with or without terminating this Lease, appropriate and apply said entire deposit, or so much thereof as may be necessary to the payment of any such overdue rent or other sum or to the compensation of Landlord for all loss or damage sustained or suffered by Landlord due to such breach on the part of Tenant. Should the entire deposit, or any portion thereof, be appropriated and applied by Landlord for the payment of overdue rent or other sums due and payable to Landlord by Tenant hereunder, then Tenant shall, upon the written demand of Landlord, forthwith remit to Landlord a sufficient amount in cash to restore said security to the original sum deposited and Tenant's failure to do so within five (5) days after receipt of such demand shall constitute a breach of this Lease. The security deposit, which is the property of Landlord, will be returned without interest to Tenant (or in the event Tenant's interest hereunder shall have been assigned with Landlord's consent, to such assignee) less any depletion because of default on the part of Tenant or such assignee, within thirty (30) days after written request by Tenant following the end of the term of this Lease or any renewal thereof or upon the earlier termination of this Lease.

SECTION 21.02. Transfer of Deposit. Landlord may deliver the funds deposited hereunder by Tenant to the purchaser of Landlord's reversionary interest in the Leased Premises in the event that such reversionary interest be sold and there upon Landlord shall be discharged from any further liability with respect to such deposit.

ARTICLE XXII
ADVERTISING AND MARKETING FUND

SECTION 22.01. Change of Name. Tenant agrees to operate under the trade name referred to in the Indenture of Lease and not to change the name of the business operated in the Leased Premises or to conduct business at the Leased Premises under any additional advertised name without the prior written consent of Landlord which shall not be unreasonably withheld or delayed.

SECTION 22.02. Solicitation of Business. Tenant and Tenant's employees and agents shall not solicit business or distribute any handbills or other advertising matter in the parking or other common areas of the Shopping Center.

SECTION 22.03. Marketing Fund. Deleted.

LAUREL MALL

THIS INDENTURE OF LEASE, made on the 9th day of July, 1997, by ROYCE REALTY, INC., T/A MONTGOMERY GROUP AFFILIATES, a Pennsylvania corporation, with an address c/o Plymouth Plaza, 580 West Germantown Pike, Suite 200, Plymouth Meeting, Pennsylvania 19462 (hereinafter called "Agent") and LAUREL MALL ASSOCIATES, a Pennsylvania limited partnership, with an address at c/o PREIT, 455 Pennsylvania Avenue, Suite 135, Fort Washington, Pennsylvania 19034 (hereinafter called "Landlord"), and THE DOWNS OFF-TRACK WAGERING, INC., a Pennsylvania corporation, trading as "THE DOWNS AT HAZLETON", with an address at P. O. Box 32, Exit 28 off Route I-81 Grantville, Pennsylvania 17028 (hereinafter called "Tenant").

W I T N E S S E T H:

Leased Premises:

Landlord hereby leases to Tenant and Tenant hereby rents from Landlord, the store premises (hereinafter called the "Premises," "Leased Premises" or "Demised Premises") designated on the attached plan (Exhibit "A") as STORE NUMBER A-2 AND B erected in THE LAUREL MALL (hereinafter called "Center" or "Shopping Center"), located at Route 93 and Airport Road, Hazle and Sugarloaf Townships, Luzerne County, Pennsylvania, the said Leased Premises being measured and described approximately by the outside building walls and middle of shared walls as follows:

FRONT:	ONE HUNDRED FORTY FEET ZERO INCHES	(140'0")
DEPTH:	ONE HUNDRED FIFTY FEET ZERO INCHES--IRREGULAR	(150'0")
TOTAL AREA:	THIRTEEN THOUSAND SQUARE FEET--IRREGULAR	(13,000 SQ.FT.)

together with the right to the nonexclusive use, in common with others entitled to use same, of all such automobile parking areas, driveways, courts, corridors and footways, loading facilities and other facilities as may be designated by Landlord on Exhibit "A" attached hereto, subject however to the terms and conditions of this Indenture of Lease and the Lease Agreement attached hereto and made part hereof (hereinafter collectively referred to as "Lease"), and the reasonable rules and regulations, uniformly enforced, for the use thereof as described from time to time by Landlord. In the event that the actual total area of the Demised Premises when fully constructed, as determined by Landlord's architect or engineer, shall be different from the total area set forth above, the actual total area shall be substituted for the area above stated for all purposes under this Lease, and the Fixed Minimum Rent, percentage rent gross receipts base, Taxes, Common Area Maintenance and Marketing Fund stated herein shall each be proportionately adjusted. The methodology the architect shall use in determining the square footage shall be center-line to center-line for side dimensions and the front and rear dimensions shall include the thickness of the store front depth and the rear wall, respectively.

Length of Term.

The term of this Lease shall be for TEN (10) YEARS, plus the period if any between the commencement date established pursuant to Section 1.01 of the attached Lease Agreement, if it falls on a day other than the first day of a month, and the first day of the first full calendar month in the term. Notwithstanding the foregoing, Tenant shall be bound by all of the provisions of this Lease, from the date of the first occupancy of the Leased Premises by Tenant or its agents for any purpose prior to the Commencement Date.

Minimum Rent.

The Fixed Minimum Rent for each Lease Year of the term of this Lease shall be as follows:

YEAR	ANNUAL REPORT	MONTHLY RENTAL
1-5	$ 97,500.00	$ 8,125.00
6-10	$107,250.00	$8,937.50

Prepared By: Carol S. DeLeon
Date: June 5, 1997
Revised: July 1, 1997
Agent: Michael Palladino

Fixed Minimum Rent shall be payable on or before the first day of each month, in advance, at the office of agent or at such other place as may be designated by Landlord from time to time, without any prior demand therefor and without any deduction or setoff whatsoever. In the event that the term of this Lease shall commence on a day other than the first day of a month, Tenant shall pay Fixed Minimum Rent in advance for the fractional month on a per diem basis calculated on the basis of a Thirty (30) day month.

Percentage Rent. Deleted.

Use of Premises.

Tenant shall use the leased premises, subject to the provisions of Article V of the Lease Agreement attached hereto, solely for the purpose of conducting the business of: the operation of an off-track wagering facility with a restaurant serving food and alcoholic beverages for on-premises consumption only, and for no other purposes whatsoever. To the best of Landlord's knowledge, Tenant's use is not prohibited by any current tenant use restriction.

Renewal Option.

Provided that Tenant at the time of the exercise of this Renewal Option herein granted is not then in default in the performance of any term, covenant, condition or agreement provided for in this Lease Agreement, Tenant shall have the right, option and privilege of extending the term of this Lease Agreement for TWO (2) additional FIVE (5) YEAR terms. The said Renewal Options to extend this Lease shall be exercised by Tenant serving written notice to Landlord seven (7) months

prior to the expiration date of the then current term.

a) The Fixed Minimum rental during each year of the first Renewal Option period shall be:

YEAR	ANNUAL REPORT	MONTHLY RENTAL
11-15	$118,300.08	$ 9,858.34

b) The Fixed Minimum rental during each year of the second Renewal Option period shall be:

YEAR	ANNUAL REPORT	MONTHLY RENTAL
16-20	$130,000.08	$10,833.34

Except as herein provided, all of the terms, covenants and conditions of this Lease Agreement pertaining to the initial term hereof shall equally pertain in all respects to any and all renewals and extensions of this Lease Agreement except that Tenant shall have no further renewal options following the expiration of the second Renewal Option.

Security Deposit.

Tenant, contemporaneously with the execution of this Indenture of Lease by Tenant, has deposited with Landlord the sum of THIRTEEN THOUSAND DOLLARS ($13,000.00) receipt of which is hereby acknowledged by Landlord. This deposit of funds by Landlord shall have no binding force or effect on Landlord nor constitute in any way a reservation for space by Tenant unless and until Landlord executes and delivers this Lease Agreement to Tenant. Upon Landlord's execution and delivery, then the aforestated deposited funds shall become the property of Landlord and shall be held as security for the faithful performance by Tenant of all the terms, covenants, and conditions of this Lease by said Tenant to be kept and performed during the term hereof, subject to Article XXI of the Lease Agreement.

Lease Documents.

In addition to the Indenture of Lease and the Lease Agreement consisting of 30 pages, the following are attached to the Lease and are hereby incorporated in and made part of the Lease as fully as though set forth at length in the Lease: Rider, Exhibit A, Exhibit B, Exhibit C, Exhibit D, Exhibit D-1, Exhibit E and Guaranty.

(Signature Page Follows)

IN WITNESS WHEREOF, the parties hereto have caused this Indenture of Lease to be duly executed the day and year first above written.

(Corporate Seal)

ROYCE REALTY, INC.
T/A MONTGOMERY GROUP AFFILIATES
(Agent)

Attest: \s\
Louis P. Meshon, Secretary

By:\s\
Louis P. Meshon, President

(Corporate Seal)

LAUREL MALL ASSOCIATES
By: LARMES, INC.
A CORPORATE GENERAL PARTNER
(Landlord)

Attest: \s\
Secretary

By:\s\
President

LAUREL MALL ASSOCIATES
By: MONTGOMERY DEVELOPMENT
COMPANY, INC., A CORPORATE
GENERAL PARTNER (Landlord)

Attest: \s\
Louis P. Meshon, Secretary

By:\s\
Louis P. Meshon, President

(Corporate Seal)

THE DOWNS OFF-TRACK WAGERING, INC., a Pennsylvania corporation T/A "THE DOWNS AT HAZLETON" (Tenant)

Attest:
Secretary

By:
WILLIAM J. BORK
President

R I D E R

IN THE EVENT OF ANY CONFLICT BETWEEN THE LEASE AGREEMENT AND THE RIDER, THE RIDER SHALL PREVAIL

RIDER to be annexed to and made part of the Lease Agreement by and between ROYCE REALTY INC., trading as MONTGOMERY GROUP AFFILIATES (hereinafter called "Agent"), Agent for LAUREL MALL ASSOCIATES, a Pennsylvania general partnership, (hereinafter called "Landlord"), and THE DOWNS OFF-TRACK WAGERING, INC., a Pennsylvania corporation, trading as "THE DOWNS AT HAZLETON", (hereinafter called "Tenant") for certain premises known and designated as STORE NUMBER A-2 and B located in THE LAUREL MALL.

1. RECAPTURE CONTINGENCY.

This Lease Agreement is specifically contingent upon Landlord's legal recapture of the Demised Premises from the current occupant within Ninety (90) days of the date of this Agreement. Should Landlord be unable to recapture said Premises within Ninety (90) days, this Lease Agreement shall become null and void and of no further force or effect.

2. RIDER TO MINIMUM RENT - INDENTURE OF LEASE.

Notwithstanding anything in the Lease to the contrary, and provided Tenant is not in default in its performance of any covenants and conditions of the Lease Agreement beyond any applicable cure period, it is agreed and understood between the parties that Tenant shall be granted a Ninety (90) Day Fixed Minimum Rent and additional rent abatement commencing on the Commencement Date and terminating Ninety (90) Days thereafter. Tenant's obligation to begin paying Fixed Minimum Rent and additional rent, as set forth in the Lease Agreement shall commence on the Ninety-First (91st) Day following the Commencement Date. Other than as stated in this Section, Tenant shall have no other right of rental offset or deduction. The entire amount of Fixed Minimum Rent and additional rent otherwise due and payable during the abatement period shall become immediately due and payable upon the occurrence of an event of default by Tenant under this Lease.

3. COMMON AREA MAINTENANCE CAP.

Notwithstanding anything herein or elsewhere to the contrary and excluding insurance and snow removal costs, after the first Lease Year, during which Tenant's contribution to Common Area Maintenance shall be fixed at One Dollar Forty Cents ($1.40), and then throughout the remaining term, Tenant's contribution to Common Costs of Operation and Maintenance shall not increase by more than FIVE PERCENT (5%) annually, over the sum due and payable by Tenant for the preceding year for Common Costs of Operation and Maintenance.

4. CONSIDERATION OF EARLY ACQUISITION OF THE DEMISED PREMISES.

Tenant, contemporaneously with the execution of this Lease, in consideration of the early acquisition of the Demised Premises, shall pay to Landlord the sum of Thirty Thousand Dollars

($30,000.00). Such contribution sum shall be held without interest and shall be returned to Tenant only in the event Landlord is unable to deliver possession of the Premises to Tenant in accordance with Rider #1. In all circumstances except the event that Landlord is unable to deliver possession of the Premises, said contribution shall remain the property of Landlord.

5. RESTAURANT REQUIREMENTS.

Tenant shall provide at its own cost and expense automatic sprinkler protection and CO5 fire extinguishers in all hoods and ducts in cooking areas of the Leased Premises, all approved by Underwriters Laboratories, Inc., and Landlord's fire insurance carrier. If any separate ventilation shall be required, Tenant shall furnish same at its own cost and expense. Landlord shall determine if any such ventilation equipment is required.

Tenant, at its sole cost and expense, shall install a rooftop mounted Grease Guard System around exhaust fan curbs to prevent grease and oil from covering and/or infiltrating rooftop systems. Said device is to be a minimum of four inches (4") deep and shall be cleaned by Tenant a minimum of two (2) times per year. Failure by Tenant to install and maintain such a device will result in Landlord installing and maintaining such device and invoicing Tenant for all costs involved.

Trash removal shall be on a daily basis in containers approved by Landlord as to placement and size of such containers. Tenant shall be required to remove all trash that emanates from Tenant's Premises from any of the common areas of the Center located within a fifty foot (50') radius of the Demised Premises at least twice daily. In addition, Tenant shall install at its own cost and expense on all sides of the Premises, trash receptacles of sufficient size to accommodate all of the containers, straws, paper plates, etc., used or consumed by patrons of Tenant's business.

If any special system is not installed in accordance with Landlord's approved plans, within thirty (30) days of Landlord's notice to do so, Tenant shall make the required changes so that the system shall be in accordance with the approved plans. If Tenant does not make such changes, within the aforesaid thirty (30) day period, Landlord's contractor may do so at Tenant's expense.

After installation, if any special equipment creates a nuisance (odors, leaks, temperature changes, etc.) or hazard within the Demised Premises or in any adjacent premises or common area, Tenant shall do whatever work is required by Landlord to correct the nuisance and/or hazards within thirty (30) days of Landlord's notice, otherwise, Landlord may perform such work at Tenant's expense.

6. LIQUOR LAW LEGAL LIABILITY INSURANCE.

Throughout the period Tenant is operating its business with an alcoholic beverage license, Tenant shall be required to maintain "liquor law legal liability insurance" with an insurance carrier licensed to do business in the Commonwealth of Pennsylvania and rated A- or better by Best rating, with minimum coverage of $1,000,000, at Tenant's sole cost and expense.

7. SECURITY OF THE DEMISED PREMISES.

A. Tenant, at Tenant's sole cost and expense, shall provide security at and around the Demised Premises during hours of Tenant's operation and until one-half (2) hour after Tenant's nightly closing.

B. Should Tenant fail to provide security in conformity with Section 7A of this Rider to Landlord's reasonable satisfaction, Landlord shall have the right to: (i) provide security for Tenant and bill Tenant the cost of such security plus an additional fifteen percent (15%) administrative fee as additional rent, or (ii) , after the expiration of the twenty (20) day notice period pursuant to Section 18.01(b), treat such failure as an event of default under the Lease.

8. SATELLITE ANTENNAE.

Provided Tenant is not in default under the terms and conditions of the Lease, and subject to all applicable codes and regulations and Landlord's written approval of plans (which approval shall not be unreasonably withheld) Tenant shall have the right, at its sole cost and expense, to install roof-top or ground-mounted satellite antennae at a location approved by Landlord, provided Tenant supplies Landlord with certified and sealed engineering plans and specifications for Landlord's review for any work affecting the Premises' or Shopping Center's structure, and in the event any roof work is done, Tenant shall use only Landlord's approved roofing contractor. Tenant, at its sole cost and expense, shall be responsible for maintaining said satellite antennae and all appurtenances thereto in a good state of repair, shall be responsible for and indemnify Landlord for any and all damage whatsoever caused as a result of the satellite antennae (unless caused by Landlord's negligence or wilful misconduct), and upon expiration or earlier termination of the Lease, Tenant shall be responsible for removal of the satellite antennae, and the repair of any damage occasioned by such removal.

9. PARKING LIGHTING.

In the event Tenant requests Landlord to extend the period of time during which Landlord causes the parking lot adjacent to Tenant's building to be illuminated, Landlord shall extend the period of such illumination until 1:00 a.m., provided Tenant reimburses Landlord monthly for that portion of the parking lot lighting charge which corresponds to Tenant's requested extension. Landlord's determination of Tenant's portion of the parking lot lighting charge corresponding to the extended period of Tenant extended illumination shall be persuasive evidence of same. Tenant shall pay such charge within ten (10) days of receipt of Landlord's bill therefore, and such sum shall be deemed additional rent.

10. SIGNAGE.

A. PYLON.

Provided Tenant is not then in default under the terms and conditions of the Lease Agreement, should Landlord erect a pylon sign with respect to the strip portion of Laurel Mall, Tenant, at its sole cost and expense, and subject to all applicable codes and Landlord's approval, shall have the right to install its sign face on the main pylon sign, provided there are at lease three (3) positions

available on such pylon sign. In the event Tenant is allowed a pylon sign slot position, Tenant shall pay Landlord a fee to be determined by Landlord as well as Tenant's proportionate share of the installation cost, within fifteen (15) days of Tenant's receipt of an invoice therefor. Tenant shall be responsible for the maintenance, repair and removal upon expiration of earlier termination, of its pylon sign face.

B. ELECTRONIC MESSAGE BOARD ON MAIN PYLON.

Provided Tenant is not then in default under the terms and conditions of the Lease Agreement, Tenant shall have the right to run a message, subject to Landlord's reasonable approval, once every cycle to be determined by Landlord.

11. APPROVAL CONTINGENCY.

Provided Tenant is not then in default under the terms and conditions of the Lease Agreement beyond any applicable notice period pursuant to Section 18.01, should Tenant not receive approval from Pennsylvania Harness Racing Commission as well as other permits necessary for Tenant's use of and construction on the Premises contemplated by this Lease (collectively "Approvals") with sixty (60) days after the date hereof, Tenant shall have a one (1) time right to terminate this Lease, provided Tenant gives Landlord written notice of the exercise of such right on or before five (5) days following the expiration of such sixty (60) day period. Tenant shall use its reasonable best efforts in securing the Approvals. Tenant agrees to copy Landlord on all material correspondence for the Approvals.

12. ASSIGNMENT AND SUBLETTING.

A. Notwithstanding the provisions of Article XIII, provided that Tenant at the time of its request for assignment is not then in default in the performance of any term, covenant, condition or agreement provided for in this Lease Agreement, Tenant may, with Landlord's approval and written consent, which approval and consent shall not be unreasonably withheld, assign this Lease to another tenant, provided proposed assignee has met the following requirements:

(1) Proposed assignee must have business experience sufficient in Landlord's reasonable opinion to successfully operate an off-track wagering facility;

(2) Proposed assignee shall demonstrate to Landlord a net worth equal to or greater than Tenant at the time of the request for Assignment;

(3) At the time of Tenant's request of assignment, the Demised Premises shall be in substantially the same condition as when this Lease commenced. Proposed assignee agrees that Landlord may require remodeling of the Premises at proposed assignee's expense, however, such remodeling shall not occur before the end of the fifth (5th) year of the original term of this Lease;

(4) Tenant and its Guarantor shall remain liable for the full remaining term for Fixed Minimum Rent and additional rent; and

(5) Tenant shall pay to Agent, at the time of requesting such assignment, a non-refundable fee in the amount of ONE THOUSAND DOLLARS ($1.000.00).

B. Notwithstanding the foregoing and Article XIII, Landlord's consent to any assignment or sublease to an affiliate of Tenant or to the sale of all or substantially all of Tenant's outstanding stock, partnership interests or assets to an affiliate of Tenant shall not be required. The term "affiliate" shall mean any entity now or hereafter directly or indirectly in control of, controlled by or under common control with Tenant or its principals; or into which or with which Tenant intends to merge or consolidate. The terms "control", "controlled by", and "under common control with" shall mean, with respect to any entity, the possession of the power to direct or cause the direction of the management and policy of such entity, whether through the ownership of voting securities or contracts. Tenant agrees to provide to Landlord notice of any such assignment or sublease to an affiliate of Tenant.

13. TENANT BROCHURES.

Provided Tenant is not in default under the terms and conditions of the Lease Agreement, Tenant shall be permitted to display its professionally prepared and tasteful brochures in the enclosed mall's customer service center, in a manner and number to be reasonably determined by Landlord. Notwithstanding the foregoing, in the event Landlord no longer maintains an area for tenant promotional brochures in the customer service center, Tenant shall no longer be permitted to so display its brochures.

14. ROOF HATCH.

Provided Tenant is not in default under the terms and conditions of the Lease, and subject to all applicable codes and regulations and Landlord's written approval of plans (which approval shall not be unreasonably withheld) Tenant shall have the right, at its sole cost and expense, to install roof-top hatch at a location to be approved by Landlord, provided Tenant supplies Landlord with certified and sealed engineering plans and specifications for Landlord's review for any work affecting the Premises' or Shopping Center's roof, and all roof work shall be done by Landlord's approved roofing contractor. Tenant, at its sole cost and expense, shall be responsible for maintaining said roof hatch and all appurtenances thereto in a good state of repair, shall be responsible for and indemnify Landlord for any and all damage whatsoever caused by the roof hatch, and upon expiration or earlier termination of the Lease, Tenant shall be responsible for removal of the hatch is Landlord requires, and Tenant shall repair any damage occasioned by such removal.

GUARANTY

THIS GUARANTY ("Guaranty"), made this 9th day of July, 1997, by PENN NATIONAL GAMING, INC., a Pennsylvania corporation, with an address of Exit 28 of Route I-81, Grantville, Pennsylvania 17028 (the "Guarantor") to and in favor of LAUREL MALL ASSOCIATES, a Pennsylvania limited partnership, with a principal office located at c/o Montgomery Group Affiliates, Plymouth Plaza, 580 West Germantown Pike, Suite 200, Plymouth Meeting, Pennsylvania 19462 (the "Landlord").

W I T N E S S E T H:

WHEREAS, Landlord and THE DOWNS OFF-TRACK WAGERING, INC., a Pennsylvania corporation, trading as "THE DOWNS AT HAZLETON", with an address at P. O. Box 32, Exit 28 off Route I-81 Grantville, Pennsylvania 17028 (the "Tenant"), simultaneous with the execution of this Guaranty, are executing and entering into a certain Lease Agreement of even date herewith (the "Lease"), for the lease of approximately THIRTEEN THOUSAND SQUARE FEET (13,000 SQ. FT.) (the "Premises") within a building which is part of the buildings and other improvements located on certain real property known as LAUREL MALL (the "Center").

NOW, THEREFORE, for the purpose of inducing Landlord to execute and enter into the Lease, and intending to be legally bound hereby, the Guarantor, hereby agree as follows:

1. Lease. The terms, conditions, and provisions of the Lease are incorporated herein by reference as if fully set forth herein. A copy of the Lease is attached hereto, made a part hereof, and labelled Exhibit "A". The capitalized terms used herein are not otherwise defined shall have the same meanings ascribed to them in the Lease.

2. Representations and Warranties of the Guarantor. The Guarantor hereby warrant, certify and represent to Landlord the following:

2.1 That the Lease has been duly authorized and constitutes the legal, valid and binding obligations of Tenant, enforceable against Tenant in accordance with its terms.

2.2 That the representations made by Tenant within or in connection with the Lease are true and correct as of the date hereof.

2.3 That any financial statements heretofore delivered by Guarantor to Landlord are true and correct in all respects and fairly present Guarantors' respective financial conditions as of the respective dates thereof, and that no material adverse changes have occurred in Guarantors' respective financial conditions reflected therein since the respective dates thereof.

2.4 That Guarantor assumes full responsibility for keeping fully informed of the financial condition of Tenant and of all other circumstances affecting Tenant's ability to perform its obligations under the Lease, and Landlord will have no duty to report to Guarantor any information which Landlord receives about Tenant's financial condition or any such other circumstances.

2.5 That Guarantor has received and will receive substantial benefit from the

execution and delivery of the lease and this Guaranty, and that such execution and delivery are in the interests of Guarantor.

3. Unconditional Guaranty. The Guarantor, for valuable consideration, the receipt and adequacy of which are hereby acknowledged, hereby unconditionally and irrevocably guaranty to Landlord the following:

(a) The full, faithful and punctual payment, and not merely collection, when due, whether by acceleration or otherwise, of Fixed Minimum Rent, Taxes, Operating Costs, additional rent, and of all other sums (including all interest, attorneys' fees, costs and expenses) due from tenant to Landlord under and pursuant to the lease and under and pursuant to all modifications, renewals and extensions thereof and thereto.

(b) The full, faithful and punctual performance by Tenant of all of Tenant's obligations under the Lease and all modifications, renewals and extensions thereof and thereto.

(c) The payment of all sums due for, and all claims made with respect to, labor or materials, or both, performed or furnished in connection with the construction of Tenant's Work.

(d) The prompt release of record of any mechanic's lien or liens recorded against the Premises or any portion thereof.

(e) The payment of all legal and other costs and expenses paid or incurred by Landlord in enforcing this Guaranty and in enforcing its rights under the Lease. Until paid, all such fees, costs and expenses shall bear interest at the rates provided in the event of a default under the Lease.

4. No Defenses. The Guarantor will cause Tenant to maintain and preserve the Lease and will not permit any action (other than the actual performance in accordance with the provisions of the Lease) or inaction of any kind or whatsoever which may constitute the basis for an assertion that any of the Guarantor has any defense to its obligations under this Guaranty.

4.1 Deleted.

5. Independent Obligations. Guarantor's obligations under this Guaranty are independent of those of Tenant. Landlord may bring a separate action against any one or more Guarantor without first proceeding against Tenant or any other person or any security held by Landlord and without pursuing any other remedy. Landlord's rights under this Guaranty will not be exhausted by any other action by Landlord until full and complete payment and performance by Tenant or the Guarantor as referred to in paragraph 3 hereof. Each Guarantor expressly agrees that the validity of this Guaranty shall in no way be terminated, affected or impaired by reason of the institution or the failure to institute by Landlord of any such action or proceeding or the exercise or failure to exercise by Landlord of any such other right or remedy.

6. Suretyship. This Guaranty shall constitute an agreement of suretyship and guaranty and shall constitute an absolute and unconditional undertaking by the Guarantor, as

surety, with respect to the payments and performance by Tenant and referred to in paragraph 3 hereof.

7. Waivers. Each Guarantor hereby waives:

(i) any right or claim of right to cause a marshalling of Tenant's assets or to cause Landlord to proceed against any of the security held by Landlord before proceeding against any Guarantor;

(ii) any and all legal requirements that Landlord shall institute any action or proceeding at law or in equity against Tenant or anyone else, with respect to the Lease or with respect to any other security held by Landlord, as a condition precedent to bringing any action against the Guarantor upon this Guaranty;

(iii) notice of acceptance of this Guaranty;

(iv) deleted;

(v) any defense based upon any legal disability of Tenant or any discharge or limitation of the liability of Tenant to Landlord, whether consensual or arising by operation of law or any bankruptcy, insolvency, or debtor-relief proceeding, or from any other cause;

(vi) deleted;

(vii) all rights of subrogation, all rights to enforce any remedy that Landlord may have against Tenant and all rights to participate in any security held by Landlord for the payment and performance required by Tenant and/or under the Lease; and

(viii) presentment and demand for payment, notice of dishonor, protest, notice of protest or non-compliance with the terms and provisions of the Lease and any other notice of any kind.

8. Impairment of Subrogation Rights and Default. Upon a default of Tenant under the Lease or upon a default by the Guarantor hereunder, Landlord may elect to exercise its remedies against any real or personal property which it holds as security for the indebtedness of Tenant to Landlord under the Lease, or to exercise any other remedy against Tenant or any security. No such action by Landlord will release or limit the liability of Guarantor, even if the effect of that action is to deprive such Guarantor of the right to collect reimbursement from Tenant for any sums paid to Landlord or otherwise expended by such Guarantor pursuant to this Guaranty.

9. Absolute Liability of Guarantor. The Guarantor liability hereunder shall be unaffected by:

(i) any amendment or modification of the provisions of the Lease;

(ii) any extensions of time for performance by or required of Tenant under the Lease;

(iii) the release of Tenant from performance or observance of any of the agreements, covenants, terms or conditions contained in the Lease by operation of law or otherwise, whether made with or without notice to the Guarantor;

(iv) any exercise or non-exercise by Landlord of any right, power, remedy or privilege under or in respect of the Lease, this Guaranty, any such other instrument, or at law or in equity;

(v) any bankruptcy, insolvency, reorganization, arrangement, readjustment, composition, liquidation or similar proceedings relating to Tenant; or;

(vi) any transfer by Tenant of its interest in the Premises, or any portion thereof, except as permitted under the Lease.

10. Bankruptcy Preference. In the event any payment or performance by Tenant under the Lease is held to constitute a preference under bankruptcy laws, or if, for any other reason, Landlord is required to refund such payment or pay the amount thereof to any other party, such payment by Tenant to Landlord shall not constitute a release of the Guarantor from any liability hereunder, and this Guaranty shall continue to be effective or shall be reinstated, as the case may be, to the extend of any such payment or payments.

11. No Waiver. No delay on the part of Landlord in exercising, or failure on the part of Landlord to exercise, any right, power or privilege under the Lease or this Guaranty shall operate as a waiver of any such right, power or privilege or of any other of its rights, powers or privileges.

12. Remedies Cumulative. All remedies afforded to landlord hereunder, under the Lease, at law or in equity, shall be cumulative and concurrent and may be pursued singly, successively or together, and no one of such remedies, whether or not exercised by Landlord, shall be deemed to exclude any of the other remedies available to Landlord nor prejudice the availability of any other legal or equitable remedy which Landlord may have in or against the Premises or against Tenant.

13. Default. Landlord may declare the Guarantor in default under this Guaranty if the Guarantor fails to perform any of its obligations under this Guaranty or becomes the subject of any bankruptcy, insolvency, arrangement, reorganization, or other debtor-relief proceeding under any federal or state law, whether now existing or hereafter enacted. A default by the Guarantor under this Guaranty shall be a default by Tenant under the Lease.

14. Confession of Judgment.

THE FOLLOWING SECTION SETS FORTH WARRANTS OF ATTORNEY FOR ANY ATTORNEY TO CONFESS JUDGMENTS AGAINST THE GUARANTOR. IN GRANTING THESE WARRANTS OF ATTORNEY TO CONFESS JUDGMENTS AGAINST THE GUARANTOR, GUARANTOR HEREBY KNOWINGLY, INTENTIONALLY, VOLUNTARILY, AND UNCONDITIONALLY WAIVES ANY AND ALL RIGHTS THE GUARANTOR MAY HAVE TO PRIOR NOTICE AND AN

OPPORTUNITY FOR HEARING UNDER THE RESPECTIVE CONSTITUTIONS AND LAWS OF THE COMMONWEALTH OF PENNSYLVANIA AND THE UNITED STATES OF AMERICA.

UPON THE OCCURRENCE OF A DEFAULT HEREUNDER OR UNDER THE LEASE, EACH OF THE UNDERSIGNED HEREBY AUTHORIZES AND EMPOWERS ANY ATTORNEY OF ANY COURT OF RECORD OF THE COMMONWEALTH OF PENNSYLVANIA OR ELSEWHERE, TO APPEAR FOR, AND WITH OR WITHOUT ONE OR MORE COMPLAINTS FILED, ENTER AND CONFESS JUDGMENTS AGAINST EACH OR BOTH OF THE UNDERSIGNED IN ANY SUCH COURT IN AN APPROPRIATE ACTION BROUGHT AGAINST HIM, HER, OR THEM FOR SUCH SUMS AS SHALL HAVE BECOME DUE HEREUNDER, WITHOUT NOTICE, WITH OR WITHOUT DECLARATIONS OF DEFAULTS, WITH COSTS OF SUIT, RELEASE OF ERROR, WITHOUT STAY OF EXECUTION AND WITH REASONABLE ATTORNEYS' FEES OF AT LEAST FOUR THOUSAND ($4,000.00) DOLLARS; AND EACH OF THE UNDERSIGNED ALSO WAIVES THE RIGHT OF INQUISITION ON ANY REAL OR PERSONAL PROPERTY THAT MAY BE LEVIED UPON, VOLUNTARILY CONDEMNS THE SAME, AUTHORIZES THE PROTHONOTARY OR CLERK TO ENTER UPON THE WRIT SAID VOLUNTARY CONDEMNATION, AGREES THAT SAID PROPERTY MAY BE SOLD ON A WRIT; AND ALSO WAIVES AND RELEASES ALL RELIEF FROM ANY AND ALL APPRAISEMENT, STAY OR EXEMPTION LAW OF ANY STATE NOW IN FORCE OR HEREAFTER ENACTED. IF A COPY OF THIS GUARANTY, VERIFIED BY AFFIDAVIT OF LANDLORD OR SOMEONE ON LANDLORD'S BEHALF, SHALL HAVE BEEN FILED IN SUCH ACTION, IT SHALL NOT BE NECESSARY TO FILE THE ORIGINAL AS A WARRANT OF ATTORNEY. THE AUTHORITY AND POWER TO APPEAR FOR AND ENTER JUDGMENT AGAINST EITHER OR BOTH OF THE UNDERSIGNED SHALL NOT BE EXHAUSTED BY ANY ONE OR MORE EXERCISE THEREOF OR BY ANY DEFECTIVE EXERCISE THEREOF, BUT SHALL CONTINUE AND BE EXERCISABLE FROM TIME TO TIME AS OFTEN AS LANDLORD SHALL DEEM NECESSARY OR DESIRABLE UNTIL THE FULL PAYMENT OF ALL SUMS DUE HEREUNDER AND UNDER THE LEASE IS MADE; AND THIS INSTRUMENT SHALL BE A SUFFICIENT WARRANT THEREFOR.

THE GUARANTOR ACKNOWLEDGES THAT HE OR SHE HAS HAD THE ASSISTANCE OF LEGAL COUNSEL IN THE REVIEW AND EXECUTION OF THIS GUARANTY AND FURTHER ACKNOWLEDGES THAT THE MEANING AND EFFECT OF THE FOREGOING PROVISIONS CONCERNING CONFESSION OF JUDGEMENTS HAVE BEEN FULLY EXPLAINED TO HIM OR HER BY SUCH COUNSEL.

15. Captions. The headings and captions herein are inserted for convenience of reference only and shall not control or affect the meaning or construction of any of the provisions of this Guaranty.

16. Binding Effect. This Guaranty shall bind the Guarantor and his, her, and their heirs, executors, administrators and assigns and shall inure to the benefit of Landlord, and its

successors and assigns.

17. No Amendment. This Guaranty shall not be modified or amended except by a writing signed by the party against whom the enforcement of such amendment or modification is sought.

18. Severability. If any term, covenant or condition of this Guaranty or the application thereof to any party or circumstance shall, to any extent be invalid, or unenforceable, the remainder of this Guaranty, or the application of such term, covenant or condition to parties or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby and each term, covenant or condition of this Guaranty shall be valid and be enforceable to the fullest extent permitted by law.

19. Governing Law. This Guaranty shall be construed and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the Guarantor has caused this Guaranty to be executed the day and year first above written.

(Corporate Seal)

PENN NATIONAL GAMING, INC.,
a Pennsylvania corporation

Attest: \s\ SUSAN M. MONTGOMERY
Secretary

By: \s\ WILLIAM J. BORK
President

EXHIBIT "B"

EXHIBIT "B" attached to and made part of Indenture of Lease by and among ROYCE REALTY, INC., trading as MONTGOMERY GROUP AFFILIATES ("Agent"), Agent for LAUREL MALL ASSOCIATES ("Landlord") and THE DOWNS OFF-TRACK WAGERING, INC., a Pennsylvania corporation, trading as "THE DOWNS AT HAZLETON" ("Tenant") for STORE NUMBER A-2 and B in LAUREL MALL.

I. BASIC BUILDING DETAILS

The buildings in which the Demised Premises are situated shall be constructed by Landlord, except as herein set forth to the contrary.

A. Structural Frame, including columns, beams, floors, roofs, canopies and exterior walls will be provided "As Is".

B. Floor will be provided "As Is."

C. Roof shall be provided "As Is".

D. Egress Doors will be provided "As Is".

E. Clear Ceiling Height between floor slab and finished ceilings will be a maximum of 11 feet 0 inches.

F. Deleted.

II. UTILITY SERVICES

Utilities to serve the Demised Premises will be available to Tenant at locations designated by Landlord as follows:

A. Electric service will be "As Is", with the exception of Section V(C)(1).

B. Water Service will be "As Is". Tenant shall have their water usage metered. No hot water service will be provided by Landlord.

C. Gas Service is available.

D. Sanitary Sewer will be "As Is".

E. Sprinkler System will be "As Is".

F. Telephones - Landlord will provide public telephones in the Mall.

III. STORE FRONTS, EXPOSED WALLS AND SIGNS

A. Store front will be "As Is".

B. Signs

1. Tenant will design, subject to Landlord's written approval, a suitable facade and sign (or signs) to properly identify Tenant's store in accordance with all applicable codes, as shown on Exhibit "D-1".

2. Tenant will furnish and install the sign(s) prior to Tenant opening for business with the public. If Tenant installs any sign not approved in writing, Landlord may remove said sign and restore the premises, all at Tenant's expense.

3. Tenant may not install any other signs on the exterior of the building or in the common area.

C. Exposed Walls

1. Deleted.

IV. INTERIOR WORK

A. Floors will be "As Is".

B. Partitions, Walls and Doors will be "As Is", with the exception of Item #1:

1. Landlord shall, at Landlord's sole cost and expense, construct one (1) demising wall in the Demised Premises, which shall be in accordance with approved plans.

2. All proposed interior partitions or curtain walls will be constructed and finished by Tenant. Only metal studs will be permitted. Only fire resistant materials approved by Landlord in writing shall be permitted above the ceiling level.

3. Any alteration or modification of Landlord's standard grid sprinkler plan or system due to Tenant's lighting, partitioning, shelving or heating, ventilating, air-conditioning, or any Tenant improvement or operating procedure, shall be done by Landlord at Tenant's expense and in such manner that the classification of protection remains unchanged. In the event that Tenant's lighting, partitioning, shelving or heating, ventilating or air conditioning plans require more than one (1) sprinkler head per one hundred twenty (120) square feet of floor area of Demised Premises or otherwise causes a deviation from Landlord's standard sprinkler grid, which increases the cost of the sprinkler installation, Tenant shall pay such increased cost.

4. When required by Landlord and/or governing building fire code regulations and/or applicable fire insurance rating standards, Tenant will provide and install within the Demised Premises, trash storage and

handling equipment and a trash storage room of such capacity and fire rating as shall be approved by Landlord in writing.

C. Ceilings will be "As Is".

D. Painting, Decorating and Wall Coverings will be "As Is".

V. EQUIPMENT AND FACILITIES

A. Heating, Ventilating and Air-Conditioning will be "As Is".

1. Landlord reserves the right to install in Tenant's ceiling space equipment to be used in connection with the heating, ventilating, and air-conditioning of the Demised Premises (provided Landlord uses best efforts not to interfere with Tenant's systems), the Shopping Center and/or other tenant spaces.

2. Any holes cut in the roof in connection with any work to be done by Tenant must be done by Landlord's contractor at Tenant's expense. Flashings, pitch pockets, air conditioning equipment supports and roof closure and sealing work for any roof openings in connection with any Tenant's work shall also be done by Landlord's contractor at Tenant's expense.

3. If Tenant requires special heating, air-conditioning, ventilating, make-up or exhaust systems, Tenant will design same subject to Landlord's approval, which shall not be unreasonably withheld. in accordance with Landlord's Design Criteria.

4. If the equipment is not installed in accordance with Landlord's approved plans, within thirty (30) days of Landlord's notice to do so, Tenant shall make the required changes so that the system shall be in accordance with the approved plans. If Tenant does not make such changes, within the aforementioned thirty (30) day period, Landlord's contractor may do so at Tenant's expense.

5. After installation, if any special equipment creates any nuisance (odors, leaks, temperature changes, etc.) or hazard within the Demised Premises or in any adjacent premises or common area, Tenant shall do whatever work is required by Landlord to correct the nuisance and/or hazards within thirty (30) days of Landlord's notice; otherwise, Landlord may perform such work at Tenant's expense.

B. Plumbing will be "As Is".

1. Special code requirements peculiar to Tenant's business, such as (but not limited to) hair traps, grease traps, etc., shall be provided, installed and maintained by Tenant.

C. Electrical will be "As Is", with the exception of the following:

1. Landlord shall, at Landlord's sole cost and expense, split the existing electrical service and tie-in to the Demised Premises using existing panel and meter.

2. Installation of any new electrical equipment and/or modification to existing equipment, performed by Tenant shall be at Tenant's sole cost and expense and the entire installation shall be in accordance with all applicable federal, state and local ordinances and all utility company rules and regulations. All materials shall be new, and both manufacture and installation shall conform to applicable Underwriters Label standards.

VI. MISCELLANEOUS WORK

A. Landlord's work shall be limited to that designated as Landlord's work in Exhibit "B".

B. In addition to the items designated as Tenant's work in this Exhibit "B", Tenant shall be solely responsible for furnishing and maintaining the following items, inter alia:

1. All furnishings, trade fixtures and signs.

2. All mechanical equipment, escalators, elevators, conveyors, etc. , in the Demised Premises not set forth as Landlord's work in this Exhibit "B".

3. All approved fire extinguishers in the Demised Premises shall be of the size, type and quantity required by governmental authorities and as specified by applicable Underwriters' requirements.

4. All emergency lighting units in the Demised Premises in the number and type required by all governmental authorities.

VII. PREPARATION OF PLANS AND SPECIFICATIONS

A. Within thirty (30) days after execution of this Lease, Landlord will prepare and forward to Tenant a preliminary plan of the Demised Premises and Landlord's Design Criteria.

B. Tenant shall, within thirty (30) days after the receipt by Tenant of the aforesaid preliminary plan or the Lease execution date, submit to Landlord for approval complete architectural and engineering plans and specifications of the Demised Premises conforming to Landlord's Design Criteria, prepared by licensed architects and engineers approved in writing by Landlord, describing all work which under this Lease is to be performed by Tenant and showing in sufficient detail the location of all utilities, partitions, store fronts and any other matters

which may affect the construction work to be performed by Landlord in the Demised Premises and in the Shopping Center.

C. The plans and specifications submitted by Tenant for Landlord's approval shall without limitation:

1. Include detailed drawings and specifications of all mechanical, plumbing, fire protection and electrical installations which shall be connected by Tenant to the utilities and systems installed by Landlord.

2. Show in complete detail all items which will affect the appearance of the building and its architectural, structural, mechanical and electrical components.

3. Comply with all applicable laws, codes, rules and regulations and with Landlord's Design Criteria, a copy of which is incorporated herein by reference and made part hereof.

4. Comply with the applicable standards of the American Insurance Association, the National Electrical Code, the American Gas Association, the American Society of Heating and Air-Conditioning Engineers, the National or State Board of Fire Underwriters, Insurance Service Office and Factory Mutual Insurance Association, and the governing building, plumbing, fire and electrical underwriter requirements.

5. Include suitable instructions and provisions so as to comply with all of the requirements of this Exhibit "B". 6. Specify materials and equipment to avoid, wherever possible, any exclusive manufacturer's designation and to permit a maximum range of selection.

7. Tenant shall be responsible for the preparation of all plans and drawings and shall submit such plans, drawings and specifications to the appropriate governing authority for approval. Tenant shall be responsible for all permits, fees, and inspections and shall apply for and obtain a Certificate of Occupancy and deliver same to Landlord prior to occupancy by Tenant of the Demised Premises.

D. Within ten (10) days after Landlord receives Tenant's initial set of plans, Landlord will review and return to Tenant, Tenant's plans and specifications either marked approved or marked to show the corrections required (in which event such marked-up plans shall be deemed approved, as marked up), or Landlord will give Tenant written notice of disapproval of Tenant's plans together with the reasons therefor. In the event Landlord gives Tenant notice of disapproval together with the reasons therefor, Tenant shall have ten (10) days from the date of such notice

of disapproval by Landlord to submit revised Tenant's plans subject to subsequent mark-ups and/or disapprovals and corrections in the manner set forth above.

E. Upon completion and written approval by Landlord of final plans and specifications, Tenant shall employ reputable and licensed contractor and subcontractors, to complete the Demised Premises in accordance with said approved plans and specifications, and such contractor and subcontractors shall commence work as hereinafter provided.

F. If Tenant fails or omits to make timely submission to Landlord of any plans or specifications or delays in submitting or supplying information or in giving authorizations or in performing or completing Tenant's work, Landlord, after twenty (20) days' written notice to Tenant, in addition to any right or remedy may have at law or in equity, may pursue any one or more of the following remedies:

1. Landlord may give written notice to Tenant (notwithstanding that such notice is not otherwise required hereunder) that the Lease term will be deemed to have commenced, on the date, to be therein specified, when the same would have commenced if Tenant had made timely submission or supply of plans, specification, estimates or other information or approval of any thereof and on and after the date so specified Landlord shall be entitled to be paid the rent and any other charges which are payable hereunder by Tenant during the Lease term, including, but not limited to, the sums set forth in Section 1.02 hereof; and

2. Landlord may require Tenant to pay to Landlord as additional rent hereunder the cost to Landlord of completing the Demised Premises in accordance with the terms of this Lease over and above what would have been such cost had there been no such failure, omission or delay; and

3. In exercising any of the foregoing remedies set forth in Section VII.F.I. and VII.F.2. above, Landlord shall be entitled to retain and have recourse to any bond or security deposit provided by Tenant.

VIII. PERFORMANCE OF WORK

All work by Tenant shall be subject to and governed in all respects by the following:

A. Construction Procedure

1. Tenant's work shall be performed in a thoroughly first class and workmanlike manner, shall incorporate only new materials, and shall be in good and usable condition at the date of completion thereof. Any approval or consent by Landlord shall in no way obligate Landlord in any manner whatsoever in respect to the finished work designed and/or constructed by Tenant. Any deficiency in design or in construction which is Tenant's

responsibility hereunder, although same had the prior approval of Landlord, shall be solely the responsibility of Tenant.

2. Tenant's contractor shall obtain and pay for all necessary permits or licenses required by public authorities or utility companies with respect to Tenant's work, except that Landlord may elect to obtain the building permit for Tenant's work, in which event Tenant shall pay the cost thereof upon demand.

3. Each contractor and subcontractor participating in Tenant's work shall obtain approval from Landlord for any space within the project which such contractor or subcontractor desires to use for storage, handling and moving of his materials and equipment, as for the location of any field office or facilities for its personnel.

4. Each contractor and subcontractor participating in Tenant's work shall make appropriate arrangements with Landlord for temporary utility connections as available within the project and shall pay the cost of said connections and of proper maintenance and removal of same, and shall pay all utility charges incurred by such contractor or subcontractors.

5. It shall be Tenant's responsibility to cause each of Tenant's contractors and subcontractors participating in Tenant's work to remove and dispose of, at least once a week and more frequently as Landlord may direct, all debris and rubbish of whatever kind remaining in the building or within the project, which has been brought in or created by the contractors or the subcontractors in the performance of Tenant's work. On demand, Tenant shall pay Landlord for the removal from the Shopping Center by Landlord of trash and debris generated by Tenant or Tenant's contractors and subcontractors.

6. Each contractor and subcontractor participating in the construction of Tenant's work shall be duly licensed by requisite authorities and approved of in writing by Landlord.

7. It shall be Tenant's responsibility to cause each of Tenant's contractors and subcontractors to maintain continuous protection of adjacent premises in such manner as to prevent any damage to Tenant's work or adjacent property and improvements by reason of the performance of Tenant's work. Each contractor and subcontractor shall properly protect Tenant's work with lights, guardrails, and barricades and shall secure all parts of Tenant's work against accident, storm and any other hazard.

8. The contractor or subcontractors shall not at any time damage, injure, interfere with or delay the completion of the building, any other construction within the project or the operation of the Shopping Center, and they and each of them shall comply with all procedures and

regulations prescribed by Landlord or its agents for integration of Tenant's work with the work to be performed in connection with the construction of the building and all other construction within the project.

9. Prior to the commencement of any work to be performed by Tenant, Tenant shall obtain and record at Tenant's expense, Waivers of Mechanics Liens executed by Tenant's general contractor, and submit to Landlord a copy thereof receipted by the prothonotary along with photographs certified as to time establishing that Tenant's work has not begun prior to such recording.

10. Prior to the commencement of any work to be performed by Tenant, and if required by Landlord, Tenant shall furnish a bond or other security, satisfactory to Landlord, for the prompt and faithful performance and completion of all work to be performed by Tenant as well as labor and material payments in connection therewith. Said bond shall be with a surety company and in a form acceptable to Landlord, and a copy thereof shall be delivered to Landlord prior to commencement of Tenant's work.

11. All work performed by Tenant shall be in accordance with the approved plans and with the requirements of all applicable laws, ordinances, regulations, codes and other requirements of governmental authorities and with Landlord's Design Criteria. At any time during the performance by Tenant of its work hereunder, Landlord or Landlord's architect or Landlord's general contractor may enter upon the Demised Premises and inspect the work being performed by Tenant and take such steps as they may deem necessary or desirable to assure the proper performance by Tenant of its work or for the protection of the building in which the Demised Premises are situate or the premises adjacent to the Demised Premises.

B. Insurance Requirements

1. At all times during the period between the commencement of construction of Tenant's work and the acceptance by Landlord of Tenant's work as being complete, Tenant shall maintain in effect with a responsible insurance company approved by Landlord, a policy of "All Risk" Builder's Insurance in the standard Pennsylvania form. Said insurance shall cover the full replacement value of all work done or to be done and all fixtures and equipment installed or to be installed at the Demised Premises by Tenant, and shall contain no coinsurance provisions or deductible clauses.

2. Any loss occurring during such period shall be adjusted with Landlord and the proceeds shall be payable to Landlord in trust for the purposes of repair or reconstruction. Repair or reconstruction of all or any portion of Tenant's work damaged or destroyed by any casualty occurring after the commencement of construction of Tenant's work as being complete shall

be commenced by Tenant as soon as possible after such casualty and, if Landlord's work performed pursuant hereto is also damaged or destroyed by such casualty, within fifteen (15) days after Landlord shall notify Tenant that repairs or reconstruction of Landlord's work is substantially completed, and Tenant shall thereafter diligently pursue such work to completion.

3. At all times during the period of construction of Tenant's work, Tenant's contractors and subcontractors shall maintain in effect statutory Workmen's Compensation Insurance as required by the Commonwealth of Pennsylvania.

4. At all times during the period between the commencement of construction of Tenant's work and the opening for business of Tenant's store premises, Tenant shall maintain in effect a comprehensive general liability policy with bodily injury and personal liability injury coverage of not less than Five Hundred Thousand Dollars ($500,000.00) for injury or death of any one person and One Million Dollars ($1,000,000.00) if more than one person, in any one occurrence, and property damage liability coverage of not less than Five Hundred Thousand Dollars ($500,000.00) for any one occurrence. Such liability policy shall include but not be limited to coverage for all operations of Tenant, its contractor or subcontractors, including automobile, contractual liability, completed operations liability and contingent liability for the operations of subcontractors.

5. All policies of insurance except Workmen's Compensation required to be carried by the provision of this section shall contain the following endorsements in the following form: "Notwithstanding anything herein contained to the contrary, it is agreed that LAUREL MALL ASSOCIATES, as Landlord, and MONTGOMERY GROUP AFFILIATES, as Agent, and Landlord's general contractor are hereby added as additional insureds. The inclusion of more than one corporation, person, firm, organization or entity under this policy shall not in any way affect the rights of such person, firm, organization or entity with respect to any claim, demand, suit or judgment made or brought by itself or by or in favor of any employee of such insured."

"It is the intent of this policy to protect such corporation, person, firm, organization or entity with respect to any claim, demand, suit or judgment specified in the preceding paragraph in the same manner as though a separate policy has been issued to each; however, nothing herein contained shall operate to increase the company's limits of liability. It is further understood that the coverage of this policy shall not be canceled or reduced by the company until the company has mailed written notice, by registered mail, to Landlord stating when, but in no event less than twenty (20) days thereafter, such cancellation or reduction in coverage shall be effective."

6. True copies of each such policy or certificates of insurance evidencing the same and containing such endorsements shall be delivered to Landlord prior to the commencement of Tenant's work and shall thereafter be replaced in the event of the expiration, lapse or cancellation of any such policy.

7. Tenant shall indemnify Landlord and save Landlord harmless from and against any and all claims, demands, judgments, costs and expenses including reasonable attorney's fees and subrogation claims by Tenant's insurance carriers, resulting from or arising out of personal injury or property damage occurring at or about the Demised Premises or the Shopping Center during the performance of Tenant's work hereunder or caused by Tenant's contractor or any of its agents, servants, employees or subcontractors.

C. Completion

1. Each contractor and subcontractor participating in Tenant's work shall, prior to the commencement of the portion thereof for which he is responsible, guarantee that such portion will be free from any and all defects in workmanship and materials for the period of time which customarily applies in good contracting practice in LUZERNE COUNTY, PENNSYLVANIA, but in no event for less than one (1) year after the opening for business of the Demised Premises. The aforesaid guarantees of each such subcontractor and contractor shall include the obligation to repair or replace in a thoroughly first class and workmanlike manner, and without any additional charge, any and all of Tenant's work done or furnished thereby or by any of his subcontractors, employees or agents, which shall be or become defective within one (1) year, or such longer period as customarily applies in good contracting practice in LUZERNE COUNTY, PENNSYLVANIA, after the opening for business of Tenant's Demised Premises, including without additional charge therefor all expenses and damages in connection with the removal, replacement or repair in a thoroughly first-class and workmanlike manner of any other part of Tenant's work which may be damaged or disturbed thereby. All warranties or guarantees as to materials or workmanship on or with respect to Tenant's work shall be contained in the contracts and subcontracts for performance of Tenant's work and shall be written so that they shall insure to the benefit of Landlord and Tenant as their respective interests shall appear. Such warranties and guarantees shall be written so that they may be directly enforced by either, and Tenant shall give to Landlord any assignments or other assurances necessary to effectuate the same.

EXHIBIT "C"
LAUREL MALL USE RESTRICTIONS

1. Lease Agreement between Landlord and Luzerne County Toy Works, Inc., trading as "Toy Works", dated January 30, 1989, provides that:

During the term of this Lease, Landlord covenants, represents and warrants that, within the Shopping Center, no premises (other than the Store) shall be leased, rented, used or occupied for the operation of a store which is commonly considered to be a Toy Store or any combination thereof without Tenant's prior written consent, however, this prohibition shall not apply to a department or variety store which sells toys as an incidental part of its business nor shall it apply to a hobby store.

2. Lease Agreement between Landlord and Five Star Restaurant Corporation, trading as "Five Star Restaurant" dated July 2, 1991, provides that:

Providing that Tenant is not in default and has not been in default under the terms and conditions of this Lease, Landlord shall not directly lease any other space in the Shopping Center to a tenant whose sole principal use of the premises is a restaurant specializing in the preparation and sale of oriental food for on- and off-premise consumption.

Nothing herein contained shall prohibit any other Tenant in the Shopping Center from offering services which are the same or similar to those sold by Tenant herein, so long as such sale by such other Tenant shall be incidental to its principal business.

3. Lease Agreement between Landlord and Taco Bell Corp., trading as "Taco Bell" dated November 30, 1992, provides that:

Landlord agrees that for the term of the Lease and any extensions thereof, that Landlord will hold any land now or hereafter owned or controlled by Landlord within a radius of one (1) mile of the Premises subject to the following restrictions for the benefit of Tenant: (i) that except for currently existing tenants within the Laurel Mall Shopping Center, or tenants within the enclosed portion of the main mall itself, that no part of such land shall be leased or used for the sale of Mexican food provided however that the sale of such Mexican food shall not be prohibited so long as the same is offered as an incidental part of the offeror's business. For the purpose of this section "incidental" shall be defined as an amount not to exceed ten percent (10%) of the offeror's items offered; and (ii) no improvements shall be erected on that portion of the Laurel Mall Shopping Center which is outlined in green on page 6 of Exhibit "A" attached hereto, which improvements will materially interfere with access to the premises, or the visibility of Tenant's restaurant or signage to approaching automobile traffic.

Landlord and Tenant agree that the Mexican food exclusive granted above shall be null and void should Tenant cease operating the Premises for the sale of Mexican food for a period of one hundred and twenty (120) consecutive days, excluding periods of time for remodeling or due to damage or destruction.

The restrictions contained within this paragraph shall be deemed to be null and void on the date the Lease terminates for whatever reason.

4. Lease Agreement between Landlord and The Ground Round, Inc., trading as "The Ground Round" dated April 14, 1994 provides that:

Providing that Tenant is not in default under the terms and conditions of this Lease, and for so long as Tenant is open and operating a full service restaurant in the Shopping Center:

(a) Landlord shall not directly lease or sell any other space in the Shopping Center to a tenant or buyer whose sole principal business is a full service restaurant with Liquor license with floor area of greater than Four Thousand (4,000) Square Feet during the original lease term and any option terms exercised by the Tenant. This exclusive use clause includes outparcels but excludes any present or future tenants occupying space in the enclosed mall portion of the Shopping Center.

(b) Landlord shall not permit a full service restaurant with liquor license over 4,000 square feet in the existing enclosed mall that would have outside entrance and signage in the area as delineated on the attached plan commencing on the date Ground Round opens for business and terminating on the date that is three (3) years thereafter. This restriction shall not apply to the addition currently being built onto the Center (the J.C. Penney concourse).

(c) Landlord shall not lease or sell any space within the Shopping Center to any current or future full service restaurant concept operated by Morrison's Inc. (i.e., Ruby Tuesday, Silver Spoon, Sweet Pea, L & N Seafood, etc.). Said restriction applies throughout the full term of this lease.

(d) Notwithstanding anything in this Section 6 to the contrary, this Section shall not apply to the following tenants or tenant's premises or successor tenants in the Shopping Center: (i) J.C. Penney, (ii) Boscov's, (iii) Kmart, (iv) Mc Donalds and (v) any tenant of a size of 75,000 square feet or greater, or to any mortgagee of the Shopping Center, its successors or assigns.

The provisions of this Section are covenants running with the land of landlord and shall be binding upon the heirs, administrators, successors and assigns of Landlord.

5. Lease Agreement between Landlord and Olympia Sport Center, Inc., a Maine corporation trading as "Olympia Sports", dated June 7, 1994, provides that:

"Providing that Tenant is not in material default and has not been in material default under the terms and conditions of this Lease beyond applicable cure period, and for so long as Tenant is open and operating in the Shopping Center, Landlord shall not lease, any other space in the Shopping Center or allow the space (to the extent Landlord has control) to be leased to a Prohibited Operation (hereinafter defined) other than those tenants and tenant's uses and exclusivity described in Exhibit "C" which operates during any portion of the term of this Lease, and which meets any of the following criteria (a), (b), (c) or (d), (hereinafter called "Prohibited

Operation"):

(a) The operation of a full-line sporting goods store selling athletic footwear, athletic apparel and athletic equipment as its principal business use, such as Sports Authority, CHAMPS, Herman's, etc; or

(b) The operation of more than one (1) store (such as Footlocker) the principal business being the retail sale of athletic footwear; or

(c) The operation of a store whose total square footage contains at least One Thousand (1,000) Square Feet of floor space for the sale of athletic equipment, apparel and/or footwear for the following sports: baseball, basketball, football, hockey, soccer and tennis; or

(d) The operation of a store whose principal business of which is the retail sale of apparel containing logos or of references to professional and college athletic teams.

Notwithstanding anything to the contrary contained herein, Landlord shall, to the best of Landlord's ability, enforce this exclusive as described herein.

In the event Tenant contends that the Landlord has breached this provision and a Prohibited Operation is operating, Tenant shall notify Landlord of such contention within Thirty (30) days after the first day on which Tenant contends the Prohibition Operation first opened for business, and Landlord shall have Sixty (60) days in which to notify Tenant that Landlord disagrees with Tenant's said contention. If Landlord does not serve such notice, the Minimum Rent shall decease fifty percent (50%) of the then current rental and the Percentage Rent base shall be amended to a sum equivalent to the natural breakpoint at three percent (3%), effective as of the date of Tenant's notice to Landlord. If Landlord does notify Tenant that it disagrees with such contention, Landlord shall submit such matter(s) to arbitration and in its said notice to Tenant shall set forth the name of one impartial person to serve as arbitrator. Tenant shall, within then (10) days after such notice, notify Landlord of the name of another impartial person to serve as arbitrator. The two persons so chosen shall reach a decision or decisions as soon as practicable. In reaching their decision(s) the arbitrators shall be entitled to uphold the position of Landlord or Tenant, but shall not be permitted to select any other result. The decision(s) of a majority of the arbitrators shall be binding upon Landlord and Tenant and shall become effective on the date Tenant gave notice to Landlord that the Prohibited Operation first opened for business. If at any time Landlord believes the Prohibited Operation no longer exists Landlord shall so notify Tenant, and Tenant shall have thirty (30) days in which to notify Landlord that Tenant disagrees with Landlord's belief. If Tenant does not serve such notice timely, then the Rent Reduction Period shall be deemed not to exist, and the Minimum Rent shall increase to that which it would otherwise be in the absence of this section. If Tenant does notify Landlord that it does disagree with Landlord's said contention, Tenant shall submit such matter(s) to arbitration and in its said notice to Landlord shall set forth the name of one impartial person to serve as arbitrator. Landlord shall, within ten (10) days after such notice, notify Tenant of the name of another impartial person to serve as arbitrator. The two persons so selected shall select a third impartial arbitrator and the three persons so chosen shall reach a decision or decisions as soon as practicable. In reaching their decision(s) the arbitrators shall be entitled to uphold the position of

Tenant or Landlord, but shall not be entitled to select any other result. The decision(s) of a majority of the arbitrators shall be binding upon Landlord and Tenant and shall become effective on the date that Landlord gave notice to the Tenant that the Prohibited Operation ceased to exist.

Anything herein to the contrary contained notwithstanding, Tenant's sole remedy in the event one or more Prohibited Operation(s) should open for business shall be the decrease in Minimum Rent above in this Section and that there shall be only one decrease in Rent if there is more than one Prohibited Operation in the Shopping Center.

If a court of competent jurisdiction shall hold the provisions of this Section to be unenforceable or unlawful, this Section shall be deemed deleted from this Lease, but this Lease shall otherwise remain in full force and effect.

6. Lease Agreement between Hazleton Family Vision Center, Inc., trading as "Hazleton Family Vision Center" dated July 11, 1994 provides that:

Providing that Tenant is not in default and has not been in default under the terms and conditions of this Lease, and for so long as Tenant is open and operating in the Shopping Center, Landlord shall not directly lease any other space in the Shopping Center to a tenant whose sole principal business is the retail sale of optical supplies, preparation of lenses and the furnishing of eye examinations and other services and products represented in a typical vision store.

Nothing herein contained shall prohibit any other tenant in the Shopping Center from dealing or displaying merchandise or services which are the same or similar to those sold or displayed by Tenant herein, so long as such sale or display by such other tenant shall be incidental to its primary business.

A. Lease Agreement between Landlord and Bak of Rockland, Inc. trading as "Just-A-Buck" dated January 12, 1995 provides that:

(a) Provided Tenant is not in default under the terms of this Lease and for so long as Tenant is open and operating in the Shopping Center, Landlord shall not hereafter lease, or suffer or permit the use of, in any other space in or proximate to the Shopping Center, any tenant or occupant operating as a general merchandise unit priced store, (hereinafter referred to as a "Competing Operation"), with the following exceptions; any unit priced clothing and/or shoe operation, Boscov's, J C Penney's, Kmart, Aldi Foods and McCrory.

(b) Anything to the contrary contained in this Lease notwithstanding, other than exceptions listed in Section 17(a), in the event that a Competing Operation shall commence during the term hereof, then, provided Tenant gives Landlord written notice of the Competing Operation and if the Competing Operation is in violation of the provisions of the Tenant's Lease (or other occupancy agreement) and continues such violation for a period of thirty (30) days from the date of Tenant's notice, (said period of thirty (30) days is hereinafter referred to as the "Remedy Period"), from the expiration of the Remedy Period until the Competing Operation identified by Tenant in its notice to Landlord ceases, upon notice of violation, Tenant shall pay four percent (4%) of gross monthly sales, (hereinafter "Percentage of Sales"), in lieu of Fixed Minimum Rent in effect and/or Percentage Rent pursuant to Section 2.01 and Additional Rent

until said violation is cured. Should said violation not be cured within twelve (12) months and Tenant's gross receipts for any six (6) month period fall below gross receipts for the same period prior to notice of violation, Tenant may terminate said Lease Agreement upon sixty (60) days written notice.

(c) The rights and remedies afforded to Tenant pursuant to this article are cumulative and shall be in addition to any and every other right and remedy otherwise available to Tenant at law or in equity.

(d) Landlord shall indemnify Tenant, should tenancy be interrupted by actions of third parties relating to any alleged violation of any restrictive covenant listed in Exhibit "C" of this Lease Agreement.

8. Lease Agreement between Gamezoner, Inc. trading as "The Game Zone" dated May 23, 1995 provides that:

Provided that Tenant is not in default and has not been in default under the terms and conditions of this Lease, and for as long as Tenant is open and operating in the Shopping Center, Landlord shall not directly lease any other space in the Shopping Center to a tenant whose sole principal business is the sale of new and used video games and computer software.

Nothing herein contained shall prohibit any other Tenant in the Shopping Center from dealing or displaying merchandise or services which are the same or similar to those sold or displayed by Tenant herein, so long as such sale or display by such other Tenant shall be incidental to its primary line of business.

Notwithstanding the foregoing, in addition, this prohibition shall not apply to the following tenants or tenant's premises or successor tenants in the Shopping Center as of the date hereof: (a) Boscov's, (b) Kmart, (c) J.C. Penney and (d) McCrory's.

9. Lease Agreement between M.R. Dawgs, Inc. trading as "M.R. Dawgs" dated August 14, 1995 provides that:

Providing that Tenant is not in default and has not been in default under the terms and conditions of this Lease, and for as long as Tenant is open and operating in the Shopping Center, Landlord shall not directly lease any other space in the Shopping Center to a tenant whose sole principal business is the sale of hot dogs and cookies.

Nothing herein contained shall prohibit any other tenant in the Shopping Center from dealing or displaying merchandise or services which are the same or similar to those sold or displayed by Tenant herein, so long as such sale or display by such other Tenant shall be incidental to its primary line of business.

Notwithstanding the foregoing, in addition, this prohibition shall not apply to the following tenants or tenant's premises or successor tenants in the Shopping Center as of the date hereof: (a) Boscov's, (b) J.C. Penney, (c) Kmart, and (d) McCrory's.

10. Lease Agreement between Gertrude Hawk Candy Shops, Inc., trading as "Gertrude Hawk

Candy" dated August 15, 1995 provides that:

Providing that Tenant is not in default and has not been in default under the terms and conditions of this Lease, and for as long as Tenant is open and operating in the Shopping Center, Landlord shall not directly lease any other space in the east wing of the enclosed mall to a tenant with more than Ninety (90) linear feet of counter space devoted to the retail sale of candy.

Nothing herein contained shall prohibit any other Tenant in the Shopping Center from dealing or displaying merchandise or services which are the same or similar to those sold or displayed by Tenant herein, so long as such sale or display by such other Tenant shall be incidental to its primary line of business.

Notwithstanding the foregoing, in addition, this prohibition shall not apply to the following tenants or tenant's premises or successor tenants in the Shopping Center as of the date hereof: (a) J.C. Penny, (b) Kmart, (c) Boscov's, (d) any free standing tenants, (e) any tenants occupying more than ten thousand (10,000) square feet, and (f) any tenant in the adjacent strip center.

11. Lease Agreement between Jack Mundie, an individual, trading as "Jack Mundie Tax Accounting" dated September 11, 1995 provides that:

Providing that Tenant is not in default and has not been in default under the terms and conditions of this Lease, and for as long as Tenant is open and operating in the Shopping Center, Landlord shall not directly lease any other space in the Shopping Center to a tenant whose sole principal business is the operation of a tax preparation, accounting, insurance, financial, and investment service office.

Nothing herein contained shall prohibit any other tenant in the Shopping Center from operating a tax preparation service, so long as such service provided by such other tenant shall be incidental to its primary line of business.

Notwithstanding the foregoing, in addition, this prohibition shall not apply to the following tenants or tenant's premises or successor tenants in the Shopping Center as of the date hereof: (a) Boscov's, (b) J.C. Penney, (c) Kmart, and (d) McCrory's.

12. Lease Agreement between Evenson Card Shops, Inc., trading as "Heritage Hallmark Shop" dated October 31, 1995 provides that:

Providing that Tenant is not in default and has not been in default under the terms and conditions of this Lease beyond any applicable cure period, and for as long as Tenant is open and operating in the Shopping Center, Landlord warrants that (1) no tenant or occupant of the Shopping Center Restricted Area (as depicted as "Restricted Lease Area" on Exhibit "A-1") shall be permitted to offer the sale of any Restricted Item (as hereinafter defined); and (2) the Shopping Center shall not contain a Temporary Store (as hereinafter defined) that offers the sale of any Restricted Item (such Landlord warranty is referred to as the "Use Restriction"). In the event the Use Restriction is violated, Tenant's Fixed Minimum Rent shall be reduced by fifty percent (50%) (the "Reduced Rent"). Reduced Rent shall commence upon Tenant's notification

to Landlord that a violation of the Use Restriction has occurred, and shall continue until the violation of the Use Restriction no longer exists. The term "Restricted Items" shall mean any of the following products: Christmas ornaments, greeting cards, gift wrap and/or party supplies. The term "Temporary Store" shall mean any store or business in the Restricted Lease Area operated by a tenant, licensee or occupant under a lease, license, or agreement (oral or written) having a term of less than one (1) year or any store or business which is not expected or required to remain open to the public for business for twelve (12) or more consecutive months. Notwithstanding the foregoing, the Use Restriction shall not apply to: (a) any tenant or tenant's premises existing as of the date of this Lease whose lease specifically permits the sale of a Restricted item; (b) any tenant that carries, in the aggregate, less than twenty (20) linear feet of Restricted Items (a spinner rack containing any Restricted Item shall be equal to six (6) linear feet); or (c) Boscov's, J.C.Penney or K-Mart, their successor and assigns.

13. Lease Agreement between Landlord and David V. Yvette Nguyen, an individual, trading as "Style Nails" dated November 27, 1995 provides that:

Providing that Tenant is not in default and has not been in default under the terms and conditions of this Lease, and for as long as Tenant is open and operating in the Shopping Center, Landlord shall not directly lease any other space in the Shopping Center to a tenant whose sole principal business is the operation of a nail salon.

Nothing herein contained shall prohibit any other tenant in the Shopping Center from dealing or displaying merchandise or services which are the same or similar to those sold or displayed by Tenant herein, so long as such sale or display by such other tenant shall be incidental to its primary line of business.

Notwithstanding the foregoing, in addition, this prohibition shall not apply to the following tenants or tenant's premises or successor tenants in the Shopping Center as of the date hereof: (a) Boscov's, (b) K-Mart, (c) J.C. Penney, and (d) McCrory's.

14. Lease Agreement between Landlord and Thomas Trella and Allyson Trella, (h/w), individuals, jointly and severally, and Robert M. Veet, Jr. and Laurie Veet, (h/w), individuals, jointly and severally, trading as "Quik Piks & Pacs" dated April 11, 1996 provides that:

Providing that Tenant is not in default and has not been in default under the terms and conditions of this Lease, and for as long as Tenant is open and operating in the Shopping Center, Landlord shall not directly lease any other space in the Shopping Center to a tenant who sells Pennsylvania Lottery tickets.

Notwithstanding the foregoing, this prohibition shall not apply to existing tenants in the Shopping Center who currently have the right to operate Pennsylvania Lottery machines, their successors or assigns, or new tenants whose square footage comprises in excess of 10,000 square feet, or any tenants over whom Landlord cannot exercise such control.

15. Lease Agreement between Landlord and W.A.D. II, Inc., a Pennsylvania corporation, trading as "The Pet Shop" dated April 30, 1996 provides that:

Nothing herein contained shall prohibit any other Tenant in the enclosed mall, strip center or pad sites from dealing or displaying merchandise or services which are the same or similar to those sold or displayed by Tenant herein, so long as such sale or display by such other Tenant shall be incidental to its primary line of business.

Notwithstanding the foregoing, in addition, this prohibition shall not apply to the following tenants or tenants' premises or successor tenants in the Shopping Center as of the date hereof: (a) Boscov's, (b) Kmart, (c) J.C. Penney, (d) McCrory's, (e) tenants with floor area over Thirty Thousand (30,000) Square Feet and (f) tenants located in the strip center with floor area less than Six Thousand (6,000) Square Feet selling non-livestock merchandise.

16. Lease Agreement between Landlord and Townville, Inc., a Pennsylvania corporation, trading as "Laurel Crafts" dated October 3, 1996 provides that:

Providing that Tenant is not in default under the terms and conditions of this Lease, and provided Tenant is open for business with the public and operating in the Shopping Center within one of the uses set forth in Section 4.1, Landlord shall not directly or indirectly lease any other space in the enclosed portion of the Shopping Center to a tenant who operates a business in substantial competition of Tenant's (as defined below) or to a tenant whose sole principal business is the operation of a retail store carrying and/or selling soft crafts, hard crafts and finished craft products, excluding temporary seasonal and promotional kiosks.

Notwithstanding the foregoing, this prohibition shall not apply to the following tenants or tenants' premises or successor tenants in the Shopping Center as the date hereof (a) Boscov's, (b) J.C. Penney, and (c) K-Mart.

Definition of Business In Substantial Competition. Businesses in Substantial Competition shall be any business operating a retail store which devotes at least thirty percent (30%) of its display area toward the sale and/or display of merchandise in one or more of the following merchandise categories: craftable sewing notions, artificial floral, artist supplies, soft crafts, hard crafts or finished craft products.

17. Lease Agreement between Landlord and We "R" Sports, Inc., a Pennsylvania corporation, trading as "We "R" Sports" dated March 10, 1997, provides that:

Providing that Tenant is not in default and has not been in default under the terms and conditions of this Lease, and for as long as Tenant is open and operating in the Shopping Center, and provided in Landlord's sole discretion Tenant's primary business is the sale of NASCAR merchandise, Landlord shall not directly lease any other space in the Shopping Center to a tenant whose sole principal business is the sale of NASCAR merchandise or a travel agency.

Nothing herein contained shall prohibit any other tenant in the Shopping Center from dealing or displaying merchandise or services which are the same or similar to those sold or displayed by Tenant as set forth in the above paragraph, so long as such sale or display by such other tenant shall be incidental to its primary line of business.

Notwithstanding the foregoing, in addition, this prohibition shall not apply to any

existing lease in the Shopping Center or the following tenants' premises in the Shopping Center as of the date hereof: (a) Boscov's, (b) J.C. Penney and (c) Kmart.

In the event of a breach of this covenant by Landlord, Tenant's sole and exclusive remedy shall be to terminate this Lease.

LAUREL MALL
ENCLOSED MALL
STORE SIGN SPECIFICATIONS

1. The purpose of this specification is to encourage and develop creative and diversified signing for Tenant stores consistent with the following criteria which shall in any event be limited by the provisions of Section 8.01 and Exhibit "B" of the Lease Agreement.

   a. The design and location of all signs shall be approved in writing by Landlord and no sign shall be installed until Landlord's written approval has been obtained by Tenant. Tenant shall submit working drawings for proposed sign to Landlord for review and approval.

   b. Wording of signs shall be limited to Tenant's store or trade name only. Tenant's customary signature or logo, hallmark, insignia, or other trade identification will be respected.

   c. Fascia signs shall consist of individual channel return letters (no box type) and shall be installed in accordance with Landlord's sign criteria. Exposed lights flashing, blinking or animated type are not permitted.

   d. The allowable size of Tenant's fascia sign for Store A-2 and B shall be a rectangular area enclosing all elements of said sign and no larger than Seventy-Five (75) Square Feet. The fascia sign shall be located within the limits of Tenant's store front and shall not project more than six (6") inches beyond the fascia and shall conform to the following maximum height criteria:

      24" capitals - 18" body

      In addition to complying with the above criteria, fascia signs shall be limited in length to 70% of the store frontage as defined by Landlord and shall in no case exceed a length of thirty feet (30'0").

   e. Printed signs on storefronts or show windows are prohibited with the exception of small-scale signs which are neatly lettered on the glass of the storefront and subject to Landlord's approval.

   f. Public safety decals or artwork on glass in minimum sizes to comply with Code, subject to the approval of Landlord may be used.

   g. Paper signs, stickers, banners, or flags are prohibited.

   h. No exposed raceways, ballast boxes or electrical transformers will be permitted.

   i. Sign company names or stamps should be concealed (Code permitting).

   j. Exterior signs (those not within the enclosed mall areas) shall be permitted only if approved by Landlord, and such permission and the design, size and location of any

permitted sign shall be subject to Landlord's sole discretion.

2. a. Except as otherwise approved in writing by the Landlord, only one fascia sign for each Tenant will be permitted.

   b. Unless specifically approved in writing by Landlord, sign letters shall be back-lighted with lamps or tubes entirely concealed within the depth of the letter. Maximum brightness allowed for fascia signs will be 100 foot lamberts taken at the letter face.

   b. Exposed sign illumination or illuminated sign cabinets or modules are not permitted.

3. Signs and identifying marks on the fascia shall be placed entirely within the boundaries of the Demised Premises with no part closer than 6" from either top or bottom of fascia edge.

4. a. Signs for kiosks, promotional displays or for shows will in every instance require the written approval of Landlord.

   b. In addition to Landlord's approval, Tenant shall obtain local government approval when required by code.

   c. All signs and installations thereof must be "Underwriters Approved".

   d. No woodblocking or flammable construction material is to be used in the attachment of any sign material above the storefront.

5. All electrified signs shall be installed with an automatic, seven (7) day timer. Timer and sign circuit shall be installed in accordance with all applicable codes and requirements. Tenant shall be responsible for setting and maintaining sign timers so that all signage is illuminated during all mall operating hours even if store operating hours are different. Landlord shall reserve the right to install and/or maintain Tenant's sign timer at Tenant's expense if Tenant fails to comply with this requirement.

RULES AND REGULATIONS

Tenant covenants and agrees:

1. To keep the inside and outside of all glass in the doors and windows of the demised premises clean.

2. To keep all exterior storefront surfaces clean.

3. To replace promptly at its own expense with glass of like kind and quality any plate glass or window glass of the demised premises which may become cracked or broken unless by fire.

4. To keep clean and free from snow, ice, dirt and rubbish the outside areas immediately adjoining the demised premises, including but not limited to sidewalk and loading docks.

5. It will not, without the consent in writing of Landlord, place or maintain any merchandise or other articles in any vestibule or entry of the premises, on the footwalks adjacent thereto or elsewhere on the exterior thereof.

6. To maintain the premises at its own expense in a clean, orderly and a sanitary condition free of insects, rodents, vermin and other pests, except to the extent caused by Landlord's negligence or willful misconduct. Maintain housekeeping of Tenant's store on a level at least equal to that of the mall itself.

7. It will not permit undue accumulations of garbage, trash, rubbish and other refuse, but will remove the same at its expense, and will keep such refuse in rat-proof containers within the interior of the premises until removed. All such garbage, trash or rubbish removal shall be removed between the hours of 10:00 p.m. and 10:00 a.m. If the Landlord provides such service directly to the shopping center, Tenant agrees to pay such charges fixed therefor by the Landlord.

8. It will not use or permit the use of any objectionable advertising medium, such as loud-speakers, phonographs, public address systems, sound amplifiers, radio or broadcasts within the shopping center and in any manner audible or visible outside the demised premises.

9. To keep all mechanical apparatus free of vibration and noise which may be transmitted beyond the confines of the premises.

10. It will not cause or permit objectionable odors to emanate or be dispelled from the premises.

11. It will not solicit business in the parking or other common areas nor distribute any hand bills or other advertising matter to, in, or upon any automobiles parked in the parking area or in any other common area.

12. To comply with all laws and ordinances and all valid rules and regulations of governmental authorities and all recommendations of the Fire Underwriters Rating Bureau, now or thereafter enacted, promulgated or adopted, with respect to the use or occupancy of the premises by Tenant.

13. It will not receive or ship articles of any kind except through the service facilities provided for that purpose by Landlord; will not permit the parking or occupancy of space by delivery vehicles under Tenant's control to interfere with the use of accessway, any driveway, walk, parking area, mall or other common area in the shopping area, unless such delivery is made between the hours of 10:00 p.m. and 10:00 a.m., and that no delivery vehicle under Tenant's control shall be permitted to park for longer than one-half hour under any conditions.

14. It shall use the insignia or logo of the shopping center designated by the Landlord in substantially all Tenant's advertising. Tenant shall refer to the name of the shopping center in substantially all audio advertising.

15. It shall not place any weight on the floors in excess of 100 lbs. per square foot, except for Tenant's floor safe and electronic equipment.

16. It will not permit any shopping carts in the mall area if taken by customers.

17. To operate its heating, ventilating and air conditioning systems in its demised premises at normal room temperature not to exceed 75 degrees in the summer and no lower than 70 degrees in the winter during the hours that Tenant's demised premises is open for business and the enclosed mall heating and air conditioning systems are in operation. When the enclosed mall heating and air conditioning systems are not in operation and Tenant's premises are not open for business, Tenant shall keep the premises at a temperature sufficiently high to prevent freezing of water in the pipes and fixtures.

18. It and its employees shall park their cars in those portions of the parking area designated for that purpose by Landlord. Tenant shall furnish Landlord with State automobile license numbers assigned to Tenant's car or cars and cars of its employees within five (5) days after taking possession of the leased premises and shall thereafter notify Landlord of any changes within five (5) days after such changes occur. In the event that Tenant or its employees fail to park their cars in designated parking areas as aforesaid, then Landlord shall have the right to charge Tenant Ten Dollars ($10.00) per day per car parking in any other areas than those designated.

19. To give prompt written notice of any accident, fire or damage occurring on or to the demised premises.

FIRST AMENDMENT OF LEASE

THIS FIRST AMENDMENT OF LEASE made this day of, 19 , by and among ROYCE REALTY, INC. a Pennsylvania corporation, with an address at Plymouth Plaza, 580 West Germantown Pike, Suite 200, Plymouth Meeting, Pennsylvania 19462 (hereinafter called "Agent"), LAUREL MALL ASSOCIATES, a Pennsylvania limited partnership, with an address at c/o PREIT-RUBIN, Inc., 200 South Broad Street, Philadelphia, Pennsylvania 19102 (hereinafter called "Landlord") and THE DOWNS OFF-TRACK WAGERING, INC., a Pennsylvania corporation, trading as "THE DOWNS AT HAZLETON", with an address at P.O. Box 32, Exit 28 off Route I-81 Grantville, Pennsylvania 17028 (hereinafter called "Tenant").

WHEREAS, by Lease Agreement dated July 9, 1997 (hereinafter called "Lease Agreement"), Landlord leased to Tenant all those certain premises owned by Landlord know as STORE NUMBER A-2 AND B (hereinafter called the "Premises") erected in THE LAUREL MALL (hereinafter called "Center" or "Shopping Center"), located at Route 93 and Airport Road, Hazle and Sugarloaf Townships, Luzerne County, Pennsylvania, upon certain terms and conditions more fully set forth in said Lease Agreement; and

WHEREAS, the parties hereto desire to amend said Lease;

NOW THEREFORE, in consideration of the mutual promises hereinafter contained, and of the sum of ONE DOLLAR ($1.00) by each to the other in hand paid, the receipt of which is acknowledged hereby, the parties hereto intending to be legally bound hereby, now covenant and agree with each other as follows:

1. EFFECTIVE DATE.

This First Amendment of Lease shall be effective as of the date first above written (hereinafter the "Effective Date").

2. COMMENCEMENT AND RENT COMMENCEMENT DATES.

Notwithstanding anything herein or elsewhere to the contrary, the Commencement Date of the Lease, as set forth in Section 1.01(a) shall be amended to October 15, 1997. Tenant's obligation to begin paying Fixed Minimum Rent and additional rent, as set forth in Paragraph 2 of Rider to Lease Agreement, shall commence on January 14, 1998.

3. LEASED PREMISES' SQUARE FOOTAGE.

As of the Commencement Date, the Premises shall be increased in size in accordance with Section 5 herein, and shall be measured and described as follows:

FRONT:	ONE HUNDRED FORTY-THREE FEET SIX INCHES	(143'6")
DEPTH:	ONE HUNDRED FIFTY FEET ZERO INCHES	(150'0")
TOTAL AREA:	THIRTEEN THOUSAND ONE HUNDRED TWENTY SQUARE FEET (13,120 SQ. FT. -- IRREGULAR)	

4. LANDLORD'S WORK.

It is agreed and understood between the parties that Landlord has completed all of its construction obligations pursuant to Exhibit "B" of the Lease Agreement.

5. TENANT'S DEMISING WALL WORK.

It is agreed and understood between the parties that Tenant, at its sole cost and expense, has demolished the demising wall recently erected by Landlord and has erected at its sole cost and expense, a replacement demising wall. Tenant shall indemnify, hold harmless and agree to defend Landlord from and against all claims, damages, liabilities and judgments on account of injury to persons, loss of life or damage to property arising in connection with the demolition and erection of said demising wall unless resulting from the negligence or intentional act of Landlord. Tenant is responsible for all governmental approvals and/or permits necessary for the demolition and erection of said demising wall.

Prepared By: Basil S. Donnelly
Date: February 4, 1998, Revised February 13, 1998 CSD
Agent: John Comp

6. MINIMUM RENT.

A. Original Term.

The Fixed Minimum Rent for each year during the term of this Lease, as set forth in the Indenture of Lease, shall be replaced with:

YEAR	ANNUAL RENTAL	MONTHLY RENTAL
10/15/97 - 10/33/02	$ 98,400.00	$8,200.00
11/01/02 - 10/31/07	$108,240.00	$9,020.00

Fixed Minimum Rent shall be payable on or before the first day of each month, in advance, at the office of agent or at such other place as may be designated by Landlord from time to time, without any prior demand therefor and without any deduction or setoff whatsoever. In the event that the term of this Lease shall commence on a day other than the first day of a month, Tenant shall pay Fixed Minimum Rent in advance for the fractional month on a per diem basis calculated on the basis of a Thirty (30) day month.

B. Renewal Options.

The Fixed Minimum Rent for each year during the Renewal Options of this Lease, as set forth in the Indenture of Lease, shall be replaced with:

The Fixed Minimum rental during each year of the first Renewal Option period shall be:

YEAR	ANNUAL RENTAL	MONTHLY RENTAL
11/01/07 - 10/31/12	$119,391.96	$9,949.33

The Fixed Minimum rental during each year of the second Renewal Option period shall be:

YEAR	ANNUAL RENTAL	MONTHLY RENTAL
11/01/12 - 10/31/17	$131,199.96	$10,983.33

Except as herein provided, all of the terms, covenants and conditions of this Lease Agreement pertaining to the initial term hereof shall equally pertain in all respects to any and all renewals and extensions of this Lease Agreement except that Tenant shall have no further renewal options following the expiration of the second Renewal Option.

7. ADDITIONAL RENT.

As of the Commencement Date, all calculations for Real Estate Taxes, Operating Costs and any other additional rent shall be based on the square footage of Thirteen Thousand One Hundred Twenty (13,120) Square Feet.

8. CONFESSION OF JUDGMENT.

When the Lease shall be terminated or canceled by reason of the breach of any provision, either during the original term of the Lease or any renewal thereof and after the expiration of the applicable notice period, and also as soon as the term hereby created or any renewal thereof shall have expired, it shall be lawful for any attorney as attorney for Tenant to file an agreement for entering in any court of competent jurisdiction, confession of judgment in ejectment against Tenant and all persons claiming under Tenant for the recovery by Landlord of possession of the Demised Premises, for which the Lease or a true and correct copy thereof shall be his sufficient warrant; whereupon, if Landlord so desires, a writ of possession may issue forthwith, without any prior writ or proceedings whatsoever, and provided that if for any reason after such action shall have been commenced, the same shall be terminated and possession remain in or be restored to Tenant, Landlord shall have the right upon any subsequent default or defaults, or upon the termination or cancellation of the Lease as hereinbefore set forth, to bring one or more actions as hereinbefore set forth to recover possession as aforesaid.

9. Except as herein provided, all of the terms, covenants, conditions and stipulations contained in said Lease Agreement shall continue with like force and effect and to all legal intents and purposes as if included in a new and formal Indenture of Lease containing identical terms, covenants, conditions and stipulations as in the aforesaid Lease Agreement except as herein modified, until the time of the expiration of the term, and the same is hereby ratified and confirmed.

10. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors and assigns.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture of Lease to be duly executed the day and year first above written.

(Corporate Seal)

ROYCE REALTY, INC.
(Agent)

Attest: \s\ Louis P. Meshon
Louis P. Meshon, Secretary

By: \s\ Louis P. Meshon
Louis P. Meshon, President

LAUREL MALL ASSOCIATES
By: PR Laurel Mall, L.P., a general partner

By: PR Laurel Mall Trust (Landlord)

Witness: \s\

By: \s\ Robert Roger
Name:
Authorized Signatory

LAUREL MALL ASSOCIATES
By: MONTGOMERY DEVELOPMENT COMPANY, INC.

A CORPORATE GENERAL PARTNER
(Landlord)

Attest: \s\ Louis P. Meshon
Louis P. Meshon, Ass't. Secretary

By: \s\ Louis P. Meshon
Louis P. Meshon, President

(Corporate Seal)

THE DOWNS OFF-TRACK WAGERING, INC., a Pennsylvania corporation
T/A "THE DOWNS AT HAZLETON"
(Tenant)

Attest: \s\ Susan M. Montgomery
Secretary

By: \s\ William J. Bork
President

Standard Form of Agreement Between Owner and Contractor
where the basis of payment is a
STIPULATED SUM

1977 EDITION

THIS DOCUMENT HAS IMPORTANT LEGAL CONSEQUENCES; CONSULTATION WITH AN ATTORNEY IS ENCOURAGED WITH RESPECT TO ITS COMPLETION OR MODIFICATION.

Use only with the 1976 Edition of AIA Document A201, General Conditions of the Contract for Construction.

This document has been approved and endorsed by The Associated General Contractors of America.

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AGREEMENT

made as of the fifteenth day of August in the year of Nineteen Hundred and Ninety Seven

BETWEEN the Owner:
(Name and address)
Pocono Downs, Inc.
1280 Highway 315
Wilkes-Barre, PA 18702

and the Construction Manager:
(Name and address)
S.G. Mastriani C/M
702 N. Blakely Street
Dunmore, PA 18512

The Project is:
(Name, address and brief description)
Carbondale O.T.W.
Pike Street, Carbondale, PA

The Architect is:
(Name and address)
Architectural Concepts
Suite 200
967 East Swedesford Road
Exton, PA 19341

The Owner and Contractor agree as set forth below.

ARTICLE 1
THE CONTRACT DOCUMENT

The Contract Documents consist of this Agreement, the Conditions of the Contract (General, Supplementary and other Conditions), the Drawings, the Specifications, all Addenda issued prior to and all Modifications issued after execution of this Agreement. These form the Contract, and all are as fully a part of the Contract as if attached to this Agreement or repeated herein. An enumeration of the Contract Document appears in Article 7.

ARTICLE 2
THE WORK

The Contractor shall perform all the Work required by the Contract Documents for
(Here insert the caption descriptive of the Work as used on other Contract Documents.)

Building shell per proposal dated 6/24/97
Site work per revised proposal dated 7/17/97
(Copies Attached)

ARTICLE 3
TIME OF COMMENCEMENT AND SUBSTANTIAL COMPLETION

The Work to be performed under this Contract shall be commenced

and, subject to authorized adjustments, Substantial Completion shall be achieved not later than

(Here insert any special provisions for liquidated damages relating to failure to complete on time.)

ARTICLE 4
CONTRACT SUM

The Owner shall pay the Contractor in current funds for the performance

of the Work, subject to additions and deductions by Change Order as provided in the Contract Documents, the Contract Sum of

Six Hundred Twenty-Two Thousand Six Hundred ($622,600.00) Dollars

The Contract Sum is determined as follows:
(State here the base bid or other lump sum amount, accepted alternatives, and unit prices, as applicable.)

	Base Bid	Performance Bond
Bldg. Shell	$283,000.00	Add $3,250.00
Revised Site	339,600.00	Add $4,000.00
	$622,600.00	

Unit Prices:
Add for concrete encasement of sprinkler line if required $6,000.00
Add for any hidden walls below slab $13.00/LF
Add for 30' aluminum flagpole, etc. $2,500.00 ea.

ARTICLE 5
PROGRESS PAYMENTS

Based upon Applications for Payment submitted to the Architect by the Contractor and Certificates for Payment issued by the Architect, the Owner shall make progress payments on account of the Contract Sum to the Contractor as provided in the Contract Documents for the period ending the 30th day of the month as follows:

Not later than 10 days following the end of the period covered by the Application for Payment 100 percent (100%) of the portion of the Contract Sum properly allocable to materials and equipment suitably stored at the site or at some other location agreed upon in writing, for the period covered by the Application for Payment, less the aggregate of previous payments made by the Owner; and upon Substantial Completion of the entire Work, a sum sufficient to increase the total payments to percent (%) of the Contract Sum, less such amounts as the Architect shall determine for all incomplete Work and unsettled claims as provided in the Contract Documents.

(If not covered elsewhere in the Contract Documents, here insert any provision for limiting or reducing the amount retained after the Work reaches a certain stage of completion.)

Payments due and unpaid under the Contract Documents shall bear interest from the date payment is due at the rate entered below, or in the absence thereof, at the legal rate prevailing at the place of the Project.
(Here insert any rate agreed upon.)

ARTICLE 6
FINAL PAYMENT

Final payment, constituting the entire unpaid balance of the Contract Sum, shall be paid by the Owner to the Contractor when the Work has been completed, the Contract fully performed, and a final Certificate for Payment has been issued by the Architect.

ARTICLE 7
MISCELLANEOUS PROVISIONS

7.1 Where reference is made in this Agreement to a provision of the General Conditions or another Contract Documents, the reference refers to that provision as amended or supplemented by other provisions of the Contract Documents.

7.2 Payments due and unpaid under the Contract shall bear interest from the date payment is due at the rate stated below, or in the absence thereof, at the legal rate prevailing from the time at the place where the Project is located.
(Insert rate if interest agreed upon, if any)
(List below the Agreement, the Conditions of the Contract (General, Supplementary, and other Conditions), the Drawings, the Specifications, and any Addenda and accepted alternatives, showing page or sheet numbers in all cases and dates where applicable.)

Dwgs. S1, S2, S3 prepared by John Gamble date 6-19-97 as they relate to building shell only. No canopy footings, steel, etc.

Dwgs. TB-1 dated 6/9/97
U-1 dated 6/25/97 - Revised 6/27/97
RW-1 " " " "
D-1 " " " "
C-1 " " " "
C-2 " " " "
C-3 " " " "
C-4 " " " "

This Agreement entered into as of day and year first written above.

OWNER - Pocono Downs, Inc.	CONTRACTOR - S.G. Mastriani C/M
\s\ Arthur Manuel	\s\ Joseph F. Salerno, Jr.
Arthur Manuel	Joseph F. Salerno, Jr. Vice President
Witness: \s\ Michael Cestone	Witness: \s\ Michael Cestone

Standard Form of Agreement Between Owner and Contractor
where the basis of payment is a
STIPULATED SUM

1977 EDITION

THIS DOCUMENT HAS IMPORTANT LEGAL CONSEQUENCES; CONSULTATION WITH AN ATTORNEY IS ENCOURAGED WITH RESPECT TO ITS COMPLETION OR MODIFICATION.

Use only with the 1976 Edition of AIA Document A201, General Conditions of the Contract for Construction.

This document has been approved and endorsed by The Associated General Contractors of America.

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AGREEMENT

made as of the fifteenth day of October in the year of Nineteen Hundred and Ninety Seven

BETWEEN the Owner:
(Name and address)

Pocono Downs, Inc.
1280 Highway 315
Wilkes-Barre, PA 18702

and the Construction Manager:
(Name and address)

S.G. Mastriani C/M
702 N. Blakely Street
Dunmore, PA 18512

The Project is:
(Name, address and brief description)

Carbondale O.T.W.
Interior Fit Out and Canopy

The Architect is:
(Name and address)

Architectural Concepts
Suite 200
967 East Swedesford Road
Exton, PA 19341

The Owner and Contractor agree as set forth below.

ARTICLE 1
THE CONTRACT DOCUMENT

The Contract Documents consist of this Agreement, the Conditions of the Contract (General, Supplementary and other Conditions), the Drawings, the Specifications, all Addenda issued prior to and all Modifications issued after execution of this Agreement. These form the Contract, and all are as fully a part of the Contract as if attached to this Agreement or repeated herein. An enumeration of the Contract Document appears in Article 7.

ARTICLE 2
THE WORK

The Contractor shall perform all the Work required by the Contract Documents for
(Here insert the caption descriptive of the Work as used on other Contract Documents.)

Interior Fit Out per proposal dated 10/9/97 - Exhibit "D"

Canopy per proposal date 10/3/97 - Exhibit "E"

(See copies attached)

ARTICLE 3
TIME OF COMMENCEMENT AND SUBSTANTIAL COMPLETION

The Work to be performed under this Contract shall be commenced and, subject to authorized adjustments, Substantial Completion shall be achieved not later than
(Here insert any special provisions for liquidated damages relating to failure to complete on time.)

Work to be substantially completed in 120 days from date of executed contract by Owner.

ARTICLE 4
CONTRACT SUM

The Owner shall pay the Contractor in current funds for the performance of the Work, subject to additions and deductions by Change Order as provided in the Contract Documents, the Contract Sum of

One Million Ninety-Six Thousand Five Hundred ($1,096,500.00) Dollars

The Contract Sum is determined as follows:
(State here the base bid or other lump sum amount, accepted alternatives, and unit prices, as applicable.)

See Exhibits A & B

ARTICLE 5
PROGRESS PAYMENTS

Based upon Applications for Payment submitted to the Architect by the Contractor and Certificates for Payment issued by the Architect, the Owner shall make progress payments on account of the Contract Sum to the Contractor as provided in the Contract Documents for the period ending the 30th day of the month as follows:

Not later than 10 days following the end of the period covered by the Application for Payment 100 percent (100%) of the portion of the Contract Sum properly allocable to materials and equipment suitably stored at the site or at some other location agreed upon in writing, for the period covered by the Application for Payment, less the aggregate of previous payments made by the Owner; and upon Substantial Completion of the entire Work, a sum sufficient to increase the total payments to percent (%) of the Contract Sum, less such amounts as the Architect shall determine for all incomplete Work and unsettled claims as provided in the Contract Documents.

(If not covered elsewhere in the Contract Documents, here insert any provision for limiting or reducing the amount retained after the Work reaches a certain stage of completion.)

Payments due and unpaid under the Contract Documents shall bear interest from the date payment is due at the rate entered below, or in the absence thereof, at the legal rate prevailing at the place of the Project.
(Here insert any rate agreed upon.)

ARTICLE 6
FINAL PAYMENT

Final payment, constituting the entire unpaid balance of the Contract Sum, shall be paid by the Owner to the Contractor when the Work has been completed, the Contract fully performed, and a final Certificate for Payment has been issued by the Architect.

ARTICLE 7
MISCELLANEOUS PROVISIONS

7.1 Where reference is made in this Agreement to a provision of the General Conditions or another Contract Documents, the reference refers to that provision as amended or supplemented by other provisions of the Contract Documents.

7.2 Payments due and unpaid under the Contract shall bear interest from the date payment is due at the rate stated below, or in the absence thereof, at the legal rate prevailing from the time at the place where the Project is located.
(Insert rate if interest agreed upon, if any)
(List below the Agreement, the Conditions of the Contract (General, Supplementary, and other Conditions), the Drawings, the Specifications, and any Addenda and accepted alternatives, showing page or sheet numbers in all cases and dates where applicable.)

Dwgs. Exhibit "C"
Specs dated 8/11/97
Addendum 1-6

This Agreement entered into as of day and year first written above.

OWNER - Pocono Downs, Inc.	CONTRACTOR - S.G. Mastriani C/M
\s\ Arthur Manuel	\s\ Joseph F. Salerno, Jr.
Arthur Manuel General Manager	Joseph F. Salerno, Jr. Vice President
Witness: \s\ Lisa Symeon	Witness: \s\ Claire Dolodzuski

THE AMERICAN INSTITUTE OF ARCHITECTS

AIA Document A10
Standard Form of Agreement Between Owner and Contractor
where the basis of payment is a
STIPULATED SUM

1987 EDITION

THIS DOCUMENT HAS IMPORTANT LEGAL CONSEQUENCES; CONSULTATION WITH AN ATTORNEY IS ENCOURAGED WITH RESPECT TO ITS COMPLETION OR MODIFICATION.

The 1987 Edition of AIA Document A201, General Conditions of the Contract for Construction, is adopted in this document by reference. Do not use with other general conditions unless this document is modified. This document has been approved and endorsed by The Associated General Contractors of America.

AGREEMENT
made as of the twelfth day of November in the year of Nineteen Hundred and Ninety Seven

BETWEEN the Owner:
(Name and address)
Pocono Downs, Inc.
P.O. Box 32
Grantville, PA 17028

and the Construction Manager:
(Name and address)
Warfel Construction Company
812 North Prince Street
P.O. Box 4488
Lancaster, PA 17604

The Project is:
(Name, address and brief description)
The Downs
Off-Track Wagering Facility
Hazelton, PA

The Architect is:
(Name and address)
Architectural Concepts
Suite 200
967 East Swedesford Road
Exton, PA 19341

The Owner and Contractor agree as set forth below.

ARTICLE 1

THE CONTRACT DOCUMENT

The Contract Documents consist of this Agreement, Conditions of the Contract (General, Supplementary and other Conditions), Drawings, Specifications, Addenda issued prior to execution of this Agreement, other documents listed in this Agreement and Modifications issued after execution of this Agreement: these form the Contract, and are as fully a part of the Contract as if attached to this Agreement or repeated herein. The Contract represents the entire and integrated agreement between the parties hereto and supersedes prior negotiations, representations or agreements, either written or oral. An enumeration of the Contract Documents, other than Modifications, appears in Article 9.

ARTICLE 2

THE WORK OF THIS CONTRACT

The Contractor shall execute the entire Work described in the Contract Documents, except to the extent specifically indicated in the Contract Documents to be the responsibility of others, or as follows:

ARTICLE 3

DATE OF COMMENCEMENT AND SUBSTANTIAL COMPLETION

3.1 The date of commencement is the date from which the Contract Time of Paragraph 3.2 is measured, and shall be the date of this Agreement, as first written above, unless a different date is stated below or provision is made for the date to be fixed in a notice to proceed issued by the Owner.

(Insert the date of commencement, if it differs from the date of this Agreement or, if applicable, state that the date will be fixed in a notice to proceed.)

Date of commencement shall be 10 days after receipt of Notice to Proceed

Unless the date of commencement is established by a notice to proceed issued by the Owner, the Contractor shall notify the Owner in writing not less than five days before commencing the Work to permit the timely filing of mortgages, mechanic's liens and other security interest.

3.2 The Contractor shall achieve Substantial Completion of the entire Work not later than

(Insert the calendar date or number of calendar days after the date of commencement. Also insert any requirements for earlier Substantial Completion of certain portions of the Work, if not stated elsewhere in the Contract Documents.)

120 calendar days after receipt of Notice to Proceed, subject to adjustments of this Contract Time as provided in the Contract Documents.

(Insert provisions, if any, for liquidated damages relating to failure to complete on time.)

ARTICLE 4

Contract Sum

4.1 The Owner shall pay the Contractor in current funds for the Contractor's performance of the Contract the Contract Sum of One Million Three Hundred Forty Seven Thousand Dollars ($1,347,000.00), subject to additions and deductions as provided in the Contract Documents.

4.2 The Contract Sum is based upon the following alternates, if any, which are described in the Contract Documents and are hereby accepted by the Owner:

(State the number or other identification of accepted alternates. If decisions on other alternates are to be made by the Owner subsequent to the execution of this Agreement, attach a schedule of such other alternates showing the amount for each and the date until which that amount is valid.)

Alternate #1: Cost to add Performance and Payment Bond to base bid:

Increase $11,000.00

4.3 Unit price, if any, are as follows:

None

ARTICLE 5

PROGRESS PAYMENTS

5.1 Based upon Applications for Payment submitted to the Owner by the Contractor the Owner shall make progress payments on account of the Contract Sum to the Contractor as provided below and elsewhere in the Contract Documents.

5.2 The period covered by each Application for Payment shall be one calendar month ending on the last day of the month.

5.3 Provided an Application for Payment is received by the Owner not later than the 31st day of a month, the Owner shall make payments to the Contractor not later than the 25th day of the following month. If an Application for Payment is received by the Owner after the application dated fixed above, payment shall be made by the Owner not later than days after the Owner receives the Application for Payment.

5.4 Each Application for Payment shall be based upon the Schedule of Values submitted by the Contractor in accordance with the Contract Documents. The Schedule of Values shall allocate the entire Contract Sum among the various portions of the Work and be prepared in such form and support by such data to substantiate its accuracy as the Architect may require. The Schedule, unless

objected to by the Architect, shall be used as a basis for reviewing the Contractor's Applications form Payment.

5.5 Applications for Payment shall indicate the percentage of completion of each portion of the Work as of the end of the period covered by the Application for Payment.

5.6 Subject to the provisions of the Contract Documents, the amount of each progress payment shall be computed as follows:

5.6.1 Take that portion of the Contract Sum properly allocable to completed Work as determined by multiplying the percentage completion of each portion of the Work by the share of the total Contract Sum allocated to that portion of the Work in the Schedule of Values less retainage of Ten (10%). Pending final determination of cost to the Owner of changes in the Work, amounts not in dispute may be included as provided in Subparagraph 7.3.7 of the General Contract even though the Contract Sum has not yet been adjusted by Change Order.

5.6.2 Add that portion of the Contract Sum properly allocable to materials and equipment delivered and suitably stored at the site for subsequent incorporation in the completed construction (or, if approved in advance by the Owner, suitably stored off the site at a location agreed upon in writing), less retainage of Ten Percent (10%);

5.6.3 Subtract the aggregate of previous payment made by the Owner: and

5.6.4 Subtract amounts, if any, for which the Architect has withheld or nullified a Certificate for Payment as provided in paragraph 9.5 of the General Conditions.

5.7 The progress payment amount determined in accordance with Paragraph 5.6 shall be further modified under the following circumstances:

5.7.1 Add, upon Substantial Completion of the Work, a sum sufficient to increase the total payments to Ninety-nine Percent (99%) of the Contract Sum, less such amounts as the Architect shall determine for incomplete Work and unsettled claims; and

5.7.2 Add, if final completion of Work is thereafter materially delayed through no fault of the Contractor, any additional amounts payable in accordance with Subparagraph 9.10.3 of the General Conditions.

5.8 Reduction or limitation of retainage, if any, shall be as follows:

(If it is intended, prior to Substantial Completion of the entire Work, to reduce or limit the retain age resulting from the percentages inserted in Subparagraphs 5.6.1 and 5.6.2 above, and this is not explained elsewhere in the Contract Documents, insert here provisions for such reduction or limitation.)

Reduce to 5% when 50% complete with work

Reduce to 0% when contract work complete

ARTICLE 6

FINAL PAYMENT

Final Payment, constituting the entire unpaid balance of the Contract Sum, shall be made by the Owner to the Contractor when (1) the Contract has been fully performed by the Contractor except for the Contractor's responsibility to correct nonconforming Work as provided in Subparagraph 12.2.2 of the General Conditions and to satisfy other requirements, if any, which necessarily survive final payment; and (2) a final Certificate for Payment has been issued by the Architect; such final payments shall be made by the Owner not more than 30 days after the issuance of the Architect's final Certificate for Payment, or as follows:

ARTICLE 7

MISCELLANEOUS PROVISIONS

7.1 Where reference is made in this Agreement to a provision of the General Conditions or another Contract Documents, the reference refers to that provision as amended or supplemented by other provisions of the Contract Documents.

7.2 Payments due and unpaid under the Contract shall bear interest from the date payment is due at the rate stated below, or in the absence thereof, at the legal rate prevailing from the time at the place where the Project is located.

(Insert rate if interest agreed upon, if any)

12% per annum

(Usury laws and requirements under the Federal Truth in Lending Act, similar state and local consumer credit laws and other regulations at the Owner's and Contractor's principal places of business, the location of the Project and elsewhere may effect the validity of this provision. Legal advise should be obtained with respect to deletions or modifications, and also regarding requirements such as written disclosures or waivers.)

7.3 Other provisions:

See attached clarifications

ARTICLE 8

TERMINATION OR SUSPENSION

8.1 The contract may be terminated by the Owner or the Contractor as provided in Article 14 of the General Conditions.

8.2 The Work may be suspended by the Owner as provided in Article 14 of the General Conditions.

ARTICLE 9

ENUMERATION OF CONTRACT DOCUMENTS

9.1 The Contract Documents, except for Modifications issued after execution of this Agreement, are enumerated as follows:

9.1.1 The Agreement is this executed Standard form of Agreement Between Owner and Contractor, AIA Document A101, 1987 Edition.

9.1.2 The General Conditions are the General Conditions of the Contract of Construction, AIA Document A201, 1987 Edition.

9.1.3 The Supplementary and other Conditions of the Contract are those contained in the Project Manual dated Not applicable and are as follows:

Document	Title	Pages
00800	Supplementary Conditions	2

9.1.4 The Specifications are those contained in the Project Manual dated as in Subparagraph 9.1.3, and are as follows:

(Either list the Specifications here or refer to an exhibit attached to this Agreement.)

Section	Title	Pages
See attached Table of Contents		

9.1.5 The Drawings are as follows, and are dated unless a different date is shown below:

(Either list the Drawings or refer to an exhibit attached to this Agreement.)

Number	Title	Date
See attached listing		

9.1.6 The Addenda, if any, are as follows:

Number	Date	Pages
1	9/11/97	12
2	9/29/97	10
3	9/30/97	1

Portions of Addenda relating to bidding requirements are not part of the Contract Documents unless the bidding requirements are also numerated in this Article 9.

9.1.7 Other documents, if any, forming part of the Contract Documents are as follows;

(List here any additional documents which are intended to form part of the Contract Documents. The General Conditions provide that bidding requirements such as advertisement or invitation to bid, Instructions to Bidders, sample forms and the Contractor's bid are not part of the Contract Documents unless enumerated in this Agreement. They should be listed here only if intended to be part of the Contract Documents.)

This Agreement is entered into as of the day and year first written above and is executed in at least three original copies of which one is to be delivered to the Contractor, one to the Architect for use in the administration of the Contract, and the remainder to the Owner.

OWNER Pocono Downs, Inc.	CONTRACTOR Warfel Construction Company
/s/ Arthur E. Manuel	/s/ T. W. Peters
(Signature)	(Signature)
Arthur E. Manuel, General Manager	T. W. Peters, President
(Printed Name and Title)	(Printed Name and Title)

Exhibit 10.72

SERVICES AGREEMENT

Agreement dated November 19, 1997, by and between Autotote Systems, Inc., a Delaware corporation ("Autotote") and Penn National Gaming, Inc., a Pennsylvania corporation ("Owner").

WHEREAS, Owner operates facilities known as Penn National Race Course, Pocono Downs, Charlestown Races, and affiliated OTBs, (the "Facility") for the conduct on its premises of the activity specified in Exhibit A and requires certain services of Autotote in connection with the establishment and operation of services ("Services") at the Facility; and

WHEREAS, Autotote desires to furnish certain equipment ("Equipment") and the software ("Software") required to perform the Services called for by this Agreement (collectively the "System"), all as described in Exhibit B.

NOW, THEREFORE, in consideration of the premises and the mutual convenants hereinafter set forth, the parties hereto agree as follows:

Section 1 FURNISHING OF SYSTEM(S) AND SERVICES(S).

(a) Subject to the terms and conditions of this Agreement, Autotote agrees to install the System at the Facility and operate and maintain the System at the Facility on all days on which licensed racing is being conducted at the Facility during the term of this Agreement. Owner agrees to exclusively employ Autotote to perform the Services during the term of this Agreement. The parties may agree to install portions of the System at off-track locations and such locations shall be deemed included within "Facility".

(b) In connection with such Services, Autotote agrees to maintain the System at the Facility, including furnishing the items described in Exhibit C.

(c) All rights, title and ownership interest in and to the System shall at all times remain with Autotote and the System shall remain in the possession and under the direct control of Autotote. Owner grants Autotote unimpeded access to any System at any time and shall permit the removal by Autotote of the portable parts of the System when not required to provide Services at the Facility.

Section 2 OWNER RESPONSIBILITIES. Owner shall be responsible for the items described in Exhibit D.

Section 3 INSTALLATION. Owner agrees to perform in a good and workmanlike manner all of the acts required to be performed by Owner as set forth in the applicable "Installation Requirements" furnished to Owner by Autotote. Exhibit E specifies the scheduled commencement date.

Section 4 PRICE(S) AND PAYMENT.

(a) Owner agrees to pay Autotote as provided in Exhibit F.

(b) Any charges for work done by Autotote under any section of this Agreement, or for additional material or equipment supplied by Autotote in accordance with order(s) of Owner or his agent, shall be considered as amounts due to Autotote from Owner in accordance with Exhibit F.

(c) If it becomes necessary for Autotote to undertake work or activities, or purchase or install equipment or materials, which herein are made the obligations of Owner, in order to insure Autotote's proper performance of the Agreement, then any costs incurred by Autotote as a result of such work, activities, purchases, or installations shall be considered as amounts due to Autotote from Owner in accordance with Exhibit F.

(d) Autotote may refuse to provide Services hereunder for so long as any failure of Owner to pay continues, and Autotote may terminate this Agreement and be relieved and discharged from any and all further responsibility, liability or obligation hereunder.

Section 5 TERM. This Agreement shall be in full force and effect as of the date hereof and for a period of Five (5) years commencing on the day the System begins operations and accepts wagers from the public at the Facility, unless sooner terminated as provided herein. It is expected that the period of operations will commence on April 1, 1998 and terminate on March 31, 2003. The contract term for Charlestown Races shall commence January 1, 1998 and terminate on March 31, 2003.

Section 6 SPECIAL TERMINATION. In the event that wagering at the facility shall be prohibited or become illegal by statute or court decision or by action of cognizant governmental agency, the period of this Agreement shall be deemed to have terminated as of the date of such prohibition or cessation of such legal wagering, but without prejudice to the rights of either party up to the date of termination; provided, however, that in the event the prohibition or cessation of legal wagering is removed and racing on the above mentioned premises becomes legal, this Agreement shall be returned to force intact, subject to availability of personnel and equipment, for the unused balance of the term of the Agreement. Upon termination Autotote shall have the right to remove its personnel, materials and equipment from the Facility.

Section 7 WARRANTY

(a) Autotote warrants that each System delivered and installed

hereunder shall be suitable for betting and that it will operate efficiently and without interruption on all wagering days for the term of this Agreement; provided, however, that there shall not be deemed to be a breach of the foregoing guarantee and warranty if wagering is interrupted for less than thirty (30) minutes on any racing day, or if any interruption in the function of any component part or unit of the System takes place which does not prevent the efficient operation of wagering on any wagering day, or if not more than ten percent (10%) of the ticket issuing machines fail to operate at any time on any wagering day, or if the failure of the System to operate efficiently or without interruption shall be due to or result from one or more of the causes enumerated in Section 9 hereof, or acts or neglect of Owner its agents or employees, or of any third party, or for any other cause not within the control of Autototе and/or its employees.

(b) THE WARRANTIES AND REMEDIES SET FORTH IN THIS AGREEMENT SHALL EXTEND ONLY TO OWNER, ARE THE SOLE AND EXCLUSIVE WARRANTIES AND REMEDIES AVAILABLE TO OWNER, APPLY TO ALL EQUIPMENT AND SOFTWARE FURNISHED THEREUNDER AND ARE EXPRESSLY MADE IN LIEU OF ALL OTHER WARRANTIES, EXPRESS, IMPLIED, OR STATUTORY, INCLUDING, WITHOUT LIMITATION, THE WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE

(c) Liquidated damage obligations of Autototе constitute the sole and exclusive remedy of Owner concerning performance by Autototе or the System or any part thereof relating to the Services, and are specified in Exhibit G.

Section 8 PATENT INFRINGEMENT

(a) Autototе agrees to defend at its own cost and expense all patent claims or patent litigation (including any claim for damages or royalties which may be made or instituted against Owner, or to which Owner may be a party), based upon or by reason of the installation and operation of the System, uncombined with any equipment or device not furnished by Autototе, and to indemnify and save Owner harmless against any damages or liability incurred or sustained by Owner by reason of any such patent claim or litigation Owner shall notify Autototе promptly in writing of any claim of infringement for which Autototе is responsible, shall cooperate with Autototе in every reasonable way to facilitate the defense of any such claim and shall allow Autototе to have sole control of the defense of any such claim, suit or cause of action and all negotiations

for the settlement or compromise thereof. Should any System part thereof become or in Autotote's opinion be likely to become the subject of a claim for infringement, Autotote shall at its own expense and option, either procure for Owner the right to continue using such System or replace the same with a non-infringing system or modify the System so that it becomes non-infringing or require the System's return; provided, however, if Equipment is replaced or modified such replacements or modifications shall result in equally suitable substitute equipment. This Section shall survive cancellation or termination of this Agreement.

(b) THE FOREGOING STATES THE SOLE AND EXCLUSIVE LIABILITY OF THE PARTIES HERETO FOR INFRINGEMENT OR THE LIKE OF PATENTS, TRADEMARKS AND COPYRIGHTS, WHETHER DIRECT OR CONTRIBUTORY, AND IS IN LIEU OF ALL WARRANTIES, EXPRESS, IMPLIED OR STATUTORY IN REGARD THERETO, INCLUDING WITHOUT LIMITATION, THE WARRANTY AGAINST INFRINGEMENT SPECIFIED IN THE UNIFORM COMMERCIAL CODE.

Section 9 FORCE MAJEURE. Non-performance of any of the obligations of Autotote or Owner (other than payment obligations) hereunder due to delays from any cause beyond their respective control which could not by reasonable diligence have been avoided, including any act of governmental authority, act of God, accident such as fire, or explosion, strike or other labor difficulties, riot, failure of transportation facilities, shortage of fuel or other material shortage, shall be excusable delay and shall not be a breach of this Agreement. Neither Owner nor Autotote shall be liable to the other for any additional cost as a result of any such delay.

Section 10 OWNERSHIP RIGHTS AND CONFIDENTIAL INFORMATION. All information, know-how, equipment, programming, software, trademarks, trade secrets, plans, drawings, specifications and documentation of Autotote, and all other property of Autotote, real or personal, tangible or intangible, of any nature whatsoever, used or developed in the course of the performance of this Agreement, including, without limitation, the Equipment and Software furnished with the System, shall be and remain the sole property of Autotote and neither Owner not any other party shall have any interest therein. Owner and Autotote shall in all respects honor and maintain the confidentiality of such confidential or proprietary information as may be disclosed by one party of the other, and shall not use or disclose to others any such information, except for purposes of performing this Agreement. For purposes of this section, Autotote shall include its respective subsidiaries and affiliates. Confidential Information shall not include information in the public domain, rightfully acquired from a third party, already known or independently developed without breach of this Agreement.

Section 11 LIMITATION OF LIABILITY. EXCEPT AS SPECIFICALLY PROVIDED FOR HEREIN, IN NO EVENT SHALL AUTOTOTE BE LIABLE FOR ANY INCIDENTAL OR CONSEQUENTIAL DAMAGES. IN NO EVENT SHALL AUTOTOTE'S LIABILITY HEREUNDER FOR BREACH OF ANY PROVISION OF THIS AGREEMENT (OTHER THAN WARRANTY AGAINST PATENT INFRINGEMENT), EXCEED THE SPECIFIC LIQUIDATED DAMAGE AMOUNT PROVIDED IN THIS AGREEMENT.

Section 12 INDEMNITY.

(a) Autotote shall defend, indemnify and hold Owner harmless against any loss, liability, costs or expenses (including reasonable attorney's fees) arising out of or related to claims and suits for damages to person or property which may be instituted against Owner, or to which Owner may be made a party, arising out of or by reason of the Services provided herein by Autotote, provided written notice of such claim is given to Autotote within ten (10) days after receipt of same by Owner. Autotote shall have the right to exercise full control of all negotiations and litigation in connection therewith, including selection of counsel, and shall not be liable for any costs or expenses incurred by Owner without Autotote's prior written approval, nor shall Autotote be responsible for any claim or litigation based on equipment not furnished by Autotote as part of its Services hereunder.

(b) Owner will defend, indemnify and hold Autotote harmless against any loss, liability, costs or expenses (including reasonable attorney's fees) arising out of or related to claims or suits for damages to persons or property resulting from the operation of the wagering by agents and employees of Owner provided

written notice of such claim is given to Owner within ten (10) days after receipt of same by Autotote. Owner shall have the right to exercise full control of all negotiations and litigation in connection therewith, including selection of counsel and shall not be liable for any costs or expenses incurred by Autotote without Owner's prior written approval.

Section 13 DEFAULT.

(a) In the event that Autotote shall default in the performance of any provision of this Agreement on its part to be performed (except a breach by Autotote of the provisions of Section 7 and Section 2 of Exhibit G hereof as to which the provisions of said paragraphs shall apply) and such default shall not be cured within a period of thirty (30) days after written notice shall have been received by Autotote specifying such default, then Owner may terminate this Agreement by delivering to Autotote written notice of such termination prior to the expiration of ten (10) days after the expiration of said thirty (30) day period; and in the event of any such termination Autotote, at its expense, shall remove its personnel, materials and equipment from the Facility.

(b) In the event that Owner shall default in the performance of any provisions of this Agreement on its part to be performed (except a breach by Owner of the provisions of Section 4 of Exhibit F and Section 3 of Exhibit G hereof as to which the provisions of said paragraphs shall apply) and such default shall not be cured within a period of thirty (30) days after notice shall have been given by Autotote to Owner specifying such default, then Autotote may terminate this Agreement by delivering to Owner written notice of such termination prior to the expiration of ten (10) days after the expiration of said thirty (30) day period; and in the event of any such termination Autotote shall remove its personnel, materials and equipment from the Facility, and the cost of such removal shall be paid for by Owner.

(c) If any of the said sums of money due Autotote under this Agreement are not promptly and fully paid when the same individually or severally become due and payable, or if Owner becomes insolvent, ceases to do business as a going concern, a petition in bankruptcy or for arrangement or reorganization be filed by or against Owner, the materials or equipment provided by Autotote be attached at no fault of Autotote, or a receiver be appointed for Owner, and as a result thereof Autotote elects to terminate this Agreement pursuant to Section 13 (b) then the aggregate sum of the minimum annual amount specified in Section 4 of Exhibit F remaining to be paid for the balance of the term of this Agreement up to a maximum of One Million Four Hundred Seventy-Five Thousand dollars ($1,475,000) as liquidated damages, shall become due and payable forthwith, or thereafter at the option of Autotote, as fully and completely as if the said amounts were originally stipulated as due prior to such time, anything in this Agreement herein to the contrary notwithstanding. In any of said events Autotote is authorized and empowered to enter the premises of Owner or other place where Autotote's materials and equipment may be and resume possession of the same without notice or demand or without legal process, such notice and demand being expressly waived, and Autotote may at its option, by suit or otherwise, enforce payment of all due obligations, plus interest and reasonable attorney's fees, and no suit or legal proceedings with respect thereto shall be deemed any waiver of said rights of Autotote to resume possession of said property as herein provided.

Section 14 ARBITRATION AND REMEDIES.

(a) Any controversy or claim not settled by the parties arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration in accordance with the Rules of the American Arbitration Association, and judgment upon the award rendered by the Arbitration(s) may be entered in any Court having jurisdiction there.

(b) The remedies expressly provided in this Agreement for breach thereof by Autotote or Owner shall constitute the sole and exclusive remedies to the aggrieved party, and all other remedies which might be otherwise available under the law of any jurisdiction are hereby waived by both Autotote and Owner.

Section 15 RESPONSIBILITIES. All persons employed by each party and assigned to perform work specified by this Agreement shall be employees or representatives of each party at all times and not of the other party, and shall be under the supervision and control of their respective company. Each party shall obey and abide by all social security, workman's compensation, and unemployment laws which shall be applicable to the persons performing the work hereunder.

Section 16 ENTIRE AGREEMENT. This Agreement, including the Exhibits annexed hereto, contains the entire agreement between Autotote and Owner, and no prior written or oral representations, inducements, agreements, promises or understandings altering, modifying, taking from or adding to its terms and conditions shall have any force or effect; and no waiver or modification hereof shall be effective unless the same is in writing and validly executed by the party to be charged; it is, however, understood that the prevailing Autotote agreement with Pocono Downs, Inc. and its succeeding amendment(s) shall remain in full force and in effect until the commencement referenced to in section 5 in this Agreement. Each of the parties hereby confirms that it is not placing any reliance on any covenant, representation or warranty of the other party, whether oral or in writing, express or implied, except those herein set forth.

Section 17 WAIVER. The Waiver by either party of any right hereunder shall not be deemed a waiver of any other right hereunder.

Section 18 ASSIGNMENT. Neither party shall, without the prior written consent of the other party (which consent shall not be unreasonably withheld) assign this Agreement or delegate its duties hereunder in whole or part; provided, however, Owner agrees to any assignment Autotote may make for the purpose of obtaining financing with a prime institution on the strength of this Agreement. All of the terms and conditions of this Agreement shall be binding upon and inure to the benefit of any transferee, successor or permitted assign of either party hereto.

Section 19 NOTICE. All notices or communication hereunder shall be given to the respective parties hereto in writing and shall be sent through the United Postal Service by Registered or Certified mail, return receipt requested, or its international equivalent (if appropriate), to the address stated above or to such other address as either party hereto shall designate by written notice to the other party hereto.

Section 20 REMOVAL OF EQUIPMENT. Upon termination of this Agreement as hereinbefore provided, or upon expiration hereof, Autotote, at its own expense, may remove from the premises of Owner, the System and appurtenant portable and permanent equipment and materials furnished by Autotote.

Section 21 GOVERNING LAW. This Agreement shall be governed by the internal laws of the State of System installation.

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

PENN NATIONAL GAMING, INC. ("OWNER")	AUTOTOTE SYSTEMS, INC. ("AUTOTOTE")
By: \s\ Phillip T. O'Hara	By: \s\ Jerry Lawrence
(Name)	(Name)
Vice President & General Manager	Pari-Mutuel Group Executive
(Title)	(Title)

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AMENDED AND RESTATED

CREDIT AGREEMENT

among

PENN NATIONAL GAMING, INC.,

VARIOUS BANKS,

CORESTATES BANK, N.A.,

as CO-AGENT,

and

BANKERS TRUST COMPANY,

as AGENT

Dated as of November 27 , 1996

and

amended and restated

as of

December 17, 1997

==========

CREDIT AGREEMENT, dated as of November 27, 1996 and amended and restated as of December 17, 1997, among PENN NATIONAL GAMING, INC., a Pennsylvania corporation (the "Borrower"), the Banks party hereto from time to time, CORESTATES BANK, N.A., as Co-Agent, and BANKERS TRUST COMPANY, 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, the Co-Agent and the Agent are parties to a Credit Agreement, dated as of November 27, 1996 (as amended and modified to, but not including, the Restatement Effective Date, the "Original Credit Agreement"); and

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

NOW, THEREFORE, the parties hereto agree that the Original Credit Agreement shall be and is hereby amended and restated in its entirety as follows:

Section 1. Amount and Terms of Credit.

1.01 The Commitments. Subject to and upon the terms and conditions set forth herein, each Bank severally agrees to make, 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 "Loan" and, collectively, the "Loans") to the Borrower, which 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 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 Letter of Credit Outstandings (exclusive of Unpaid Drawings which are repaid with the proceeds of, and simultaneously with the incurrence of, the respective incurrence of 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 Letter of Credit Outstandings (exclusive of Unpaid Drawings which are repaid with the proceeds of, and simultaneously

with the incurrence of, the respective incurrence of Loans) at such time, equals the Total Commitment at such time.

1.02 Minimum Amount of Each Borrowing. The aggregate principal amount of each Borrowing of 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 eight Borrowings of Eurodollar Loans.

1.03 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. (New York time) on such day. Each such notice (each a "Notice 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, in the form of Exhibit A, appropriately completed to specify the aggregate principal amount of the Loans to be incurred pursuant to such Borrowing, the date of such Borrowing (which shall be a Business Day), and whether the 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 and of the other matters required by the immediately preceding sentence to be specified in the Notice of Borrowing.

(b) 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.

1.04 Disbursement of Funds. No later than 12:00 Noon (New York time) (or 2:00 P.M. (New York 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 pro rata portion (determined in accordance with Section 1.07) 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.

1.05 Notes. (a) The Borrower's obligation to pay the principal of, and interest on, the Loans made by each Bank shall be evidenced by a promissory note duly executed and delivered by the Borrower substantially in the form of Exhibit B, with blanks appropriately completed in conformity herewith (each a "Note" and, collectively, the "Notes"). The Note issued to each Bank that has a Commitment or outstanding 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 Loans of such Bank at such time) and be payable in the outstanding principal amount of the 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.

(b) Each Bank will note on its internal records the amount of each Loan made by it and each payment in respect thereof and will prior to any transfer of any of its Note endorse on the reverse side thereof the outstanding principal amount of 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.

1.06 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 only be converted into Eurodollar Loans 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. (New York time) at least three Business Days' prior notice (each a "Notice 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.

1.07 Pro Rata Borrowings. All Borrowings under this Agreement shall be incurred from the Banks pro rata on the basis of their Commitments. It is understood that no Bank shall be responsible for any default by any other Bank of its obligation to make Loans hereunder and that each Bank shall be obligated to make the Loans provided to be made by it hereunder, regardless of the failure of any other Bank to make its Loans hereunder.

1.08 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.

(b) 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.

(c) 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 Borrowings, in each case, with such interest to be payable on demand.

(d) 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 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.

(e) 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.

1.09 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 "Interest 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:

(i) all Eurodollar Loans comprising a Borrowing shall at all times have the same Interest Period;

(ii) 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;

(iii) 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;

(iv) 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;

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

(vi) 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.

1.10 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):

(i) 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

(ii) 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 (including any NAIC) 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 (including any NAIC) 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 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

(iii) at any time, that the making or continuance of any Eurodollar Loan has been made (x) unlawful by any law or governmental (including any NAIC) rule, regulation or order, (y) impossible by compliance by any Bank in good faith with any governmental (including any NAIC) 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.

(b) 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).

(c) If any Bank determines that after the date of this Agreement the introduction of or any change in any applicable law or governmental (including any NAIC) 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 (including any NAIC), 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.

1.11 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).

1.12 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.

1.13 Replacement of Banks. (x) If any Bank becomes a Defaulting Bank or otherwise defaults in its obligations to make 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 "Replaced Bank") with one or more other Eligible Transferees, none of whom shall constitute a Defaulting Bank at the time of such replacement (collectively, the "Replacement 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 Note 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).

Section 2. Letters of Credit.

2.01 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 "Letter 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 "Existing Letters of Credit") which were issued 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 constitute a "Letter 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.

(b) 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:

(i) any order, judgment or decree of any governmental authority (including the NAIC) 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 the NAIC) 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

(ii) 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).

2.02 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.

2.03 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 "Letter of Credit Request"). The Agent shall promptly transmit copies of each Letter of Credit Request to each Bank.

(b) 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 Outstandings.

(c) 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.

2.04 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 "Participant"), 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.

(b) 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.

(c) 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. (New York 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.

(d) 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.

(e) 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.

(f) 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:

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

(ii) 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);

(iii) 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;

(iv) the surrender or impairment of any security for the performance or observance of any of the terms of any of the Credit Documents; or

(v) the occurrence of any Default or Event of Default.

2.05 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 "Unpaid 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 (New York 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 (New York 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.

(b) 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 "Drawing") 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.

2.06 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 the

NAIC) 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 this Section 2.06 shall, absent manifest error, be final and conclusive and binding on the Borrower.

Section 3. Commitment Commission; Fees; Reductions of Commitment.

3.01 Fees. (a) The Borrower agrees to pay to the Agent for distribution to each Non-Defaulting Bank a commitment commission (the "Commitment 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 Applicable Commitment Commission Percentage 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.

(b) 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 "Letter 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.

(c) 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 "Facing 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, provided that in any event the minimum amount of the Facing Fee payable in any 12 month period for each Letter of Credit shall be $500; it being agreed that, on the date of issuance of any Letter of Credit and on each anniversary thereof prior to the termination of such Letter of Credit, if $500 will exceed the amount of Facing Fees that will accrue with respect to such Letter of Credit for the immediately succeeding 12 month period, the full $500 shall be payable on the date of issuance of such Letter of Credit and on each such anniversary thereof. Except as otherwise provided in the proviso to the immediately preceding sentence, 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.

(d) 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.

(e) 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.

3.02 Voluntary Termination of Unutilized Commitments. (a) Upon at least one Business Day's 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 $250,000, 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.

(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, 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 "Bank" 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.

3.03 Mandatory Reduction of Commitments. (a) The Total Commitment (and the Commitment of each Bank) shall terminate in its entirety on December 31, 1997 unless the Restatement Effective Date has occurred on or before such date.

(b) In addition to any other mandatory commitment reductions pursuant to this Section 3.03, 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 and (ii) the Final Maturity Date.

(c) In addition to any other mandatory commitment reductions pursuant to this Section 3.03, on each date on or after the Restatement Effective Date upon which the Borrower or any of its Subsidiaries receives any cash proceeds from any incurrence by the Borrower or any of its Subsidiaries of Indebtedness for borrowed money (other than Indebtedness for borrowed money permitted to be incurred pursuant to Section 8.04 as such Section is in effect on the Restatement Effective Date), the Total Commitment shall be permanently reduced on such date by an amount equal to 100% of the Net Debt Proceeds of the respective incurrence of Indebtedness.

(d) In addition to any other mandatory commitment reductions pursuant to this Section 3.03, on each date on or after the Restatement Effective Date upon which the Borrower or any of its Subsidiaries receives cash proceeds from any Asset Sale, the Total Commitment shall be permanently reduced on such date by an amount equal to 100% of the Net Sale Proceeds of such Asset Sale; provided that no reduction to the Total Commitment shall be required pursuant to this Section 3.03(d) 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 reduction to the Total Commitment are not so reinvested in replacement assets within such 270 day period, such remaining portion shall give rise to a reduction to the Total Commitment on the last day of such period as set forth above in this Section 3.03(d).

(e) In addition to any other mandatory commitment reductions 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 of its Subsidiaries receives any cash proceeds from any Recovery Event, the Total Commitment shall be permanently reduced on such 10th day by an amount equal to 100% of the Net Insurance Proceeds of such Recovery Event, provided that so long as no Default or Event of Default then exists and such proceeds do not exceed $10,000,000, no reduction to the Total Commitment 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 Total Commitment shall be reduced by 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 reduction to the Total Commitment 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 reduction in the Total Commitment on the last day of such period as set forth above in this Section 3.03(e).

(f) Each reduction to the Total Commitment pursuant to this Section 3.03 shall be applied proportionately to permanently reduce the Commitment of each Bank.

Section 4. Prepayments; Payments; Taxes.

4.01 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 on the following terms and conditions: (i) the Borrower shall give the Agent prior to 12:00 Noon (New York 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 $250,000 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) may only be made on the last day of an Interest Period applicable thereto; and (iv) 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.

4.02 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.

(b) 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 all Eurodollar Loans with Interest Periods ending on such date of required repayment and all Base Rate Loans have been paid in full; (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.

(c) 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 and (ii) the Final Maturity Date.

4.03 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 (New York 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.

4.04 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 "Taxes"). 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.

(b) 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 "bank" 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 D (any such certificate, a "Section 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.

Section 5. 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):

5.01 Execution of the Agreement. On or prior to the Restatement Effective Date, this Agreement shall have been executed and delivered in accordance with Section 12.10.

5.02 Notes. On or prior to the Restatement Effective Date, there shall have been delivered to the Agent for the account of each of the Banks the appropriate Note executed by the Borrower, in the amount, maturity and as otherwise provided herein.

5.03 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 5.07, 5.08, 5.09 and 5.10 have been satisfied on such date.

5.04 Opinions of Counsel. On the Restatement Effective Date, the Agent shall have received from (i) Morgan, Lewis & Bockius, counsel to the Credit Parties, an opinion addressed to the Agent, the Co-Agent, the Collateral Agent and each of the Banks and dated the Restatement Effective Date, covering the matters set forth in Exhibit E-1 and such other matters incident to the transactions contemplated herein as the Agent or the Co-Agent may reasonably request and (ii) Mesirov Gelman Jaffe Cramer & Jamieson, counsel to the Credit Parties, an opinion addressed to the Agent, the Co-Agent, the Collateral Agent and the Banks, and dated the Restatement Effective Date, covering the matters set forth in Exhibit E-2 and such other matters incident to the transactions contemplated herein as the Agent or the Co-Agent may reasonably request.

5.05 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 F with appropriate insertions, together with copies of the certificate of incorporation (or equivalent organizational document) and by-laws of such Credit Party (but only to the extent that any such certificate of incorporation and/or by-laws have been modified since November 27, 1996 or such Credit Party is a new 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 and the Co-Agent.

(b) 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, the Co-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 or the Co-Agent reasonably may have requested in connection therewith, such documents and papers where appropriate to be certified by proper corporate or governmental authorities.

(c) 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, the Co-Agent and the Required Banks.

5.06 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:

(i) 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 "Shareholders' Agreements");

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

(iii) 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 (collectively, the "Existing Indebtedness Agreements");

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

5.07 Senior Notes. (a) On the Restatement Effective Date, (i) the Borrower shall have received gross cash proceeds of $80,000,000 from the issuance by it of a like principal amount of the Senior Notes and (ii) the Borrower shall have utilized a portion of the net cash proceeds received therefrom to repay all outstanding obligations under the Original Credit Agreement or required by Section 5.08.

(b) On or prior to the Restatement Effective Date, there shall have been delivered to the Agent true and correct copies of the Senior Note Documents, and all of the terms and conditions of the Senior Note Documents (including, without limitation, amortization, maturities, interest rates, covenants, defaults, remedies and sinking fund provisions) shall be reasonably satisfactory in form and substance to the Agent, the Co-Agent and the Required Banks.

5.08 Original Credit Agreement, etc. (a) On the Restatement Effective Date and concurrently with the issuance of the Senior Notes (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 acknowledgement letter in the form of Exhibit G.

5.09 Adverse Change, etc. (a) Since September 30, 1997, nothing shall have occurred (and neither the Agent, the Co-Agent nor the Banks shall have become aware of any facts or conditions not previously known) which the Agent, the Co-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.

(b) 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 or the Co-Agent desirable, to operate the businesses of the Borrower or any of its Subsidiaries permitted under Section 8.15) in connection with the Transaction and the other transactions contemplated by 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, the Transaction or the other transactions contemplated by 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 the Transaction or the other transactions contemplated by the Documents or otherwise required to herein or therein.

(c) The Borrower and its Subsidiaries shall have all licenses, including, without limitation, gaming, racing and alcohol licenses, necessary for the operation of its businesses.

5.10 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, the Co-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 of its Subsidiaries, (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.

5.11 Assumption and Acknowledgment. On the Restatement Effective Date, each Credit Party shall have duly authorized, executed and delivered an assumption and acknowledgment agreement in the form of Exhibit H (the "Assumption and Acknowledgment Agreement").

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

5.13 Projections; Pro Forma Balance Sheet; Financial Review. On or prior to the Restatement Effective Date, the Agent shall have received copies of historical financial statements, the pro forma 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, the Co-Agent and the Required Banks.

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

(i) a certificate in the form of Exhibit I executed by the Chief Financial Officer of the Borrower; and

(ii) certificates of insurance complying with the requirements of Section 7.03 for the business and properties of the Borrower and its Subsidiaries, in form and substance, satisfactory to the Agent, the Co-Agent and the Required Banks and naming the Collateral 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 Collateral Agent (or such shorter period of time as a particular insurance company generally provides).

5.15 Fees, etc. On the Restatement Effective Date, the Borrower shall have paid to the Agent, the Co-Agent and each Bank all costs, fees and expenses (including, without limitation, legal fees and expenses) payable to the Agent, the Co-Agent and such Bank to the extent then due.

5.16 No Default; Representations and Warranties. At the time of each such 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).

5.17 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).

(b) 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.

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.

Section 6. 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).

6.01 Corporate and Other Status. Each Credit Party and each of its 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.

6.02 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).

6.03 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, (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, 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.

6.04 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, 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.

6.05 Financial Statements; Financial Condition; Undisclosed Liabilities; Projections; etc. (a) The consolidated balance sheet of the Borrower and its Subsidiaries at December 31, 1996 and September 30, 1997 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 pro forma consolidated balance sheet of the Borrower and its Subsidiaries as of September 30, 1997, a copy of which has been furnished to the Banks prior to the Restatement Effective Date, presents fairly the pro forma financial position of the Borrower and its Subsidiaries as of September 30, 1997 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 September 30, 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.

(b) 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) 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), "debt" means any liability on a claim, and "claim" 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.

(c) 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.

(d) 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.

6.06 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.

6.07 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.

6.08 Use of Proceeds; Margin Regulations. (a) All proceeds of the Loans shall be used for the working capital and general corporate purposes of the Borrower and its Subsidiaries.

(b) 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.

6.09 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 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.

6.10 Compliance with ERISA. (i) 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.

(ii) Each Foreign Pension Plan has been maintained in substantial compliance with its terms and with the requirements of any and all applicable laws, statutes, rules, regulations and orders and has been maintained, where required, in good standing with applicable regulatory authorities. All contributions required to be made with respect to a Foreign Pension Plan have been timely made. Neither the Borrower nor any of its Subsidiaries has incurred any obligation in connection with the termination of or withdrawal from any Foreign Pension Plan. The present value of the accrued benefit liabilities (whether or not vested) under each Foreign Pension Plan, determined as of the end of the Borrower's most recently ended fiscal year on the basis of actuarial assumptions, each of which is reasonable, did not exceed the current value of the assets of such Foreign Pension Plan allocable to such benefit liabilities.

6.11 The Security Documents. (a) The provisions of the Security Agreement are effective to create in favor of the Collateral 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, and the Collateral 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 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 will create, as may be perfected by such filing and recordation, a perfected security interest granted to the Collateral 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 will create, as may be perfected by such filing and recordation, a perfected security interest granted to the Collateral Agent in the United States copyrights covered by the Security Agreement.

(b) The security interests created in favor of the Collateral Agent, as Pledgee, for the benefit of the Secured Creditors, under the Pledge Agreement constitute 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.

(c) The Mortgages (as amended by the Mortgage Amendments in the case of the Existing 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 Collateral 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 its Subsidiaries on the Restatement Effective Date, and the type of interest therein held by the Borrower or such Subsidiary. The Borrower and each of its Subsidiaries 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).

6.12 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).

6.13 Properties. The Borrower and each of its Subsidiaries have good and marketable title to all material properties owned by them, including all property 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.

6.14 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.

6.15 Subsidiaries. As of the Restatement Effective Date, the Borrower has no 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.

6.16 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), 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.

6.17 Investment Company Act. Neither the Borrower nor any of its Subsidiaries is an "investment company" or a company "controlled" by an "investment company," within the meaning of the Investment Company Act of 1940, as amended.

6.18 Public Utility Holding Company Act. Neither the Borrower nor any of its Subsidiaries is a "holding company," or a "subsidiary company" of a "holding company," or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act of 1935, as amended.

6.19 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. 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.

(b) 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.

(c) 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.

6.20 Labor Relations. 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. 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.

6.21 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.

6.22 Licenses. (a) The Penn National Licenses and the Plains Company 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.

(b) 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.

6.23 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 "Existing 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.

6.24 Issuance of the Senior Notes. At the time of the issuance thereof, the Senior Notes shall have been issued in accordance with the terms of the Senior Note Documents and all applicable laws. At the time of the issuance thereof, all consents and approvals of, and filings and registrations with, and all other actions in respect of, all governmental agencies, authorities or instrumentalities required in order to issue the Senior Notes have been (or will, within the time frame required, be) obtained, given, filed or taken and are or will be in full force and effect (or effective judicial relief with respect thereto has been obtained). Additionally, there does not exist any judgment, order or injunction prohibiting or imposing material adverse conditions upon the issuance of the Senior Notes or the performance by the Borrower or any of its Subsidiaries of their obligations under the Senior Note Documents. All actions taken by the Borrower or any of its Subsidiaries pursuant to or in furtherance of the issuance of Senior Notes have been taken in compliance with the Senior Note Documents and all applicable laws.

Section 7. 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:

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

(a) Monthly Reports. Within 30 days after the end of each fiscal month of the Borrower, the consolidated balance sheet of the Borrower and its Subsidiaries as at the end of such fiscal month and the related consolidated 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.

(b) Quarterly Financial Statements. Within 45 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.

(c) Annual Financial Statements. Within 90 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.

(d) Management Letters. Promptly after the Borrower's or any of its Subsidiaries' receipt thereof, a copy of any "management letter" received from its certified public accountants and management's response thereto.

(e) 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.

(f) 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 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.

(g) Notice of Default or Litigation. 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 and (ii) any litigation or governmental 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.

(h) 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 "SEC") 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).

(i) 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:

(i) 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;

(ii) 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;

(iii) 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

(iv) 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.

(j) 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.

(k) 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.

7.02 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.

(b) 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.

7.03 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 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.

(b) The Borrower will, and will cause each of the other Credit Parties to, at all times keep its property insured in favor of the Collateral 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 Collateral Agent's satisfaction for the benefit of the Collateral Agent (including, without limitation, by naming the Collateral Agent as loss payee and/or additional insured), (ii) shall state that such insurance policies shall not be cancelled without at least 30 days' prior written notice thereof by the respective insurer to the Collateral 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 Collateral Agent and the Secured Creditors, (iv) shall contain the standard non-contributing mortgage clause endorsement in favor of the Collateral 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 Collateral Agent.

(c) 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 Collateral Agent shall have the right (but shall be under no obligation) to procure such insurance and the Borrower agrees to reimburse the Collateral Agent for all costs and expenses of procuring such insurance.

7.04 Corporate Franchises. 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 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.

7.05 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, 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.

7.06 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.

(b) At the written request of the Agent or the Required Banks and based upon a reasonable concern as to the continued veracity and completeness of any of the representations and warranties set forth in Section 6.19, compliance with Section 7.06(a) or upon receipt of any notice given under Section 7.01(i), which request shall specify in reasonable detail the basis therefor, at any time and from time to time, the Borrower will provide, at the sole expense of the Borrower, an environmental site assessment report concerning any Real Property owned or operated by the Borrower or any of its Subsidiaries, prepared by an environmental consulting firm reasonably approved by the Agent, indicating the presence or absence of Hazardous Materials and the potential cost of any removal or remedial action in connection with such Hazardous Materials on such Real Property. If the Borrower fails to provide the same within ninety days after such request was made, the Agent may order the same, the cost of which shall be borne by the Borrower, and the Borrower shall grant and hereby grants to the Agent and the Banks and their agents access to such Real Property and specifically grants the Agent and the Banks an irrevocable non-exclusive license, subject to the rights of tenants, to undertake such an

assessment at any reasonable time upon reasonable notice to the Borrower, all at the sole and reasonable expense of the Borrower.

7.07 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 or Foreign Pension 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.

7.08 End of Fiscal Years; Fiscal Quarters. The Borrower will cause (i) each of its, and each of its Subsidiaries', fiscal years to end on December 31, and (ii) each of its, and each

of its Subsidiaries', fiscal quarters to end on March 31, June 30, September 30 and December 31, provided that with respect to any Subsidiary 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's fiscal year end and/or fiscal quarter end to the dates set forth above within 60 days after the date of such acquisition..

7.09 Performance of Obligations. The Borrower will, and will cause each of its Subsidiaries 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 its Subsidiaries taken as a whole.

7.10 Payment of Taxes. The Borrower will pay and discharge, and will cause each of its Subsidiaries 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 of its Subsidiaries 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.

7.11 Additional Security; Further Assurances. (a) The Borrower will, and will cause each of the Subsidiary Guarantors to, grant to the Collateral 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, and as may be requested from time to time by the Agent or the Required Banks (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 Collateral 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.

(b) 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 Collateral 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 Collateral Agent may reasonably require. Furthermore, the Borrower will cause to be delivered to the Collateral 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.

(c) 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.

Section 8. Negative 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:

8.01 Liens. The Borrower will not, and will not permit any of its Subsidiaries 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 of its Subsidiaries, 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 of its Subsidiaries), 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 "Permitted Liens"):

(i) 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;

(ii) Liens in respect of property or assets of the Borrower or any of its Subsidiaries 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 Subsidiary's property or assets or materially impair the use thereof in the operation of the business of the Borrower or such Subsidiary 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;

(iii) 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 of its Subsidiaries;

(iv) Permitted Encumbrances;

(v) Liens created pursuant to the Security Documents;

(vi) leases or subleases granted to other Persons not materially interfering with the conduct of the business of the Borrower or any of its Subsidiaries;

(vii) Liens upon assets of the Borrower or any of its Subsidiaries 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 Subsidiary of the Borrower;

(viii) Liens placed upon equipment or machinery used in the ordinary course of business of the Borrower or any of its Subsidiaries at the time of the acquisition thereof by the Borrower or any such Subsidiary 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 Subsidiary;

(ix) Liens placed upon video lottery terminals used at the Charles Town Race Track (the "Charles Town Video Lottery Terminals") at the time of the acquisition of such video lottery terminals by the Charles Town Joint Venture or within 90 days thereafter to secure Indebtedness incurred to pay all or at least 85% of the purchase price thereof or to secure Indebtedness incurred solely for the purpose of financing the acquisition of any such video lottery terminals or extensions, renewals or replacements of any such video lottery terminals for the same or a lesser amount, provided that (v) the Liens contemplated by this clause (ix) shall only be permitted after the termination of the

GTECH Contract, (w) the aggregate outstanding principal amount of all Indebtedness secured by Liens permitted by this clause (ix) shall not at any time exceed $11,000,000, (x) the only recourse in respect of such Indebtedness shall be against the Charles Town Video Lottery Terminals so financed and not against the Charles Town Joint Venture, the Borrower or any other Subsidiary of the Borrower, (y) in all events, the Lien encumbering the Charles Town Video Lottery Terminals so acquired does not encumber any other asset of the Charles Town Joint Venture or any assets of the Borrower or any other Subsidiary of the Borrower and (z) prior to the entering into of any such financing arrangements, the documentation with respect thereto shall have been delivered to the Banks and shall be in form and substance reasonably satisfactory to the Required Banks;

(x) 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 of its Subsidiaries;

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

(xii) Liens arising out of the existence of judgments or awards in respect of which the Borrower or any of its Subsidiaries 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 $100,000 at any time outstanding;

(xiii) statutory and common law landlords' liens under leases to which the Borrower or any of its Subsidiaries is a party; and

(xiv) 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 $250,000.

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 of its Subsidiaries, the Agent and the Collateral 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.

8.02 Consolidation, Merger, Purchase or Sale of Assets, etc. The Borrower will not, and will not permit any of its Subsidiaries 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:

(i) Capital Expenditures by the Borrower and its Subsidiaries shall be permitted to the extent not in violation of Section 8.08;

(ii) each of the Borrower and its Subsidiaries 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 Subsidiary receives at least fair market value (as determined in good faith by the Borrower or such Subsidiary, as the case may be), (iii) at least 85% of the total consideration received by the Borrower or such Subsidiary 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(d) 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;

(iii) Investments may be made to the extent permitted by Section 8.05;

(iv) each of the Borrower and its Subsidiaries 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));

(v) each of the Borrower and its Subsidiaries may make sales of inventory in the ordinary course of business;

(vi) each of the Borrower and its Subsidiaries may sell obsolete or worn-out equipment or materials in the ordinary course of business;

(vii) each of the Borrower and its Subsidiaries may grant leases or subleases to other Persons not materially interfering with the conduct of the business of the Borrower or any of its Subsidiaries;

(viii) each of the Borrower and its Subsidiaries 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

(ix) 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 and the Collateral Agent shall be authorized to take any actions deemed appropriate in order to effect the foregoing.

8.03 Dividends. The Borrower will not, and will not permit any of its Subsidiaries to, authorize, declare or pay any Dividends with respect to the Borrower or any of its Subsidiaries, except that:

(i) any Subsidiary of the Borrower may pay cash Dividends to the Borrower or any Wholly-Owned Subsidiary of the Borrower;

(ii) so 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 its respective Subsidiary which owns the equity interest or interests in the Subsidiary paying such Dividends receives at least its proportionate share thereof (based upon its relative holdings of equity interests in the Subsidiary paying such Dividends and taking into account the relative preferences, if any, of the various classes of equity interests in such Subsidiary, including the preferences in favor of the Borrower in respect of Dividends paid by the Charles Town Joint Venture); and

(iii) 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 of its Subsidiaries, provided that the aggregate amount of Dividends paid by the Borrower pursuant to this clause (iii) shall not exceed $50,000 in any fiscal year of the Borrower.

8.04 Indebtedness. The Borrower will not, and will not permit any of its Subsidiaries to, contract, create, incur, assume or suffer to exist any Indebtedness, except:

(i) Indebtedness incurred pursuant to this Agreement and the other Credit Documents;

(ii) 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;

(iii) 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;

(iv) Indebtedness of the Borrower and its Subsidiaries evidenced by Capitalized Lease Obligations to the extent permitted pursuant to Section 8.08, provided that in no event shall the aggregate principal amount of Capitalized Lease Obligations permitted by this clause (iv) exceed $100,000 at any time outstanding;

(v) Indebtedness subject to Liens permitted under Sections 8.01(viii) and (ix);

(vi) intercompany Indebtedness among the Borrower and its Subsidiaries to the extent permitted by Section 8.05(vii) and (ix);

(vii) Indebtedness of the Borrower and the Subsidiary Guarantors under the Senior Note Documents in an aggregate principal amount not to exceed $80,000,000 (as reduced by any repayments of principal thereof); and

(viii) additional unsecured Indebtedness of the Borrower and its Subsidiaries not to exceed $100,000 in aggregate principal amount at any time outstanding.

Notwithstanding anything to the contrary contained in this Section 8.04 or in Section 8.01, until such time as the Charles Town Joint Venture is a Wholly-Owned Subsidiary of the Borrower, the only Indebtedness that the Charles Town Joint Venture shall be permitted to incur is under clause (i) above, clause (ii) above (but no refinancings thereof), clause (iv) above, clause (v) above (but only in respect of Liens permitted under Section 8.01(ix)) and clause (vi) above.

8.05 Advances, Investments and Loans. The Borrower will not, and will not permit any of its Subsidiaries 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 "Investment" and, collectively, "Investments"), except that the following shall be permitted:

(i) the Borrower and its Subsidiaries 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 Subsidiary;

(ii) the Borrower and its Subsidiaries may acquire and hold cash and Cash Equivalents;

(iii) the Borrower and its Subsidiaries 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;

(iv) the Borrower and its Subsidiaries 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);

(v) the Borrower and its Subsidiaries 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;

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

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

(viii) the Borrower and its Subsidiaries may make cash capital contributions to Subsidiaries of the Borrower which are Subsidiary Guarantors; and

(ix) the Borrower and its Subsidiaries may make cash equity contributions and/or Intercompany Loans to the Charles Town Joint Venture in an aggregate amount not to exceed $47,100,000 (which amount includes any such cash equity contributions and/or Intercompany Loans made prior to Restatement Effective Date, including $18,100,000 of Intercompany Loans originally made to finance the Charles Town acquisition and to pay related fees and expenses) to fund the Capital Expenditures

permitted by Section 8.08(d) so long as, in the case of any such Intercompany Loans, same are evidenced by an Intercompany Note that is pledged to the Collateral Agent pursuant to the Pledge Agreement.

8.06 Transactions with Affiliates. The Borrower will not, and will not permit any of its Subsidiaries 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 of its Subsidiaries, other than in the ordinary course of business and on terms and conditions substantially as favorable to the Borrower or such Subsidiary as would reasonably be obtained by the Borrower or such Subsidiary 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:

(i) Dividends may be paid to the extent provided in Section 8.03;

(ii) loans may be made and other transactions may be entered into by the Borrower and its Subsidiaries to the extent permitted by Sections 8.02, 8.04 and 8.05;

(iii) customary fees may be paid to non-officer directors of the Borrower and its Subsidiaries; and

(iv) Subsidiaries of the Borrower may pay management fees to the Borrower.

8.07 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 its Subsidiaries 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 for any fiscal year set forth below the amount set forth opposite such fiscal year below:

Fiscal Year Ending	Amount
December 31, 1997	$1,300,000
December 31, 1998	$1,400,000
December 31, 1999	$1,400,000
December 31, 2000	$1,400,000
December 31, 2001	$1,400,000
December 31, 2002	$1,400,000

8.08 Capital Expenditures. (a) The Borrower will not, and will not permit any of its Subsidiaries to, make any Capital Expenditures, except that (x) during the period from the Restatement Effective Date through and including December 31, 1998 the Borrower and its Subsidiaries may make Capital Expenditures in an aggregate amount not to exceed $10,300,000 (it being understood and agreed that no part of such $10,300,000 may be used to make Capital Expenditures to refurbish the Charles Town Race Track or purchase and/or develop the Tennessee Downs race track or related facilities although up to $1,000,000 of such $10,300,000 may be used to refurbish the Charles Town Racetrack) and (y) during any fiscal year of the

Borrower set forth below (taken as one accounting period), the Borrower and its Subsidiaries may make Capital Expenditures so long as the aggregate amount of all such Capital Expenditures does not exceed in any fiscal year of the Borrower set forth below the amount set forth opposite such fiscal year below:

Fiscal Year Ending	Amount
December 31, 1999	$2,000,000
December 31, 2000	$2,000,000
December 31, 2001	$2,000,000
December 31, 2002	$2,000,000

(b) In addition to the foregoing, the Borrower and its Subsidiaries may make Capital Expenditures with the amount of Net Insurance Proceeds received by the Borrower or any of its Subsidiaries 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).

(c) In addition to the foregoing, the Charles Town Joint Venture may make up to $29,000,000 of Capital Expenditures (including, for this purpose, any such Capital Expenditures made prior to the Restatement Effective Date) to refurbish the Charles Town Race Track.

(d) In addition to the foregoing, after the termination of the GTECH Agreement and to the extent that the Charles Town Video Lottery Terminals are not leased by the Charles Town Joint Venture, the Charles Town Joint Venture may make Capital Expenditures to purchase the Charles Town Video Lottery Terminals so long as at least 85% of the purchase price for such Charles Town Video Lottery Terminals are financed under Section 8.01(ix).

(e) 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 $15,500,000 of Capital Expenditures to purchase and/or develop a harness race track and related facilities in the State of Tennessee.

8.09 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.

8.10 Consolidated Cash Interest Coverage Ratio. The Borrower will not permit the Consolidated Cash Interest Coverage Ratio of the Borrower for any Test Period ending on the last day of a fiscal quarter set forth below to be less than the ratio set forth opposite such fiscal quarter below:

Fiscal Quarter Ending	Ratio
December 31, 1997	4.00:1.00
March 31, 1998	3.00:1.00
June 30, 1998	2.50:1.00
September 30, 1998	2.50:1.00
December 31, 1998	2.50:1.00
March 31, 1999	2.50:1.00
June 30, 1999	2.50:1.00
September 30, 1999	2.50:1.00
December 31, 1999 and the last day of each fiscal quarter thereafter	3.00:1.00

8.11 Maximum Leverage Ratio. The Borrower will not permit the Leverage Ratio of the Borrower 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 30, 1998	4.80:1.00
December 31, 1998 through and including December 30, 1999	3.75:1.00
December 31, 1999 and thereafter	3.00:1.00

8.12 Limitation on Modifications of Certificate of Incorporation, By-Laws and Certain Other Agreements; etc. The Borrower will not, and will not permit any of its Subsidiaries 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, (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 GTECH Contract, 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 (iii) which could not reasonably be expected to adversely effect the interests of the Banks in any material respect.

8.13 Limitation on Certain Restrictions on Subsidiaries. The Borrower will not, and will not permit any of its Subsidiaries 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 Subsidiary of the Borrower, or pay any Indebtedness owed to the Borrower or any Subsidiary of the Borrower, (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 Subsidiary of the Borrower, 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 Subsidiary of the Borrower, (iv) customary provisions restricting assignment of any licensing agreement entered into by the Borrower or any Subsidiary of the Borrower in the ordinary course of business and (v) restrictions on the transfer of any asset subject to a Lien permitted by this Agreement.

8.14 Limitation on Issuance of Capital Stock. (a) The Borrower will not, and will not permit any of its Subsidiaries to, issue (i) any preferred stock or (ii) any redeemable common stock (other than common stock that is redeemable at the sole option of the Borrower).

(b) The Borrower will not permit any of its Subsidiaries to issue any capital stock (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 of its Subsidiaries in any class of the capital stock of such Subsidiary, (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.

8.15 Business. The Borrower will not, and will not permit any of its Subsidiaries to, engage (directly or indirectly) in any business other than the businesses in which the Borrower and its Subsidiaries 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 of its Subsidiaries engage in any business or enter into any agreement which requires the Borrower or any of its Subsidiaries to make any payments under Section 4 of the Plains Company Acquisition Agreement; provided, however, the Borrower and its Subsidiaries 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 its Subsidiaries and may make the required payments pursuant to Section 4 of the Plains Company Acquisition Agreement in connection therewith.

8.16 Limitation on Creation of Subsidiaries. Notwithstanding anything to the contrary contained in this Agreement, the Borrower will not, and will not permit any of its Subsidiaries 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 Collateral 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 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 Bryant Development otherwise consents 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.

Section 9. Events of Default. Upon the occurrence of any of the following specified events (each an "Event of Default"):

9.01 Payments. The Borrower shall (i) default in the payment when due of any principal of any Loan or any Note or (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

9.02 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

9.03 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

9.04 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, or (ii) any Indebtedness (other than the Notes) of the Borrower or any of its Subsidiaries 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

9.05 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 "Bankruptcy," as now or hereafter in effect, or any successor thereto (the "Bankruptcy 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

9.06 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 [or Foreign Pension 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) or prospects of the Borrower and its Subsidiaries taken as a whole; or

9.07 Security Documents. At any time after the execution and delivery thereof, any of the Security Documents shall cease to be in full force and effect, or shall cease to give the Collateral 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 Collateral 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

9.08 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

9.09 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

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

9.11 Licenses. 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 of its Subsidiaries to divest any License or its equity interest in any Subsidiary owning or holding any License; or

9.12 Applications. If in any year the Borrower does not, or does not cause one of its Subsidiaries 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 of its Subsidiaries 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 of its Subsidiaries 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);

9.13 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, 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 the 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 Collateral Agent at the Payment Office such additional amount of cash or Cash Equivalents, to be held as security by the Collateral 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 Collateral 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.

Section 10. Definitions and Accounting Terms.

10.01 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):

"Act" 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 ss.19-23-1 et. seq., as amended, as applicable and including, in each case, any successor thereto.

"Additional Security Documents" shall have the meaning provided in Section 7.11.

"Adjusted Certificate of Deposit Rate" shall mean, on any day, the sum (rounded to the nearest 1/100 of 1%) of (1) the rate obtained by dividing (x) the most recent weekly average dealer offering rate for negotiable certificates of deposit with a three-month maturity in the secondary market as published in the most recent Federal Reserve System publication entitled "Select Interest Rates," published weekly on Form H.15 as of the date hereof, or if such publication or a substitute containing the foregoing rate information shall not be published by the Federal Reserve System for any week, the weekly average offering rate determined by the Agent on the basis of quotations for such certificates received by it from three certificate of deposit dealers in New York of recognized standing or, if such quotations are unavailable, then on the basis of other sources reasonably selected by the Agent, by (y) a percentage equal to 100% minus the stated maximum rate of all reserve requirements as specified in Regulation D applicable on such day to a three-month certificate of deposit of a member bank of the Federal Reserve System in excess of $100,000 (including, without limitation, any marginal, emergency, supplemental, special or other reserves), plus (2) the then daily net annual assessment rate as estimated by the Agent for determining the current annual assessment payable by the Agent to the Federal Deposit Insurance Corporation for insuring three-month certificates of deposit.

"Affiliate" 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.

"Agent" shall mean Bankers Trust Company, in its capacity as Agent for the Banks hereunder, and shall include any successor to the Agent appointed pursuant to Section 11.09.

"Agreement" 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.

"Applicable Commitment Commission Percentage" shall mean, at any time, a percentage per annum equal to 1/2 of 1%, provided that so long as no Default or Event of Default shall exist, from and after any Start Date to and including the corresponding End Date, the Applicable Commitment Commission Percentage shall be 3/8 of 1% if, but only if, as of the Test Date for such Start Date the Leverage Ratio for the Test Period ended on such Test Date shall be less than 2.00:1.00.

"Applicable Margin" shall mean a percentage per annum equal to (i) in the case of Base Rate Loans, 2% less the then applicable Interest Reduction Discount, if any, and (ii) in the case of Eurodollar Loans, 3% less the then applicable Interest Reduction Discount, if any.

"Asset Sale" shall mean any sale, transfer or other disposition by the Borrower or any of its Subsidiaries 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).

"Assignment and Assumption Agreement" shall mean an Assignment and Assumption Agreement substantially in the form of Exhibit J (appropriately completed).

"Assumption and Acknowledgment Agreement" shall have the meaning provided in Section 5.11.

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

"Bank 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 regulatory authority or agency.

"Bankruptcy Code" shall have the meaning provided in Section 9.05.

"Base Rate" shall mean, at any time, the highest of (i) 1/2 of 1% in excess of the Adjusted Certificate of Deposit Rate, (ii) the Prime Lending Rate and (iii) 1/2 of 1% in excess of the Federal Funds Rate.

"Base 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.

"Borrower" shall have the meaning provided in the first paragraph of this Agreement.

"Borrowing" shall mean the borrowing of one Type of 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.

"Bryant Development" shall mean Bryant Development Company, a Virginia corporation which holds an 11% equity interest in the Charles Town Joint Venture as of the Restatement Effective Date.

"BTCo" shall mean Bankers Trust Company, in its individual capacity, and any successor corporation thereto by merger, consolidation or otherwise.

"Business Day" shall mean (i) for all purposes other than as covered by clause (ii) below, any day except Saturday, Sunday and any day which shall be in New York City, New York, a legal holiday or a day on which banking institutions are authorized or required by law or other government action to close and (ii) with respect to all notices and determinations in connection with, and payments of principal and interest on, Eurodollar Loans, any day which is a Business Day described in clause (i) above and which is also a day for trading by and between banks in the New York interbank Eurodollar market.

"Capital 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.

"Capitalized 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.

"Cash 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 "A" or the equivalent thereof from Standard & Poor's Ratings Services or "A2" 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.

"CERCLA" 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. ss.9601 et seq.

"Change of Control" shall mean (i) any Person or "group" (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 "change of control" or similar event shall occur under, and as defined in, the Senior Note Documents.

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

"Charles Town Joint Venture Agreement" shall mean the Operating Agreement of the Charles Town Joint Venture dated February 27, 1996.

"Charles Town Licenses" shall mean the licenses to conduct horse racing issued to the Borrower or one of its Subsidiaries by the West Virginia Racing Commission and to conduct video lottery issued to the Borrower or one of its Subsidiaries by the West Virginia Lottery Commission.

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

"Charles Town Race Track" shall mean Charles Town Race Track located in Jefferson County, West Virginia.

"Charles Town Video Lottery Terminals" shall have the meaning provided in Section 8.01(ix).

"Code" 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.

"Collateral" 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.

"Collateral Agent" shall mean the Agent acting as collateral agent for the Secured Creditors pursuant to the Security Documents.

"Commission" 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.

"Commitment" shall mean, for each Bank, the amount set forth opposite such Bank's name in Schedule I directly below the column entitled "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).

"Commitment Commission" shall have the meaning provided in Section 3.01(a).

"Consolidated Cash Interest Coverage Ratio" shall mean, for any period, the ratio of Consolidated EBITDA to Consolidated Cash Interest Expense for such period (other than any Consolidated Cash Interest Expense for such period associated with the financing of the Charles Town Video Lottery Terminals as permitted under Section 8.01(ix)).

"Consolidated 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.

"Consolidated 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 extraordinary gains or losses and (y) to any gains or losses from sales of assets other than from sales of inventory sold in the ordinary course of business.

"Consolidated 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 of its Subsidiaries 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.

"Consolidated 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, (y) Indebtedness under Interest Rate Protection Agreements except to the extent of a payment default thereunder and (z) any Indebtedness incurred to finance the Charles Town Video Lottery Terminals as permitted under Section 8.01(ix)).

"Consolidated 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.

"Consolidated 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.

"Consolidated 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.

"Contingent 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 ("primary obligations") of any other Person (the "primary

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 endorsements of instruments for deposit or collection in the ordinary course of business. 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.

"Continuing Bank" shall mean each Original Bank with a Commitment under this Agreement on the Restatement Effective Date.

"Continuing 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.

"CoreStates" shall mean CoreStates Bank, N.A., in its individual capacity, and any successor corporation thereto by merger, consolidation or otherwise.

"Credit Documents" shall mean this Agreement, each Note, the Subsidiaries Guaranty, the Assumption and Acknowledgment Agreement and each Security Document.

"Credit 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.

"Credit Party" shall mean the Borrower and each Subsidiary Guarantor.

"Default" shall mean any event, act or condition which with notice or lapse of time, or both, would constitute an Event of Default.

"Defaulting Bank" shall mean any Bank with respect to which a Bank Default is in effect.

"Dividend" 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 of its Subsidiaries 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, "Dividends" 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.

"Documents" shall mean the Credit Documents and the Senior Note Documents.

"Dollars" and the sign "$" shall each mean freely transferable lawful money of the United States.

"Drawing" shall have the meaning provided in Section 2.05(b).

"Eligible Transferee" shall mean and include a commercial bank, financial institution or other "accredited investor" (as defined in Regulation D of the Securities Act).

"End Date" shall mean, for any Margin Reduction Period, the last day of such Margin Reduction Period.

"Environmental 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, "Claims"), 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.

"Environmental 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. ss.1251 et seq.; the Toxic Substances Control Act, 15 U.S.C. ss.2601 et seq.; the Clean Air Act, 42 U.S.C. ss.7401 et seq.;

the Safe Drinking Water Act, 42 U.S.C. ss.3803 et seq.; the Oil Pollution Act of 1990, 33 U.S.C. ss.2701 et seq.; the Emergency Planning and the Community Right-to-Know Act of 1986, 42 U.S.C. ss.11001 et seq.; the Hazardous Material Transportation Act, 49 U.S.C. ss.1801 et seq. and the Occupational Safety and Health Act, 29 U.S.C. ss.651 et seq.; and any state and local or foreign counterparts or equivalents, in each case as amended from time to time.

"ERISA" 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.

"ERISA 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 "single 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.

"Eurodollar Loan" shall mean each Loan designated as such by the Borrower at the time of the incurrence thereof or conversion thereto.

"Eurodollar Rate" shall mean (a) the offered quotation to first-class banks in the New York interbank Eurodollar market by BTCo for Dollar deposits of amounts in immediately available funds comparable to the outstanding principal amount of the Eurodollar Loan of BTCo with maturities comparable to the Interest Period applicable to such Eurodollar Loan commencing two Business Days thereafter as of 11:00 A.M. (New York time) on the date which is two Business Days prior to the commencement of such Interest Period, divided (and rounded upward to the nearest 1/16 of 1%) by (b) a percentage equal to 100% minus the then stated maximum rate of all reserve requirements (including, without limitation, any marginal, emergency, supplemental, special or other reserves required by applicable law) applicable to any member bank of the Federal Reserve System in respect of Eurocurrency funding or liabilities as defined in Regulation D (or any successor category of liabilities under Regulation D).

"Eurodollar Spread" shall mean a percentage per annum equal to 1/2 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%.

"Event of Default" shall have the meaning provided in Section 9.

"Existing Indebtedness" shall have the meaning provided in Section 6.23.

"Existing Indebtedness Agreements" shall have the meaning provided in Section 5.06.

"Existing Letters of Credit" shall have the meaning provided in Section 2.01.

"Existing Mortgaged Properties" shall mean all Real Property of the Credit Parties listed on Schedule IV and designated as Existing Mortgaged Properties therein.

"Existing 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.

"Facing Fee" shall have the meaning provided in Section 3.01(c).

"Federal 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.

"Fees" shall mean all amounts payable pursuant to or referred to in Section 3.01.

"Final Maturity Date" shall mean December 15, 2002.

"Foreign Pension Plan" shall mean any plan, fund (including, without limitation, any superannuating fund) or other similar program established or maintained outside the United States of America by the Borrower or any one or more of its Subsidiaries primarily for the benefit of employees of the Borrower or such Subsidiaries residing outside the United States of America, which plan, fund or other similar program provides, or results in, retirement income, a deferral of income in contemplation of retirement or payments to be made upon termination of employment, and which plan is not subject to ERISA or the Code.

"GTECH 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.

"Hazardous 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 "hazardous substances," "hazardous waste," "hazardous materials," "extremely hazardous substances," "restricted hazardous waste," "toxic substances," "toxic pollutants," "contaminants," or "pollutants," 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.

"Indebtedness" 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 trade payables and accrued expenses incurred by any Person in accordance with customary practices and in the ordinary course of business of such Person.

"Intercompany Loan" shall have the meaning provided in Section 8.05(vii).

"Intercompany Note" shall mean a promissory note, in the form of Exhibit K, evidencing Intercompany Loans.

"Interest 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.

"Interest Period" shall have the meaning provided in Section 1.09.

"Interest 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.

"Interest Reduction Discount" shall mean, initially zero, and from and after any Start Date to and including the corresponding End Date:

(A) 1/4 of 1% if, but only if, as of the Test Date for such Start Date the Leverage Ratio for the Test Period ended on such Test Date shall be less than or equal to 4.00:1.00 and none of the conditions set forth in clauses (B), (C), (D) and (E) below are satisfied;

(B) 1/2 of 1% if, but only if, as of the Test Date for such Start Date the Leverage Ratio for the Test Period ended on such Test Date shall be less than or equal to 3.00:1.00 and none of the conditions set forth in clauses (C), (D), and (E) below are satisfied;

(C) 1% if, but only if, as of the Test Date for such Start Date the Leverage Ratio for the Test Period ended on such Test Date shall be less than or equal to 2.50:1.00 and none of the conditions set forth in clauses (D), (E) and (F) below are satisfied;

(D) 1-1/4% if, but only if, as of the Test Date for such Start Date the Leverage Ratio for the Test Period ended on such Test Date shall be less than or equal to 2.00:1.00 and the condition set forth in clause (E) below is not satisfied; or

(E) 1-1/2% if, but only if, as of the Test Date for such Start Date the Leverage Ratio for the Test Period ended on such Test Date shall be less than or equal to 1.50:1.00.

Notwithstanding anything to the contrary above in this definition, the Interest Reduction Discount shall be reduced to zero at all times when a Default or an Event of Default shall exist.

"Investments" shall have the meaning provided in Section 8.05.

"Issuing Bank" shall mean BTCo.

"L/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.

"Leaseholds" 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.

"Letter of Credit" shall have the meaning provided in Section 2.01(a).

"Letter of Credit Fee" shall have the meaning provided in Section 3.01(b).

"Letter of Credit Outstandings" 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.

"Letter of Credit Request" shall have the meaning provided in Section 2.03(a).

"Leverage 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 "Consolidated Indebtedness" as used in the foregoing clause (i) of this definition shall be the sum of (I) Consolidated Indebtedness (other than Revolving Outstandings) on such Test Date plus (II) the average Revolving Outstandings for the quarterly period ending on such Test Date.

"Licenses" shall mean each of the Penn National Licenses, the Plains Company Licenses and the Charles Town Licenses, as the case may be.

"Lien" 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).

"Loan" shall have the meaning provided in Section 1.01.

"Margin Reduction Period" shall mean each period which shall commence on a date on which the financial statements are delivered pursuant to Section 7.01(b) or (c), as the case may be, and which shall end on the earlier of (i) the date of actual delivery of the next financial statements pursuant to Section 7.01(b) or (c), as the case may be, and (ii) the latest date on which the next financial statements are required to be delivered to Section 7.01(b) or (c), as the case may be, provided that the first Margin Reduction Period shall commence no earlier than the date of delivery of the first set of financial statements pursuant to Section 7.01(c) after the Restatement Effective Date.

"Margin Stock" shall have the meaning provided in Regulation U.

"Minimum Borrowing Amount" shall mean $250,000.

"Minimum Consolidated Net Worth" shall mean, at any time, the sum of (i) $55,500,000 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.

"Mortgage" shall mean each mortgage, deed to secure debt or deed of trust pursuant to which any Credit Party shall have granted to the Collateral Agent a mortgage lien on such Credit Party's Mortgaged Property.

"Mortgage Amendments" shall have the meaning provided in Section 5.12.

"Mortgage Policies" shall mean the mortgage title insurance policies issued in respect of each of the Mortgaged Properties.

"NAIC" shall mean the National Association of Insurance Commissioners.

"Net 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.

"Net 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.

"Net 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.

"Net 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.

"Non-Continuing Bank" shall mean each Original Bank which does not have a commitment under this Agreement on the Restatement Effective Date.

"Non-Defaulting Bank" shall mean and include each Bank other than a Defaulting Bank.

"Non-Primary Location" shall have the meaning provided in the Act referred to in clause (i) of the definition of "Act".

"Note" shall have the meaning provided in Section 1.05(a).

"Notice of Borrowing" shall have the meaning provided in Section 1.03(a).

"Notice of Conversion" shall have the meaning provided in Section 1.06.

"Notice Office" shall mean the office of the Agent located at One Bankers Trust Plaza, 130 Liberty Street, New York, New York 10006, Attention: Joseph Regan, or such other office as the Agent may hereafter designate in writing as such to the other parties hereto.

"Obligations" shall mean all amounts owing to the Agent, the Co-Agent, the Collateral Agent, the Issuing Bank or any Bank pursuant to the terms of this Agreement or any other Credit Document.

"Original 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.

"Original Credit Agreement" shall have the meaning provided in the first "Whereas" clause of this Agreement.

"Other 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.

"Participant" shall have the meaning provided in Section 2.04(a).

"Payment Office" shall mean the office of the Agent located at One Bankers Trust Plaza, 130 Liberty Street, New York, New York 10006, or such other office as the Agent may hereafter designate in writing as such to the other parties hereto.

"PBGC" shall mean the Pension Benefit Guaranty Corporation established pursuant to Section 4002 of ERISA, or any successor thereto.

"Penn National Licenses" shall mean the licenses to conduct thoroughbred racing issued to the Borrower or one of its Subsidiaries by the Pennsylvania Horse Racing Commission.

"Penn National Race Track" shall mean Penn National Race Track located in Dauphin County, Pennsylvania.

"Pennsylvania Harness Racing Commission" shall mean the Pennsylvania State Harness Racing Commission (and any successor thereto).

"Pennsylvania Horse Racing Commission" shall mean the Pennsylvania State Horse Racing Commission (and any successor thereto).

"Percentage" 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.

"Permitted 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.

"Permitted 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.

"Permitted Liens" shall have the meaning provided in Section 8.01.

"Person" 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.

"Plains 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.

"Plains Company Licenses" shall mean the licenses to conduct harness racing issued to the Borrower or one of its Subsidiaries by the Pennsylvania Harness Racing Commission.

"Plan" 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.

"Pledge Agreement" shall mean the Pledge Agreement, dated as of November 27, 1996, made by the Borrower and each Subsidiary Guarantor in favor of the Collateral Agent, as Pledgee, as such agreement may be modified, amended or supplemented from time to time, including, without limitation, as modified by the Assumption and Acknowledgment Agreement.

"Pledge Agreement Collateral" shall mean all "Collateral" as defined in the Pledge Agreement.

"Pledgee" shall have the meaning provided in the Pledge Agreement.

"Pledged Securities" shall mean all "Pledged Securities" as defined in the Pledge Agreement.

"Pocono Downs Race Track" shall mean Pocono Downs Race Track located in Luzerne County, Pennsylvania.

"Prime Lending Rate" shall mean the rate which BTCo 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. BTCo may make commercial loans or other loans at rates of interest at, above or below the Prime Lending Rate.

"Projections" shall mean the projections which were prepared by the Borrower for the five-year period after the Restatement Effective Date and delivered to the Banks on or about December 12, 1997.

"Quarterly Payment Date" shall mean each March 31, June 30, September 30 and December 31 occurring after the Restatement Effective Date.

"RCRA" shall mean the Resource Conservation and Recovery Act, as the same may be amended from time to time, 42 U.S.C.ss.6901 et seq.

"Real Property" of any Person shall mean all the right, title and interest of such Person in and to land, improvements and fixtures, including Leaseholds.

"Recovery Event" shall mean the receipt by the Borrower or any of its Subsidiaries 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 of its Subsidiaries and (ii) under any policy of insurance required to be maintained under Section 7.03.

"Register" shall have the meaning provided in Section 12.15.

"Regulation 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.

"Regulation 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.

"Regulation 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.

"Regulation 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.

"Regulation 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.

"Release" 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.

"Replaced Bank" shall have the meaning provided in Section 1.13.

"Replacement Bank" shall have the meaning provided in Section 1.13.

"Reportable 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.

"Restatement Effective Date" shall have the meaning provided in Section 12.10.

"Required 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 Outstandings) represent an amount greater than 50% 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 Outstandings at such time).

"Revolving Outstandings" 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 Outstandings at such time.

"SEC" shall have the meaning provided in Section 7.01(h).

"Section 4.04(b)(ii) Certificate" shall have the meaning provided in Section 4.04(b)(ii).

"Secured Creditors" shall have the meaning assigned that term in the respective Security Documents.

"Securities Act" shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

"Securities Exchange Act" shall mean the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

"Security Agreement" shall mean the Security Agreement, dated as of November 27, 1996, made by the Borrowers and each Subsidiary Guarantor in favor of the Collateral Agent, as such agreement may be modified, amended or supplemented from time to time, including, without limitation, as modified by the Assumption and Acknowledgment Agreement.

"Security Agreement Collateral" shall mean all "Collateral" as defined in the Security Agreement.

"Security 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.

"Senior Note Documents" shall mean the Senior Note Indenture, the Senior Notes and each other document or agreement relating to the issuance of the Senior Notes.

"Senior 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.

"Senior Notes" shall mean the Borrower's 10-5/8% Senior Note due 2004.

"Shareholders' Agreements" shall have the meaning provided in Section 5.06.

"Start Date" shall mean, with respect to any Margin Reduction Period, the first day of such Margin Reduction Period.

"Stated 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).

"Subsidiaries Guaranty" shall mean the Subsidiaries Guaranty, dated as of November 27, 1996, made by each of the Subsidiary Guarantors, as such guaranty may be modified, amended or supplemented from time to time, including, without limitation, the meaning provided in Section 5.12.

"Subsidiary" 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.

"Subsidiary 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).

"Tax Sharing Agreements" shall have the meaning provided in Section 5.06.

"Taxes" shall have the meaning provided in Section 4.04(a).

"Tennessee Downs" shall mean Tennessee Downs, Inc., a Tennessee corporation.

"Test Date" shall mean, with respect to any Start Date, the last day of the most recent fiscal quarter or year, as the case may be, of the Borrower ended immediately prior to such Start Date.

"Test Period" shall mean the four consecutive fiscal quarters of the Borrower then last ended (in each case taken as one accounting period).

"Total Commitment" shall mean, at any time, the sum of the Commitments of the Banks.

"Total 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 Outstandings.

"Transaction" shall mean, collectively (i) the issuance of the Senior Notes and (ii) the occurrence of the Restatement Effective Date.

"Type" 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.

"UCC" shall mean the Uniform Commercial Code as from time to time in effect in the relevant jurisdiction.

"Unfunded 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.

"United States" and "U.S." shall each mean the United States of America.

"Unpaid Drawing" shall have the meaning provided for in Section 2.05(a).

"Unutilized 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 Loans made by such Bank and (ii) such Bank's Percentage of the Letter of Credit Outstandings.

"West Virginia Lottery Commission" shall mean the West Virginia Lottery Commission (and any successor thereto).

"West Virginia Racing Commission" shall mean the West Virginia Racing Commission (and any successor thereto).

"Wholly-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.

Section 11. The Agent.

11.01 Appointment. The Banks hereby irrevocably designate BTCo as Agent (for purposes of this Section 11, the term "Agent" also shall include BTCo in its capacity as Collateral Agent pursuant to the Security Documents) to act as specified herein and in the other Credit Documents. The Banks hereby irrevocably designate CoreStates as Co-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 and the Co-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 and the Co-Agent by the terms hereof and thereof and such other powers as are reasonably incidental thereto. The Agent and the Co-Agent may perform any of their respective duties hereunder by or through their respective officers, directors, agents, employees or affiliates.

11.02 Nature of Duties. Neither the Agent nor the Co-Agent shall have any duties or responsibilities except those expressly set forth in this Agreement and in the other Credit Documents. Neither the Agent, the Co-Agent, nor any of their 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 and the Co-Agent shall be mechanical and administrative in nature; neither the Agent nor the Co-Agent shall 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 or the Co-Agent any obligations in respect of this Agreement or any other Credit Document except as expressly set forth herein or therein.

11.03 Lack of Reliance on the Agent and the Co-Agent. Independently and without reliance upon the Agent or the Co-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, neither the Agent nor the Co-Agent shall 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. Neither the Agent nor the Co-Agent shall 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 of its Subsidiaries 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 of its Subsidiaries or the existence or possible existence of any Default or Event of Default.

11.04 Certain Rights of the Agent and the Co-Agent. If either the Agent or the Co-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 or the Co-Agent, as the case may be, shall be entitled to refrain from such act or taking such action unless and until the Agent or the Co-Agent, as the case may be, shall have received instructions from the Required Banks; and neither the Agent nor the Co-Agent, as the case may be, shall 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 or the Co-Agent as a result of the Agent or the Co-Agent acting or refraining from acting hereunder or under any other Credit Document in accordance with the instructions of the Required Banks.

11.05 Reliance. The Agent and the Co-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 or the Co-Agent, as the case may be, 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 or the Co-Agent, as the case may be.

11.06 Indemnification. To the extent the Agent or the Co-Agent is not reimbursed and indemnified by the Borrower or any of its Subsidiaries, the Banks will reimburse and indemnify the Agent or the Co-Agent, as the case may be, in proportion to their respective "percentage" 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 or the Co-Agent as the case may be, 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 or the Co-Agent's gross negligence or willful misconduct.

11.07 The Agent and the Co-Agent in their Individual Capacities. With respect to its obligation to make Loans, or issue or participate in Letters of Credit, under this Agreement, the Agent and the Co-Agent shall have the rights and powers specified herein for a "Bank" and may exercise the same rights and powers as though it were not performing the duties specified herein; and the term "Banks," "Required Banks," "holders of Notes" or any similar terms shall, unless the context clearly otherwise indicates, include the Agent and the Co-Agent in their respective individual capacities. The Agent and the Co-Agent and their 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.

11.08 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.

11.09 Resignation by the Agent or the Co-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. The Co-Agent may resign from the performance of its functions and duties hereunder at any time by giving the Agent notice thereof. Such resignation shall take effect upon the giving of such notice.

(b) 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 (it being understood and agreed that the Co-Agent is deemed to be acceptable to the Borrower).

(c) 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.

(d) 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.

Section 12. Miscellaneous.

12.01 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 and the Co-Agent (including, without limitation, the reasonable fees and disbursements of White & Case and of the Agent's and the Co-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 and the Co-Agent in connection with their syndication efforts with respect to this Agreement and of the Agent and the Co-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 the Co-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, the Co-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, the Co-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 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 of its Subsidiaries, the generation, storage, transportation, handling or disposal of Hazardous Materials at any location, whether or not owned or operated by the Borrower or any of its Subsidiaries, 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 of its Subsidiaries or any Real Property owned or at any time operated by the Borrower or any of its Subsidiaries, 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, the Co-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.

12.02 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.

12.03 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 the Co-Agent or any Bank, at its address specified on Schedule II; and if to the Agent, at the Notice Office; or, as to any Credit Party, the Co-Agent 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.

12.04 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, such Bank shall remain a "Bank" 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 "Bank" 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.

(b) 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 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 $2,500,000 in the aggregate for the assigning Bank or assigning Banks, of such Commitments 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 shall be required in connection with any assignment to an Eligible Transferee pursuant to clause (y) above, (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).

(c) Nothing in this Agreement shall prevent or prohibit any Bank from pledging its Loans and Notes hereunder to a Federal Reserve Bank in support of borrowings made by such Bank from such Federal Reserve Bank.

12.05 No Waiver; Remedies Cumulative. No failure or delay on the part of the Agent the Co-Agent, the Collateral 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, the Collateral 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, the Co-Agent, the Collateral 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, the Co-Agent, the Collateral Agent or any Bank to any other or further action in any circumstances without notice or demand.

12.06 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.

(b) 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.

(c) 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.

12.07 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 Applicable Commitment Commission Percentage and Interest Reduction Discount, 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).

(b) 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.

12.08 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 STATE OF NEW YORK. ANY LEGAL ACTION OR PROCEEDING WITH RESPECT TO THIS AGREEMENT OR ANY OTHER CREDIT DOCUMENT MAY BE BROUGHT IN THE COURTS OF THE STATE OF NEW YORK OR OF THE UNITED STATES FOR THE SOUTHERN DISTRICT OF NEW YORK, 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.

(b) 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.

(c) 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.

12.09 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, the Agent and the Co-Agent.

12.10 Effectiveness. This Agreement shall become effective on the date (the "Restatement 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, the Co-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.

12.11 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.

12.12 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 and the Co-

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 the Co-Agent or (z) without the consent of the Collateral Agent, amend, modify or waive any provision relating to the rights or obligations of the Collateral Agent.

(b) 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)).

12.13 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.

12.14 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).

12.15 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 "Register") 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.

12.16 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 of its Subsidiaries 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, the Co-Agent or the Collateral 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.

(b) The Borrower hereby acknowledges and agrees that each Bank may share with any of its affiliates any information related to the Borrower or any of its Subsidiaries (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\

Title:

BANKERS TRUST COMPANY,
Individually and as Agent

By \s\

Title:

CORESTATES BANK, N.A.,
Individually and as Co-Agent

By \s\

Title:

Schedule I

COMMITMENTS

Bank	Commitment
Bankers Trust Company	$ 6,000,000.00
CoreStates Bank, N.A.	$ 6,000,000.00
TOTAL:	$12,000,000.00

Schedule II

BANK ADDRESSES

Bank	Address
Bankers Trust Company	130 Liberty Street New York, New York Attn: David Bell Tel: (212) 250-9048 Fax: (212) 250-7218
CoreStates Bank, N.A.	600 Penn Street Reading, Pennsylvania 19603 Attn: Jeff Wasmuth Tel: 610-655-2884 Fax: 610-655-3300

WAIVER

WAIVER (this "Waiver"), dated as of March 25, 1998, among PENN NATIONAL GAMING, INC. (the "Borrower"), the lenders party to the Credit Agreement referred to below (the "Banks"), CORESTATES BANK, N.A., as Co-Agent (the "Co-Agent"), and BANKERS TRUST COMPANY, as Agent (the "Agent"). All capitalized terms used herein and not otherwise defined herein shall have the respective meanings provided such terms in the Credit Agreement.

W I T N E S S E T H

WHEREAS, the Borrower, the Banks, the Co-Agent, and the Agent are parties to a Credit Agreement, dated as of November 27, 1996 and amended and restated as of December 17, 1997 (as amended, modified or supplemented to, but not including, the date hereof, the "Credit Agreement");

WHEREAS, the parties hereto wish to further modify the Credit Agreement as herein provided; and

WHEREAS, subject to the terms and conditions of this Waiver, the parties hereto agree as follows;

NOW THEREFORE, it is agreed:

1. The Banks hereby waive any Default or Event of Default that may have arisen under the Credit Agreement solely as a result of the Borrower failing to comply with Section 8.09, 8.10 or 8.11 of the Credit Agreement, in each case for the Test Period ending on December 31, 1997.

2. The Banks hereby waive any requirement that the Borrower comply with Sections 8.09 and 8.11 during the period from January 1, 1998 through March 30, 1998. It is hereby understood and agreed that the Borrower shall be in compliance with such Sections on and after March 31, 1998.

3. This Waiver shall become effective on the date (the "Waiver Effective Date") when the Borrower, the Agent and the Required Banks shall have signed a counterpart hereof (whether the same or different counterparts) and shall have delivered (including by way of facsimile transmission) the same to the Agent at the Notice Office.

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

(a) no Default or Event of Default exists on the Waiver Effective Date, after giving effect to this Waiver; and

(b) on the Waiver Effective Date, and after giving effect to this Waiver, all representations and warranties contained in the Credit Agreement and in the other Credit Documents are true and correct in all material respects as though such representations and warranties were made on the Waiver Effective Date.

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

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

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

8. This Waiver is limited as specified and shall not constitute a modification, acceptance or waiver of any other provision of the Credit Agreement or any other Credit Document.

* * *

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

PENN NATIONAL GAMING, INC.

By: /s/ ROBERT S. IPPOLITO

Title: Chief Financial Officer

BANKERS TRUST COMPANY,
Individually and as Agent

By: /s/ DAVID J. BELL

Title: Vice President

CORESTATES BANK, N.A.

By: /s/ DONALD W. HOUNL

Title: Senior Vice President

EXHIBIT 21

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.
Sterling Aviation Inc.
PNGI Charles Town Gaming LLC
Northeast Concessions, Inc.
The Downs Off-Track Wagering, Inc.
The Downs Racing, Inc.
PNGI Pocono, Inc.
Tennessee Downs, Inc.
Backside, Inc.
Audio Video Concepts
Mill Creek Land, Inc.
Wilkes Barre Downs, Inc.

5
1,000

YEAR
DEC-31-1997
JAN-01-1997
DEC-31-1997
21,854
0
2,257
0
0
29,024
114,168
11,007
158,878
13,791
0
0
0
0
152
53,704
158,878
111,536
111,536
90,629
90,629
11,172
0
4,591
6,077
2,308
3,769
0
1,482
0
2,287
.15
.15

1,000

YEAR	9-MOS	6-MOS	3-MOS
DEC-31-1996	DEC-31-1996	DEC-31-1996	DEC-31-1996
JAN-01-1996	JAN-01-1996	JAN-01-1996	JAN-01-1996
DEC-31-1996	SEP-30-1996	JUN-30-1996	MAR-31-1996
5,634	5,605	9,310	10,592
0	0	0	0
4,293	1,968	2,792	1,430
0	0	0	0
0	0	0	0
11,569	8,964	13,468	13,286
66,747	27,218	24,478	22,938
8,029	7,589	7,286	7,010
96,723	33,733	32,868	31,373
12,078	5,970	6,565	7,862
0	0	0	0
0	0	0	0
0	0	0	0
134	46	46	44
27,747	26,649	25,206	22,423
96,723	33,733	32,868	31,373
62,834	46,474	30,606	14,560
62,834	46,474	30,606	14,560
48,148	35,527	23,248	11,122
48,148	35,527	23,248	11,122
5,226	3,710	2,485	1,399
0	0	0	0
506	44	38	12
9,304	7,422	4,968	2,093
3,794	3,016	2,024	854
5,510	4,406	2,964	1,239
0	0	0	0
0	0	0	0
0	0	0	0
5,510	4,406	2,964	1,239
.41	.33	.23	.10
.40	.32	.22	.09

5

1000

9-MOS	6-MOS	3-MOS
DEC-31-1997	DEC-31-1997	DEC-31-1997
JAN-01-1997	JAN-01-1997	JAN-01-1997
SEP-30-1997	JUN-30-1997	MAR-31-1997
3,951	4,827	13,536
0	0	0
3,160	3,137	3,048
0	0	0
0	0	0
10,026	11,860	18,750
109,139	98,197	85,203
10,113	9,313	8,673
134,919	127,003	121,303
20,432	19,604	15,859
0	0	0
0	0	0
0	0	0
151	151	151
55,503	54,700	52,969
134,919	127,003	121,303
0	52,404	22,820
81,568	52,404	22,820
0	39,177	16,585
62,796	39,177	16,585
8,303	5,435	2,559
0	0	0
2,652	1,675	900
7,531	6,271	2,862
3,093	2,573	1,178
4,438	3,968	1,684
0	0	0
3,093	383	383
0	0	0
4,055	3,315	1,301
0.27	.23	.09
0.26	.22	.09

5

1,000

YEAR
DEC-31-1995
JAN-01-1995
DEC-31-1995
7,514
0
1,618
0
0
9,836
22,434
6,728
27,532
5,702
0
0
0
0
43
20,759
27,532
57,676
57,676
44,419
44,419
5,002
0
71
8,463
3,467
4,996
0
0
0
4,996
.39
.38