AS FILED WITH THE SECURITIES AND EXCHANGE COMMISSION ON FEBRUARY 6, 1997

REGISTRATION NO. 333-18861

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

AMENDMENT NO. 2

TO

FORM S-3
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

PENN NATIONAL GAMING, INC.

(Exact Name of Registrant as Specified in its Charter)

PENNSYLVANIA	23-2234473
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

WYOMISSING PROFESSIONAL CENTER
825 BERKSHIRE BOULEVARD
SUITE 203
WYOMISSING, PENNSYLVANIA 19610
(610) 373-2400
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

PETER M. CARLINO
CHAIRMAN AND CHIEF EXECUTIVE OFFICER
PENN NATIONAL GAMING, INC.
WYOMISSING PROFESSIONAL CENTER
825 BERKSHIRE BOULEVARD
SUITE 203
WYOMISSING, PENNSYLVANIA 19610
(610) 373-2400
(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies to:

DAVID A. GERSON	ALLAN G. SPERLING
MORGAN, LEWIS & BOCKIUS LLP	CLEARY, GOTTLIEB, STEEN & HAMILTON
ONE OXFORD CENTRE	ONE LIBERTY PLAZA
PITTSBURGH, PA 15219	NEW YORK, NY 10006
(412) 560-3300	(212) 225-2000

APPROXIMATE DATE OF COMMENCEMENT OF PROPOSED SALE TO THE PUBLIC: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. / /

If this form is filed to register additional securities for an offering pursuant to Rule 426(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / _____

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. / / _____

If delivery of the prospectus is expected to be made pursuant to Rule 434,

please check the following box. / /

THE REGISTRANT HEREBY AMENDS THIS REGISTRATION STATEMENT ON SUCH DATE OR DATES AS MAY BE NECESSARY TO DELAY ITS EFFECTIVE DATE UNTIL THE REGISTRANT SHALL FILE A FURTHER AMENDMENT WHICH SPECIFICALLY STATES THAT THIS REGISTRATION STATEMENT SHALL THEREAFTER BECOME EFFECTIVE IN ACCORDANCE WITH SECTION 8(a) OF THE SECURITIES ACT OF 1933 OR UNTIL THE REGISTRATION STATEMENT SHALL BECOME EFFECTIVE ON SUCH DATE AS THE COMMISSION, ACTING PURSUANT TO SAID SECTION 8(a), MAY DETERMINE.

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Information contained herein is subject to completion or amendment. A registration statement relating to these securities has been filed with the Securities and Exchange Commission. These securities may not be sold nor may offers to buy be accepted prior to the time the registration statement becomes effective. This prospectus shall not constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any State in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such State.

Subject to Completion

February 6, 1997

PROSPECTUS

2,300,000 SHARES

PENN NATIONAL GAMING, INC.

COMMON STOCK
($.01 PAR VALUE)

Of the 2,300,000 shares of common stock, $.01 par value per share (the "Common Stock"), of Penn National Gaming, Inc. ("Penn National Gaming" or the "Company") offered hereby, 1,725,000 are being issued and sold by the Company and 575,000 are being sold by the selling shareholders named herein under "Principal and Selling Shareholders" (the "Selling Shareholders"). The Company will not receive any proceeds from the sale of shares by the Selling Shareholders.

The Common Stock is quoted on The Nasdaq National Market under the symbol "PENN." On February 5, 1997, the last reported sale price of the Common Stock on The Nasdaq National Market was $16-1/4 per share. See "Price Range of Common Stock."

SEE "RISK FACTORS" BEGINNING ON PAGE 11 FOR A DISCUSSION OF CERTAIN FACTORS THAT SHOULD BE CONSIDERED BY PROSPECTIVE PURCHASERS OF THE COMMON STOCK.

THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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	PRICE TO PUBLIC	UNDERWRITING DISCOUNT	PROCEEDS TO COMPANY (1)	PROCEEDS TO SELLING SHAREHOLDERS
Per Share.....	$	$	$	$
Total (2).....	$	$	$	$

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(1) Before deducting offering expenses payable by the Company estimated to be $650,000. The Company will bear all expenses of the offering other than the Underwriting Discount attributable to the shares being offered by the

Selling Shareholders, which will be borne by the respective Selling Shareholders.

(2) The Company and the Selling Shareholders have granted the Underwriters a 30-day option to purchase up to 258,750 shares and 86,250 shares, respectively, of Common Stock at the Price to the Public, less the Underwriting Discount, solely to cover over-allotments, if any. If the Underwriters exercise such option in full, the total Price to Public, Underwriting Discount, Proceeds to Company and Proceeds to Selling Shareholders will be $, $, $ and $, respectively. See "Underwriting."

The shares of Common Stock are offered subject to receipt and acceptance by the Underwriters, to prior sale and to the Underwriters' right to reject any order in whole or in part and to withdraw, cancel or modify the offer without notice. It is expected that delivery of the shares of Common Stock will be made at the offices of Salomon Brothers Inc, Seven World Trade Center, New York, New York, or through the facilities of The Depository Trust Company, on or about , 1997.

SALOMON BROTHERS INC

GERARD KLAUER MATTISON & CO., INC.

JEFFERIES & COMPANY, INC.

The date of this Prospectus is , 1997.

[PICTURE]
(See Appendix A for Description)

Penn National, celebrating 25 years of thoroughbred racing in 1997.

[PICTURE]
(See Appendix A for Description)

Penn National's newest OTW facility in Lancaster, PA.

[PICTURE]
(See Appendix A for Description)

The recently renovated paddock area at Penn National.

[PICTURE]
(See Appendix A for Description)

Racing on-track at Penn National since 1972.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE COMMON STOCK OF THE COMPANY AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NASDAQ NATIONAL MARKET OR OTHERWISE. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

IN CONNECTION WITH THIS OFFERING, CERTAIN UNDERWRITERS (AND SELLING GROUP MEMBERS) MAY ENGAGE IN PASSIVE MARKET MAKING TRANSACTIONS IN THE COMMON STOCK OF THE COMPANY ON THE NASDAQ NATIONAL MARKET IN ACCORDANCE WITH RULE 10b-6A UNDER THE SECURITIES EXCHANGE ACT OF 1934. SEE "UNDERWRITING."

AVAILABLE INFORMATION

The Company is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "Commission"). Such reports, proxy statements and other information filed by the Company with the Commission can be inspected and copied at prescribed rates at the public reference facilities maintained by the Commission at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the following regional offices: Seven World Trade Center, 13th Floor, New York, New York 10048 and 500 West Madison Street, Suite 1400, Chicago, Illinois 60661. In addition, registration statements and certain other filings made with the Commission through its Electronic Data Gathering, Analysis and Retrieval ("EDGAR") system are publicly available through the Commission's site on the Internet's World Wide Web, located at http://www.sec.gov.

The Common Stock is quoted on The Nasdaq National Market. Reports, proxy statements and other information concerning the Company can be inspected at the National Association of Securities Dealers, Inc., 9513 Key West Avenue, Rockville, MD 20850.

The Company has filed with the Commission a Registration Statement on Form S-3 (the "Registration Statement") under the Securities Act of 1933, as amended (the "Securities Act"), with respect to the Common Stock offered hereby. This Prospectus does not contain all of the information set forth in the Registration Statement and the exhibits and schedules thereto. For further information with respect to the Company and its Common Stock, reference is hereby made to such Registration Statement, exhibits and schedules. Statements contained in this Prospectus as to the contents of any contract or any other document are not necessarily complete, and in each instance reference is hereby made to the copy of such contract or document (if any) filed as an exhibit to the Registration Statement, each such statement being qualified in all respects by such reference. The Registration Statement and the exhibits and schedules thereto may be examined without charge at the public reference section of the Commission at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and copies of all or any part thereof may be obtained from the Commission upon payment of prescribed fees. The Registration Statement, including all exhibits thereto and amendments thereof, has been filed with the Commission through EDGAR and is publicly available through the Commission's site on the Internet's World Wide Web.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The following documents filed by the Company with the Commission are incorporated by reference in this Prospectus:

(1) Annual Report on Form 10-K for the year ended December 31, 1995;

(2) Quarterly Report on Form 10-Q for the quarterly period ended March 31, 1996;

(3) Quarterly Report on Form 10-Q for the quarterly period ended June 30, 1996;

(4) Quarterly Report on Form 10-Q for the quarterly period ended September 30, 1996;

(5) Current Report on Form 8-K filed June 24, 1996;

(6) Current Report on Form 8-K filed December 12, 1996, as amended by Form 8-K/A filed February 6, 1997;

(7) Current Report on Form 8-K filed January 21, 1997;

(8) Current Report on Form 8-K filed January 30, 1997; and

(9) the description of the Company's Common Stock contained in its Registration Statement on Form 8-A as filed with the Commission on May 26, 1994.

All documents filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act subsequent to the date of this Prospectus and prior to the termination of the offering of the Common Stock offered hereby shall be deemed to be incorporated by reference into this Prospectus and to be a part hereof from the filing date of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Prospectus. Subject to the foregoing, all information appearing in this Prospectus is qualified in its entirety by the information appearing in the documents incorporated by reference herein.

This Prospectus incorporates documents by reference which are not presented herein or delivered herewith. These documents (not including exhibits to the documents incorporated by reference unless such exhibits are specifically incorporated by reference into the information that the Prospectus incorporates) are available without charge to each person to whom a Prospectus is delivered upon written or oral request. Written or telephone requests should be directed to Penn National Gaming, Inc., Wyomissing Professional Center, 825 Berkshire Boulevard, Suite 203, Wyomissing, Pennsylvania 19610, Attention: Robert S. Ippolito, Chief Financial Officer (telephone number (610) 373-2400).

PROSPECTUS SUMMARY

The following summary is qualified in its entirety by reference to the more detailed information contained in this Prospectus or incorporated by reference herein. Unless otherwise indicated, all information in this Prospectus assumes no exercise of the Underwriters' over-allotment option, and gives effect to: (i) the three-for-two split of the Common Stock effected through a stock dividend paid on May 23, 1996; (ii) the two-for-one split of the Common Stock effected through a stock dividend paid on December 20, 1996; (iii) the Pocono Downs Acquisition, as defined below; and (iv) the Charles Town Acquisition, as defined below. The Pocono Downs Acquisition and the Charles Town Acquisition are referred to collectively herein as the "Acquisitions." This Prospectus contains forward-looking statements that inherently involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus. References to "Penn National Gaming" or the "Company" include Penn National Gaming, Inc. and its subsidiaries. "Penn National" refers to Penn National Gaming, Inc. and its subsidiaries prior to the consummation of the Pocono Downs Acquisition.

THE COMPANY

Penn National Gaming, which began operations in 1972, operates the largest number of pari-mutuel wagering locations in Pennsylvania. The Company provides pari-mutuel wagering opportunities on both live and simulcast thoroughbred and harness horse races at two racetracks and six off-track wagering facilities ("OTWs") located principally in Eastern and Central Pennsylvania. Prior to the consummation of the Acquisitions, the Company owned and operated Penn National Race Course located outside Harrisburg, Pennsylvania (the "Thoroughbred Track"), and four OTWs in Chambersburg, Lancaster, Reading and York, Pennsylvania. On November 27, 1996, the Company consummated the Pocono Downs Acquisition, and as a result acquired Pocono Downs Racetrack, located outside Wilkes-Barre, Pennsylvania (the "Harness Track"), and two OTWs in Allentown and Erie, Pennsylvania. The Company now operates one of the two thoroughbred tracks in Pennsylvania and one of the two harness tracks in Pennsylvania. The Company intends to develop five additional OTWs that have been allocated to it under Pennsylvania law, after which it would operate a total of 11 of the 23 OTWs currently authorized in Pennsylvania.

Following the consummation of the Charles Town Acquisition on January 15, 1997, the Company operates, and has reached an agreement with its joint venture partner to hold an 89% interest in, Charles Town Races, a thoroughbred racing facility located in Jefferson County, West Virginia, which is approximately a 60-minute drive from Baltimore, Maryland and approximately a 70-minute drive from Washington, D.C. After refurbishment, the Company expects to reopen Charles Town Races as an entertainment complex (the "Charles Town Facility") that will feature live racing, dining, simulcast wagering and video gaming machines ("Gaming Machines"). On November 5, 1996, Jefferson County approved a referendum permitting the installation of Gaming Machines at the Charles Town Facility. Approval for the installation of 400 Gaming Machines has been applied for and is expected to be obtained from the West Virginia Lottery Commission within 90 to 120 days after the January 15, 1997 consummation of the Charles Town Acquisition. The Company expects that these machines will be installed and operational in mid-1997. The installation of additional Gaming Machines at the Charles Town Facility is subject to approval by the West Virginia Lottery Commission after application and a public hearing. The Company anticipates that it will apply for approval of the installation and operation of a total of 1,000 Gaming Machines within the first year after the opening of the Charles Town Facility.

STRATEGY

The Company intends to be a leading participant in the wagering industry by capitalizing upon its horse racing expertise and its numerous wagering locations. The Company's strategy is to focus on: (i) increasing its OTW revenues by opening all five of the additional OTWs which it has been allocated under Pennsylvania law; (ii) developing the Charles Town Facility into an entertainment complex that integrates Gaming Machines with the Company's core business strengths of live racing and simulcast

wagering; (iii) maintaining the quality of import simulcasting to all of the Company's racetracks and OTWs, increasing the volume of export simulcasting from the Thoroughbred Track and the Harness Track and introducing export simulcasting from the refurbished Charles Town Facility; and (iv) exploring other gaming opportunities, including capitalizing upon any changes in gaming legislation in Pennsylvania, West Virginia and other states in order to expand the wagering opportunities that the Company can make available to its customers. See "Business -- Strategy."

RACING AND WAGERING OPERATIONS

The Company conducts pari-mutuel wagering at all of its locations on thoroughbred and harness races run at its own tracks ("Company Races") and on thoroughbred and harness races simulcast from other racetracks ("import simulcasting"). The Company also simulcasts Company Races for wagering at other racetracks and OTWs in Pennsylvania and at other locations throughout the United States ("export simulcasting"). The Company's customers can also wager on Company Races and on races import simulcast from other racetracks through the Company's telephone account betting network ("Telebet"). See "Business."

Live Racing. The Company has conducted live racing at the Thoroughbred Track since 1972, and has held at least 204 days of live racing at the facility in each of the last five years. Although other regional racetracks offer nighttime thoroughbred racing, the Thoroughbred Track 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 during periods in which other racetracks are not conducting live racing.

The Pocono Downs Acquisition was consummated following the last day of live racing at the Harness Track for the 1996 season. The Company expects to resume live racing at the Harness Track in April 1997 and plans to conduct 135 days of live harness racing at the facility in the 1997 season. The Charles Town Facility is currently closed. The Company has received preliminary approval for, and plans to conduct, 159 days of thoroughbred racing at the Charles Town Facility in the 1997 season following the reopening of the racetrack (currently anticipated to be in April 1997).

OTW Wagering. At OTWs, as at the Company's racetracks, 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 (the "Pennsylvania Racing Act"), only licensed thoroughbred and harness racing associations, such as the Company, can operate OTWs or accept customer wagers on simulcast races at Pennsylvania racetracks. The Company operates six of the 16 OTWs now open in Pennsylvania and has the right (subject to applicable regulatory approvals) to open and operate an additional five Pennsylvania OTWs, which would give the Company a total of 11 of the 23 OTWs currently authorized by Pennsylvania law.

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, 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 (thoroughbred or harness) of the Company's racetrack with which the wagering facility is associated, and the balance is retained by the Company. The Company believes that "full card" import simulcasting, in which all of the races at a non-Company track are import simulcast to a Company wagering facility, has improved the wagering opportunities for its customers and thereby increased the amount wagered at Company facilities. When the Company export simulcasts Company Races for wagering at non-Company locations, it receives a flat percentage of the amounts wagered on that race from the location to which the simulcast is exported, while incurring minimal additional expense. During the year ended December 31, 1996, the Company received import simulcasts from approximately 57 racetracks (including Belmont Park, Saratoga, Gulfstream Park, Santa Anita and Arlington International Racecourse) and transmitted export simulcasts of Company Races to 63 locations.

Telebet. In 1983, the Company pioneered Telebet, Pennsylvania's first telephone account wagering system. Telebet customers open an account by depositing funds with the Company at one of its locations. 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 future wagers. In December 1995, the Harness Track instituted Dial-A-Bet, a similar telephone account wagering system.

Gaming Machine Operations. On November 5, 1996, Jefferson County, West Virginia approved a referendum authorizing the installation and operation of Gaming Machines at the Charles Town Facility. As a result, the Company consummated the Charles Town Acquisition on January 15, 1997. In mid-1997, the Company intends to reopen the Charles Town Facility as an entertainment complex that will feature live racing, dining, simulcast wagering and Gaming Machines. The Company anticipates that it will initially operate 400 Gaming Machines. Approval for the installation of the 400 Gaming Machines has been applied for and is expected to be obtained from the West Virginia Lottery Commission within 90 to 120 days after the January 15, 1997 consummation of the Charles Town Acquisition. The Gaming Machines will be slot-machine-style video machines that depict spinning reels and video card games such as blackjack and poker. The installation of additional Gaming Machines at the Charles Town Facility is subject to approval by the West Virginia Lottery Commission after application and a public hearing. The Company anticipates that it will apply for approval of the installation and operation of a total of 1,000 Gaming Machines at the Charles Town Facility within the first year after opening.

ACQUISITIONS

Pocono Downs Acquisition. On November 27, 1996, the Company acquired (the "Pocono Downs Acquisition") all of the capital stock of The Plains Company and all of the limited partnership interests in The Plains Company's affiliated entities (together, "Pocono Downs") for an aggregate purchase price of $47.0 million plus approximately $525,000 in acquisition-related fees and expenses. Pocono Downs conducts harness racing at the Harness Track located outside Wilkes-Barre, Pennsylvania, export simulcasting of Harness Track races to locations throughout the United States, pari-mutuel wagering at the Harness Track 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. For the year ended December 31, 1995 and the nine months ended September 30, 1996, Pocono Downs had revenues of approximately $33.9 million and $25.7 million, respectively, and earnings before interest, taxes, depreciation and amortization ("EBITDA") of approximately $8.0 million and $5.5 million, respectively. See "Business -- Acquisitions -- Pocono Downs Acquisition" and "-- Properties."

Charles Town Acquisition. On January 15, 1997, a joint venture (the "Charles Town Joint Venture") in which the Company will hold an 89% ownership interest, acquired (the "Charles Town Acquisition") substantially all of the assets of Charles Town Racing Limited Partnership and Charles Town Races, Inc. (together "Charles Town") relating to the Charles Town Facility for an aggregate net purchase price of approximately $16.5 million plus approximately $2.0 million in acquisition-related fees and expenses. The Charles Town Facility conducts live thoroughbred horse racing, on-site pari-mutuel wagering on live races run at the Charles Town Facility and wagering on import simulcast races. The Company expects to refurbish the Charles Town Facility as an entertainment complex that will feature live racing, dining, simulcast wagering and, upon completion of the interior refurbishment in mid-1997, 400 Gaming Machines. The estimated cost of the refurbishment, exclusive of the cost of the purchase or lease of the Gaming Machines, is approximately $16.0 million. Pursuant to the original operating agreement governing the Charles Town Joint Venture, the Company currently holds 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 Facility. In fact, the Company contributed 100% of the purchase price of the Charles Town Acquisition and expects to contribute 100% of the cost of refurbishing the Charles Town Facility. The Company has reached an agreement with its joint venture partner, Bryant Development Company ("Bryant"), pursuant to which the parties agreed to amend the operating agreement to 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 will provide 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 Facility would be treated, as between the joint venture partners, as a loan to the Charles Town Joint Venture from the Company. For the year ended December 31, 1995 and the nine months ended September 30, 1996, Charles Town had revenues of approximately $11.0 million and $8.7 million, respectively, and net losses of approximately $2.2 million and $1.9 million, respectively. See "Risk Factors -- Future Development of Charles Town Facility" and "Business -- Acquisitions -- Charles Town Acquisition" and "-- Properties."

The Company is the successor to several businesses which have operated the Penn National Race Course since 1972. The Company was incorporated in Pennsylvania in 1982 as PNRC Corp. It adopted its present name in 1994. The Company's principal executive offices are located in the Wyomissing Professional Center, 825 Berkshire Boulevard, Suite 203, Wyomissing, Pennsylvania 19610; its telephone number is (610) 373-2400.

THE OFFERING

Common Stock Offered by the Company.....	1,725,000 shares (1)
Common Stock Offered by the Selling Shareholders.....	575,000 shares (1)
Common Stock Outstanding Immediately After the Offering.....	15,105,290 shares (1)(2)
Use of Proceeds.....	To repay indebtedness incurred in connection with the Pocono Downs Acquisition and the Charles Town Acquisition, and to finance a portion of the cost of refurbishment of the Charles Town Acquisition. The balance, if any, will be used for working capital and other general corporate purposes. See "Use of Proceeds."
Nasdaq National Market Symbol.....	PENN

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(1) Excludes 258,750 shares of Common Stock to be issued and sold by the Company and 86,250 shares to be sold by the Selling Shareholders if the Underwriters' over-allotment option is exercised in full.

(2) Based on shares outstanding as of December 31, 1996. Excludes (i) 1,179,750 shares reserved for issuance under the Company's 1994 Stock Option Plan, of which options to purchase 1,179,750 shares of Common Stock were outstanding as of December 31, 1996, and (ii) 195,000 shares reserved for issuance upon the exercise of warrants to purchase Common Stock which were outstanding as of December 31, 1996 (170,000 shares following the consummation of the offering). See "Description of Capital Stock -- Warrants" and Note 9 of the Notes to the Consolidated Financial Statements of the Company included elsewhere in this Prospectus.

RISK FACTORS

Prospective purchasers of the securities offered hereby should carefully read the specific factors set forth under "Risk Factors" as well as the other information set forth in this Prospectus or incorporated herein by reference.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table sets forth the summary historical consolidated financial data of the Company. The summary historical financial data for each of the five years in the period ended December 31, 1995 are derived from the Company's audited consolidated financial statements. The summary historical financial data of the Company and its subsidiaries as of September 30, 1996 and for the nine months ended September 30, 1995 and 1996 are unaudited, but, in the opinion of management, all adjustments necessary to present fairly the financial data for such periods have been made, none of which were other than normal accruals. The results for the nine month period ended September 30, 1996 are not necessarily indicative of the results for the full year, or any future period. For additional information, see the consolidated financial statements of the Company appearing elsewhere in this Prospectus. The summary historical financial data should also be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	YEAR ENDED DECEMBER 31,					NINE MONTHS ENDED SEPTEMBER 30,	
	1991 (1)	1992 (1)	1993 (1)	1994	1995	1995	1996
	(IN THOUSANDS, EXCEPT SHARE, PER SHARE AND ATTENDANCE DATA)						
INCOME STATEMENT DATA:							
Total revenues	$ 33,334	$ 41,824	$ 42,664	$ 46,031	$ 57,676	$ 43,893	$ 46,474
Total operating expenses	32,208	39,523	40,208	41,607	49,421	37,518	39,237
Income from operations	1,126	2,301	2,456	4,424	8,255	6,375	7,237
Income before income taxes and extraordinary item	305	1,440	1,500	4,099	8,463	6,525	7,422
Taxes on income	76	150	42	1,381	3,467	2,680	3,016
Net income	229	1,290	1,458	2,603	4,996	3,845	4,406
Net income per share					.38	.29	.32
Supplemental pro forma net income (2)			1,819	2,724			
Supplemental pro forma net income per share (2)			.15	.22			
Weighted average common shares outstanding			12,249,000(3)	12,663,000	13,104,000	13,044,000	13,754,000
OTHER DATA (UNAUDITED):							
Total paid attendance (4)	636,944	785,569	799,625	848,482	1,051,803	813,823	802,948
Pari-mutuel wagering:							
Penn National races	$ 128,551	$ 153,332	$ 138,939	$ 111,248	$ 102,145	$ 79,235	$ 69,200
Import simulcasting	28,660	42,159	58,252	93,461	142,499	106,664	122,895
Export simulcasting	--	10,202	12,746	40,337	72,252	48,327	84,228
Total pari-mutuel wagering	$ 157,211	$ 205,693	$ 209,937	$ 245,046	$ 316,896	$ 234,226	$ 276,323
Gross profit from wagering (5)	$ 11,201	$ 14,549	$ 15,346	$ 17,963	$ 24,634	$ 18,430	$ 19,952

	SEPTEMBER 30, 1996
	(IN THOUSANDS)
BALANCE SHEET DATA:	
Cash	$ 5,602
Working capital	2,994
Total assets	33,733
Total debt	302
Shareholders' equity	26,694

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(1) The Consolidated Financial Statements of the Company include entities which, prior to a reorganization which occurred in 1994 shortly before the Company's initial public offering (the "Reorganization"), were affiliated through common ownership and control. See Note 1 of the Notes to the Consolidated Financial Statements of the Company included elsewhere in this Prospectus.

(2) 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 compensation, (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.

(3) 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.

(4) Does not reflect attendance at the Thoroughbred Track for wagering on simulcasts when live racing is not conducted, but does reflect attendance at the Reading, Chambersburg, York and Lancaster OTWs, which opened in May 1992, April 1994, March 1995 and July 1996, respectively.

(5) 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.

SUMMARY PRO FORMA FINANCIAL DATA

The following table sets forth certain unaudited pro forma consolidated financial and other data for the Company, giving effect to the Pocono Downs Acquisition and the Charles Town Acquisition using the purchase method of accounting in each case and the related acquisition financing. The pro forma consolidated balance sheet data as of September 30, 1996 assume that the Pocono Downs Acquisition and the Charles Town Acquisition had both occurred on September 30, 1996. The pro forma consolidated income statement data for the year ended December 31, 1995 and for the nine months ended September 30, 1996 assume that the Pocono Downs Acquisition and the Charles Town Acquisition had both occurred on January 1, 1995.

The unaudited pro forma consolidated financial data are presented for informational purposes only and are not necessarily indicative of the results of operations that would actually have been obtained if the Acquisitions had occurred on the dates indicated, or the results of operations that may be obtained in the future. These statements are qualified in their entirety by, and should be read in conjunction with, the unaudited Pro Forma Consolidated Financial Statements and related notes thereto included elsewhere in this Prospectus, the historical consolidated financial statements of Penn National, The Plains Company and Charles Town and related notes thereto included elsewhere in this Prospectus or incorporated herein by reference and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	PRO FORMA	
	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)	
INCOME STATEMENT DATA:		
Total revenues	$ 102,557	$ 80,966
Total operating expenses	89,448	70,802
Income from operations	13,109	10,164
Income before income taxes	8,235	6,470
Taxes on income	3,388	2,851
Net income	4,847	3,619
Net income per share	.37	.26
Weighted average common shares outstanding	13,104,000	13,754,000

	SEPTEMBER 30, 1996	
	PRO FORMA	PRO FORMA AS ADJUSTED (1)
	(IN THOUSANDS)	
BALANCE SHEET DATA:		
Cash and cash equivalents	$ 5,832	$ 5,932
Working capital	1,355	1,455
Total assets	100,659	106,659
Total debt	63,802	41,825
Shareholders' equity	26,694	54,671

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(1) As adjusted amounts reflect the application, as defined in "Use of Proceeds," of net proceeds from (i) the sale of the 1,725,000 shares of Common Stock offered by the Company hereby at an assumed price of $17.50 per share (assuming no exercise of the Underwriters' over-allotment option) and (ii) the issuance of 25,000 shares to a Selling Shareholder upon the exercise of warrants at an exercise price of $4.00 per share. See "Use of Proceeds."

RISK FACTORS

This Prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended. Discussions containing such forward-looking statements may be found in the material set forth under "Prospectus Summary," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business," as well as within the Prospectus generally (including the documents incorporated by reference). Also, documents subsequently filed by the Company with the Commission may contain forward-looking statements. Actual results could differ materially from those projected in the forward-looking statements as a result of the risk factors set forth below and the matters set forth or incorporated by reference in the Prospectus generally. The Company cautions the reader, however, that this list of factors may not be exhaustive, particularly with respect to future filings. Before making a decision to purchase any of the Common Stock, prospective purchasers should carefully consider the following factors.

EFFECT OF RECENT ACQUISITIONS; ABSENCE OF COMBINED OPERATING HISTORY; POTENTIAL INABILITY TO MANAGE GROWTH

The Pocono Downs Acquisition was consummated on November 27, 1996, and the Charles Town Acquisition was consummated on January 15, 1997. The Company, Pocono Downs and Charles Town have been operating independently, and the Company's management control structure for the Pocono Downs business and the Charles Town business is still in its formative stages. The Company may not be able to integrate successfully and oversee these businesses and their disparate operations, employees and management. Moreover, the Company intends to operate Gaming Machines at the Charles Town Facility, although the Company's management has no experience in operating Gaming Machines and may not be able to do so effectively.

The Acquisitions represent a significant expansion of the Company's business and operational scale. This expansion will place demands on the Company's administrative, operational and financial resources. Any continued growth of the Company's business, including growth from the opening of further OTWs or from the operation of other forms of gaming at Company facilities, as well as any geographic expansion that the Company may undertake, could place an additional strain on the capacity, management and operations of the Company. Such strain may have a material adverse effect on the Company's business, financial condition and results of operations.

Approximately $13.6 million, or 13.5%, of the Company's pro forma total assets as of September 30, 1996 consists of goodwill arising from the Acquisitions that will represent an expense, and thereby reduce the Company's net income, in the periods over which it is amortized. The reduction in net income resulting from the amortization of goodwill may have an adverse impact upon the market price for the Common Stock. See "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business -- Strategy" and "-- Acquisitions" and the Notes to the Consolidated Financial Statements of the Company included elsewhere in this Prospectus.

DECLINE IN LIVE RACING ATTENDANCE AT THE THOROUGHBRED TRACK AND HARNESS TRACK; FUTURE GROWTH DEPENDENT ON OTWS AND GAMING MACHINE OPERATIONS

The Pennsylvania Racing Act requires the Company to schedule 200 days of live thoroughbred racing and 150 days of live harness racing, regardless of attendance, in order to retain the Company's Pennsylvania thoroughbred and harness licenses to present import simulcast racing. Over the past few years, however, there has been a substantial decline in attendance and wagering on live racing at the Thoroughbred Track, the Harness Track and the Charles Town Facility even though the number of racing days has remained relatively constant. The Company believes this decline is primarily a result of competition from other forms of entertainment and gaming, including wagering at OTWs and wagering at tracks in neighboring states where additional forms of casino-style gaming (such as video gaming and slot machines) are available, and which are perhaps closer in proximity to patrons who might otherwise travel to the Thoroughbred Track, the Harness Track and the Charles Town Facility. Because live racing revenues are declining, the Company's future growth is dependent on its OTWs and Gaming Machine operations. If not offset by increased revenues from other sources, continued

declines in live racing attendance could have a material adverse effect on the Company's business, financial condition and results of operations because a relatively high proportion of the Company's costs of operating its live racing facilities are fixed. The Company intends (after compliance with regulatory requirements) to open OTWs in Williamsport, Downingtown and up to three other Pennsylvania locations which have yet to be determined, in addition to operating its existing OTWs. The Company's existing OTWs may be unable to increase or maintain their current level of profitability, and the remaining five OTWs which the Company has been allocated under the Pennsylvania Racing Act may never be opened, or, if opened, achieve profitability. Moreover, as with racetracks, a relatively high proportion of the costs of operating an OTW are fixed, while OTW attendance is subject to significant variation based on a variety of factors, including the quality of the races import simulcast to the facility and the proximity of other live racing and OTW venues. To the extent that attendance and wagering at existing or new OTWs is not consistent with the Company's historical experience, the Company's business, financial condition and results of operations may be materially and adversely affected. See "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business -- OTW Wagering" and "-- Competition."

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. 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.

Company 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, upon 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 Thoroughbred Track, due to incrementally 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 Thoroughbred Track or in any material improvement in the quality of racing at the Harness Track or the Charles Town Facility.

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 Pocono Downs Acquisition and which is approximately 50 miles from the Thoroughbred Track and 35 miles from the Company's Reading OTW, has drawn some patrons from the Thoroughbred Track, the Reading OTW and Telebet and that its Lancaster OTW, which is approximately 31 miles from the Thoroughbred Track and 25 miles from the Company's York OTW, has drawn some patrons from the Thoroughbred Track, the York OTW and Telebet. 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. The opening of new OTWs 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.

If the Company obtains approval for the installation of Gaming Machines at the Charles Town Facility, the Company's Gaming Machine operations will 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 Facility, 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.

RISKS ASSOCIATED WITH THE CHARLES TOWN FACILITY

On January 15, 1997, the Charles Town Joint Venture consummated the Charles Town Acquisition. Pursuant to the original operating agreement governing the Charles Town Joint Venture, the Company currently holds 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 Facility. In fact, the Company contributed 100% of the purchase price of the Charles Town Acquisition and expects to contribute 100% of the cost of refurbishing the Charles Town Facility. The Company has reached an agreement with its joint venture partner, Bryant, pursuant to which the parties agreed to amend the operating agreement to 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 will provide 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 Facility would be treated, as between the joint venture partners, as a loan to the Charles Town Joint Venture from the Company. The proposed changes in the ownership of the Charles Town Joint Venture are subject to the review of applicable West Virginia racing and lottery regulatory authorities.

The Company and the Charles Town Joint Venture have applied to the West Virginia State Racing Commission for confirmation of the Company's preliminary license to conduct racing and pari-mutuel wagering and to the West Virginia Lottery Commission for a license to install and operate Gaming Machines at the refurbished Charles Town Facility. The failure to receive or retain or a delay in receiving such licenses could cause the reduction or suspension of racing and pari-mutuel wagering, as well as of Gaming Machines operations, at the Charles Town Facility and have a material adverse effect upon the Company's business, financial condition and results of operations. See "-- Regulation and Taxation." Failure by the Company to obtain a license from the West Virginia Lottery Commission by June 1, 1997 or to retain both licenses also constitutes an event of default under the Company's bank credit agreement. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

The Charles Town Joint Venture acquired its option to purchase the Charles Town Facility from Bryant; Bryant, in turn, acquired the option from Showboat Operating Company ("Showboat"). Showboat retained an option (the "Showboat Option") to operate any casino at the Charles Town Facility in return for a management fee (to be negotiated at the time, based on rates payable for similar properties). Showboat has also retained a right of first refusal to purchase or lease the site of any casino at the Charles Town Facility 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 extend for a period of five years from the date that the Charles Town Joint Venture exercises its option to purchase the Charles Town Facility and expire thereafter unless legislation to permit casino gaming at the Charles Town Facility 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 agreement with Showboat does not specify what activities at the Charles Town Facility would constitute operation of a casino, Showboat has agreed that the installation and operation of video lottery terminals (like the Gaming Machines the Company proposes to install) at the Charles Town Facility's racetrack would not trigger the Showboat Option. If West Virginia law were to permit casino gaming at the Charles Town Facility 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.

On December 11, 1996, GTECH Corporation ("GTECH") commenced an action in the United States District Court for the Northern District of West Virginia against Charles Town, the Company, Penn National Gaming of West Virginia, Inc., a wholly owned subsidiary of the Company, and Bryant. The complaint filed by GTECH alleges that Charles Town and AmTote International, Inc. ("AmTote") were parties to an October 20, 1994 agreement, as amended by an amendment agreement dated January 1, 1995 (the "AmTote Agreement"), pursuant to which AmTote was allegedly granted an exclusive right to install and operate a "video lottery system" at the Charles Town Facility. When the AmTote Agreement was entered into, AmTote was a subsidiary of GTECH; GTECH has since divested itself of AmTote, but is purportedly the assignee of certain of AmTote's rights under the AmTote Agreement pursuant to an assignment and assumption agreement dated February 22, 1996. The complaint seeks (i) preliminary and permanent injunctive relief enjoining Charles Town, Bryant, the Company and its subsidiary from consummating the Charles Town Acquisition or any similar transaction unless the purchasing party explicitly accepts and assumes the AmTote Agreement, (ii) a declaratory judgment that the AmTote Agreement is valid and binding, that GTECH has the right to be the exclusive installer, operator, provider and servicer of a video lottery system at the Charles Town Facility and that any party buying the stock or assets of Charles Town must accept and assume the AmTote Agreement and recognize such rights of GTECH thereunder, (iii) compensatory damages, (iv) legal fees and costs and (v) such other further legal and equitable relief as the court deems just and appropriate. On December 23, 1996, the court denied GTECH's motion to preliminarily enjoin the Company from consummating the Charles Town Acquisition unless it accepts and assumes the AmTote Agreement. The court noted that GTECH may pursue its claim for damages and, if warranted, pursue other injunctive relief in the future. The Company consummated the Charles Town Acquisition on January 15, 1997, at which time Charles Town assigned to the Charles Town Joint Venture legally valid and binding obligations, if any, under the AmTote Agreement. In addition, the Company has agreed to indemnify Charles Town for any damages Charles Town may suffer as a result of a claim that Charles Town failed to fulfill its obligations under the AmTote Agreement. On January 13, 1997, Charles Town filed a motion to dismiss GTECH's complaint. The court has not yet ruled on the motion. The Company believes the allegations of the complaint to be without merit and intends to contest the action vigorously.

REGULATION AND TAXATION

General. The Company is authorized to conduct thoroughbred racing and harness racing in Pennsylvania under the Pennsylvania Racing Act. The Company is also authorized, under the Pennsylvania Racing Act and the Federal Interstate Horseracing Act of 1978 (the "Federal Horseracing Act"), to conduct import simulcast wagering. The Company is also subject to the provisions of West Virginia law that govern the conduct of thoroughbred horseracing in West Virginia (the "West Virginia Racing Act") and the operation of Gaming Machines in West Virginia (the "West Virginia Gaming Machine Act"). 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.

Sunset Provisions in Gaming Machine Legislation. The Company has applied for approval to install and operate Gaming Machines at the refurbished Charles Town Facility pursuant to the West Virginia Gaming Machine Act. The West Virginia Gaming Machine Act was adopted in 1994, and will terminate on June 30, 1997 unless extended or reenacted. If the West Virginia Gaming Machine Act terminates, then the Company will be required to discontinue any Gaming Machine operations for which it may obtain approval. There can be no assurance that the West Virginia legislature will extend or reenact the West Virginia Gaming Machine Act beyond June 30, 1997. If the Company obtains approval for the installation of Gaming Machines at the Charles Town Facility and the West Virginia Gaming Machine Act is not extended or reenacted, then the Company's business, financial condition and results of operations would be materially and adversely affected.

Pennsylvania Racing Regulations. The Company's horse racing operations at the Thoroughbred Track and the Harness Track are subject to extensive regulation under the Pennsylvania Racing Act, which established the Pennsylvania State Horse Racing Commission and the Pennsylvania 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. The Pennsylvania legislature also has reserved the right to revoke the power of the Pennsylvania Racing Commissions to approve additional OTWs and could, at any time, terminate pari-mutuel wagering as a form of legalized gaming in Pennsylvania or subject such wagering to additional restrictive regulation; such termination would, and any further restrictions could, have a material adverse effect upon the Company's business, financial condition and results of operations.

The Company may not be able to obtain all necessary approvals for the 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 Thoroughbred Track since it commenced operations in 1972, and has obtained permission from the Pennsylvania State Harness Racing Commission to conduct live racing at the Harness Track beginning with the 1997 season. Currently, the Company has approval from the Pennsylvania Racing Commissions to operate six OTWs and the right, under the Pennsylvania Racing Act, to operate five additional OTWs, subject to approval by the Pennsylvania Racing Commissions. 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 shall be licensed to conduct harness racing and that no corporation licensed to conduct harness racing shall be licensed to conduct thoroughbred racing. 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 Facility are subject to regulation by the West Virginia State Racing Commission (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 Company and the Charles Town Joint Venture have applied to the West Virginia Racing Commission for a license to conduct racing and pari-mutuel wagering at the Charles Town Facility. The West Virginia Racing Commission has issued this license, subject to its review and approval of the documents pursuant to which the Charles Town Acquisition was consummated and financing therefor was obtained and to its review and approval of any changes in the ownership of the Charles Town Joint Venture, among other conditions. The Company and the Charles Town Joint Venture have also applied to the West Virginia Lottery Commission for approval to install and operate 400 Gaming Machines at the refurbished Charles Town

Facility; this approval has not yet been granted. The Company anticipates, but cannot assure, that it will obtain approval for the installation and operation of the 400 Gaming Machines within 90 to 120 days after the January 15, 1997 consummation of the Charles Town Acquisition. Failure by the Company to obtain such approval by June 1, 1997 constitutes an event of default under the Company's bank credit agreement. The Company and the Charles Town Joint Venture may not receive or retain all of the regulatory approvals necessary from time to time to conduct racing and pari-mutuel wagering operations at the Charles Town Facility. The failure to receive or retain or a delay in receiving such approvals could cause the reduction or suspension of racing and pari-mutuel wagering, as well as of Gaming Machine operations, at the Charles Town Facility and have a material adverse effect upon the Company's business, financial condition and results of operations.

The installation of additional Gaming Machines at the Charles Town Facility is subject to approval by the West Virginia Lottery Commission after application and a public hearing. The Company anticipates that it will apply for approval of the installation and operation of a total of 1,000 Gaming Machines at the Charles Town Facility within the first year after the opening of the Charles Town Facility. The West Virginia Lottery Commission may not approve the installation of the initial 400 Gaming Machines or any additional Gaming Machines, however, or may not do so in a timely manner, or may ultimately approve the installation of a smaller number of Gaming Machines than the Company expects to request.

Moreover, the West Virginia Gaming Machine Act requires that the operator of the Charles Town Facility enter into a written agreement with the horse owners and trainers who race horses at that facility (the "Charles Town Horsemen") in order to conduct Gaming Machine operations. The West Virginia Gaming Machine Act also requires that the operator of the Charles Town Facility enter into a written agreement with the pari-mutuel clerks in order to operate Gaming Machines. Currently, there is no agreement between the operator of the Charles Town Facility and either the Charles Town Horsemen or the pari-mutuel clerks. The Company has entered into discussions with both the Charles Town Horsemen and the pari-mutuel clerks toward obtaining such agreements. The absence of an agreement with the Charles Town Horsemen or the pari-mutuel clerks at the Charles Town Facility, or the termination or non-renewal of such agreement, would have a material adverse effect on the Company's business, financial condition and results of operations.

State and Federal Simulcast Regulation. Both the Federal Horseracing Act and the Pennsylvania Racing Act require that the Company have a written agreement with the horse owners and trainers who race horses at the Thoroughbred Track (the "Thoroughbred Horsemen") and with horse owners and trainers at the Harness Track (the "Harness Horsemen" and, together with the Thoroughbred Horsemen, the "Pennsylvania Horsemen") in order to simulcast races. The Company has entered into agreements with the Pennsylvania Horsemen (the "Horsemen Agreements"), and in accordance therewith has agreed upon the allocations of the Company's revenues from import simulcast wagering to the purse funds for the Thoroughbred Track and the Harness Track. 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.

The Federal Horseracing Act requires that the operator of the Charles Town Facility obtain the approval of the Charles Town Horsemen before import simulcast wagering can be conducted there. While such approval has been obtained by Charles Town in the past, there is no written agreement with the Charles Town Horsemen providing for such approval in the future. The Company has entered into discussions with the Charles Town Horsemen toward obtaining an agreement evidencing such approval. The failure to obtain such approval 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. See "Description of Capital Stock -- Certain Restrictions on Share Ownership and Transfer."

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 Thoroughbred Track and Harness Track 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.

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 a material 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 Breeders' Cup in autumn. 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 -- Effect of Inclement Weather and Seasonality."

LIMITATIONS AND RESTRICTIONS OF CONTRACTS WITH HORSEMEN

The 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. There is no agreement between Charles Town and the Charles Town Horsemen, and although such horsemen have granted approval for import simulcast wagering in the past, there can be no assurance that such approval will be obtained in the future. The future success of the Company depends, in part, on its ability to maintain a good relationship with the Pennsylvania Horsemen and the Charles Town Horsemen (together, the "Horsemen") and to obtain renewal of the Horsemen Agreements and required approvals from the Charles Town Horsemen on satisfactory terms. Failure to do so could lead to an interruption in live racing or OTW operations or, at the Charles Town Facility, Gaming Machine operations. The Company may not be able to renew or modify the Horsemen Agreements on satisfactory terms, and failure to obtain satisfactory renewal terms could have a material adverse effect on the Company's business, financial condition and results of operations. See "Business -- Purses; Agreements with Horsemen" and "-- Regulation."

POTENTIAL ENVIRONMENTAL LIABILITIES

As a result of the Pocono Downs Acquisition, the Company owns a solid waste landfill (the "Landfill") located outside Wilkes-Barre, Pennsylvania on a parcel of land adjacent to the Harness Track. The Landfill was operated by the East Side Landfill Authority (the "Landfill Authority"), which disposed of municipal waste in the Landfill from 1970 until 1982 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 engineering consulting firm, the Landfill closure is substantially complete. To date the municipalities have been substantially fulfilling their obligations under the Settlement Agreement. 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, as the owner of the property, the Company may be liable for future claims with respect to the Landfill under the Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA") 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.

Pursuant to an agreement entered into between the Charles Town Joint Venture and Charles Town coincident with the consummation of the Charles Town Acquisition, $200,000 of the purchase price of the Charles Town Acquisition was held in escrow to satisfy certain costs expected to be incurred for the remediation or other clean-up of various items of environmental concern; the estimated cost of such remediation and clean-up is approximately $400,000. No assurance can be given that additional liability in amounts that cannot now be estimated by the Company will not arise for which the Company and the Charles Town Joint Venture may not be able to obtain reimbursement or indemnification.

The Company operates a water and sewage treatment facility at the Thoroughbred Track and a water and sewage treatment facility at the Charles Town Facility. Operation of water and sewage treatment facilities is subject to both federal and state environmental regulation. If the Company's operation of the treatment facilities is found not to comply with these regulations or future regulations which may be more stringent, the Company may be required to make potentially significant expenditures to bring the facilities into compliance, and the Company may also be subject to monetary penalties.

CONCENTRATION OF OWNERSHIP

Following the completion of this offering, and assuming no exercise of the Underwriters' over-allotment option, the Company's executive officers, directors and 5% shareholders will own beneficially an aggregate of approximately 47.8% of the outstanding Common Stock. Peter M. Carlino, the Company's Chairman and Chief Executive Officer, will have voting control, directly and indirectly through a family trust (the "Carlino Family Trust") and another corporation, of approximately 40.1% of the outstanding Common Stock. The Company's officers, directors and 5% shareholders if acting

together, and Mr. Carlino acting alone, may be able to significantly influence the election of directors and the business and affairs of the Company. Under certain circumstances, including the sale of all or substantially all of the assets of the Company or a merger, consolidation or liquidation of the Company, other trustees of the Carlino Family Trust, including Harold Cramer, who is a director of the Company, may have voting power over approximately 34.8% of the outstanding shares of Common Stock. See "Principal and Selling Shareholders" and "Description of Capital Stock -- Possible Antitakeover Effect of Certain Charter, By-Law and Other Provisions."

DEPENDENCE ON KEY PERSONNEL

The Company is highly dependent on the services of: Peter M. Carlino, the Company's Chairman and Chief Executive Officer; William J. Bork, the Company's President, Chief Operating Officer and a Director; Robert S. Ippolito, the Company's Chief Financial Officer, Secretary and Treasurer; Philip T. O'Hara, Jr., the Company's Vice President and General Manager; and senior management personnel of the Company's operating units. The loss of the services of any of these individuals could have a material adverse effect on the Company's business, financial condition and results of operations. The Company has entered into employment agreements with Messrs. Carlino, Bork and Ippolito. See Note 5 of the Notes to the Consolidated Financial Statements of the Company included elsewhere in this Prospectus.

POTENTIAL VOLATILITY OF STOCK PRICE

The market price of the Common Stock has been, and may in the future be, volatile. Fluctuations in the Company's operating results and other events or factors, such as announcements of new gaming or wagering opportunities by the Company or its competitors, legislation approving, defeating or restricting gaming, other developments with respect to government regulation, developments in the gaming industry generally and sales of substantial amounts of Common Stock in the public market, or the prospect of such sales, may have a significant effect on the market price of the Common Stock. In addition, the stock market generally and the gaming industry in particular have, from time to time, experienced extreme price and volume fluctuations; future fluctuations could adversely affect the market price of the Common Stock without regard to the financial or operating performance of the Company. A shift away from investor interest in gaming in general could adversely affect the trading price of the Common Stock in a manner unrelated to the Company's financial or operating performance. See "Price Range of Common Stock."

SHARES ELIGIBLE FOR FUTURE SALE

Sales of a substantial number of shares of the Company's Common Stock in the public market following this offering could adversely affect the market price of the Common Stock. Upon completion of this offering and assuming no exercise of outstanding stock options or warrants, the Company will have outstanding 15,105,290 shares of Common Stock (based upon the number of shares outstanding as of December 31, 1996), of which the 2,300,000 shares sold in this offering will be freely tradeable. Immediately prior to the completion of the offering it is expected that 13,355,290 shares of Common Stock will be outstanding (based upon the number of shares outstanding as of December 31, 1996), of which 575,000 shares will be sold in this offering by the Selling Shareholders (661,250 shares if the Underwriters' over-allotment option is exercised in full). Of the currently outstanding shares not being sold in this offering, 6,649,827 shares are subject to agreements with the Underwriters under which such shares may not be offered, sold or otherwise disposed of for a period of 120 days after the date of this Prospectus without the prior written consent of Salomon Brothers Inc as representative of the Underwriters.

POSSIBLE ANTITAKEOVER EFFECT OF CERTAIN CHARTER, BY-LAW AND OTHER PROVISIONS

The Company's Amended and Restated Articles of Incorporation and By-Laws provide that the Board of Directors is to consist of three classes of directors, each comprised as nearly as practicable of one-third of the Board, and that one-third of the Board is to be elected each year. At each annual meeting, only directors of the class whose term is expiring are voted upon, and upon election each

such director serves a three-year term. The Company's Amended and Restated Articles of Incorporation provide that a director may be removed with or without cause only by the affirmative vote of the holders of 75% of the voting power of all shares of the Company entitled to vote generally in the election of directors, voting as a single class; the Company's By-Laws provide that a director may only be removed without cause by written consent of the shareholders and not at a meeting. The Company's Amended and Restated Articles of Incorporation provide that shareholder-proposed nominations for election of directors and shareholder-proposed business at meetings of shareholders shall be subject to such advance notice requirements as may be contained in the By-Laws, which may be amended by the directors.

The provisions of the Company's Amended and Restated Articles of Incorporation with respect to classification of the Board of Directors and shareholder approval of the removal of directors with or without cause may not be altered, amended or repealed without the affirmative vote of the holders of at least 75% of the voting power of all shares of the Company entitled to vote generally in the election of directors, voting as a single class. See "Description of Capital Stock -- Possible Antitakeover Effect of Certain Charter, By-Law and Other Provisions."

Pursuant to the Company's Amended and Restated Articles of Incorporation, the Board of Directors of the Company may issue shares of Preferred Stock of the Company, without shareholder approval, on such terms as the Board of Directors may determine. The rights of the holders of Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. Moreover, although the ability to issue Preferred Stock may provide flexibility in connection with possible acquisitions and other corporate purposes, such issuances may make it more difficult for a third party to acquire, or may discourage a third party from acquiring, stock of the Company. The Company has no current plans to issue any shares of Preferred Stock. See "Description of Capital Stock -- Preferred Stock."

Certain provisions of Pennsylvania law could delay or impede the removal of incumbent directors and could make a merger, tender offer or proxy contest involving the Company more difficult, even if such event could be beneficial to the interests of the shareholders. Such provisions could limit the price that certain investors might be willing to pay in the future for the Company's Common Stock. See "Description of Capital Stock -- Possible Antitakeover Effect of Certain Charter, By-Law and Other Provisions."

USE OF PROCEEDS

The net proceeds to the Company from the sale of the 1,725,000 shares of Common Stock offered by the Company hereby at an assumed public offering price of $17.50 per share are estimated to be approximately $27.9 million (approximately $32.2 million if the Underwriters' over-allotment option is exercised in full), after deducting the underwriting discount and estimated offering expenses payable by the Company. The Company will not receive any proceeds from the sale of Common Stock by the Selling Shareholders.

The net proceeds to the Company will be used (i) to repay outstanding indebtedness and accrued interest under a credit facility, which was entered into with Bankers Trust Company, as Agent, in November 1996 (the "Credit Facility"), and (ii) to finance a portion of the cost of the refurbishment of the Charles Town Facility. Outstanding term loan indebtedness under the Credit Facility was incurred to finance the Pocono Downs Acquisition and the Charles Town Acquisition; additional term loan indebtedness is expected to be incurred under the Credit Facility to finance the refurbishment of the Charles Town Facility. Borrowings under the Credit Facility bear interest at an annual interest rate equal to, at the option of the Company, either the "base rate" of Bankers Trust Company plus an applicable margin of up to 2% or a eurodollar rate plus an applicable margin of up to 3%. Quarterly mandatory repayments of the amounts outstanding under the term loan portions of the Credit Facility commence December 31, 1997 and continue until the maturity date, November 26, 2001. Pursuant to the terms of the credit agreement under which such borrowings were made, the Company is obligated to apply to repayment of amounts outstanding under the Credit Facility 100% of the net proceeds to the Company of any public offering of its equity securities if the aggregate amount of the remaining commitments and amounts outstanding under the Credit Facility exceeds $50.0 million, and 50% of the net proceeds to the Company of any public offering of its equity securities if the aggregate amount of the remaining commitments and amounts outstanding under the Credit Facility is between $25.0 million and $50.0 million or if the Company's leverage ratio is greater than 2-to-1; however, the credit agreement permits the Company to retain the first $6.0 million of proceeds from any public offering of its equity securities if the offering results in net proceeds to the Company of at least $25.0 million.

The Company intends to use any balance of the net proceeds remaining after application as described above for working capital and other general corporate purposes. Pending application of the net proceeds as described above, the Company intends to invest the net proceeds in short-term investment grade securities.

PRICE RANGE OF COMMON STOCK

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 since the date on which the Common Stock commenced trading.

	HIGH	LOW
1994		
Second Quarter (May 25 through June 30, 1994)	$ 3.458	$ 2.333
Third Quarter	3.167	2.396
Fourth Quarter	2.667	2.083
1995		
First Quarter	2.917	2.250
Second Quarter	5.125	2.500
Third Quarter	6.833	4.417
Fourth Quarter	6.458	4.167
1996		
First Quarter	6.000	4.292
Second Quarter	14.500	5.875
Third Quarter	15.625	9.000
Fourth Quarter	21.375	14.250
1997		
First Quarter (through February 5, 1997)	17.500	15.000

The closing sale price per share of Common Stock on The Nasdaq National Market on February 5, 1997 was $16-1/4. As of December 31, 1996, there were 261 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. The Credit Facility prohibits the Company from authorizing, declaring or paying any dividends until the Company's commitments under the Credit Facility have been terminated and all amounts outstanding thereunder have been repaid. In addition, future bank financing may prohibit the payment of dividends under certain conditions.

CAPITALIZATION

The following table sets forth: (i) the consolidated short-term debt and capitalization of the Company as of September 30, 1996; (ii) the pro forma short-term debt and capitalization of the Company as of September 30, 1996, after giving effect to the Pocono Downs Acquisition, the Charles Town Acquisition and the borrowings under the Credit Facility made or to be made simultaneously with the consummation of each such Acquisition; and (iii) such pro forma short-term debt and capitalization, as adjusted to reflect the sale of the 1,725,000 shares of Common Stock offered by the Company hereby at the assumed public offering price of $17.50 per share (assuming no exercise of the Underwriters' over-allotment option) and the application by the Company of the estimated net proceeds therefrom, as described under "Use of Proceeds." This table should be read in conjunction with the pro forma consolidated financial statements of the Company and the consolidated financial statements of the Company, The Plains Company and Charles Town, which are included elsewhere or incorporated by reference in this Prospectus.

	SEPTEMBER 30, 1996		
	ACTUAL	PRO FORMA	PRO FORMA AS ADJUSTED
	(IN THOUSANDS)		
Current maturities of long-term debt	$ 222	$ 222	$ 222
Long-term debt:			
Tranche A Term Loan (1)	--	47,000	30,733
Tranche B Term Loan (1)	--	16,500	10,790
Other	80	80	80
Total long-term debt	80	63,580	41,603
Total debt	302	63,802	41,825
Shareholders' equity:			
Preferred Stock, par value $.01 per share, 1,000,000 shares authorized; none issued	--	--	--
Common Stock, par value $.01 per share, 20,000,000 shares authorized, 13,330,290 shares outstanding and outstanding pro forma, 15,080,290 shares outstanding pro forma as adjusted (2)	133	133	151
Additional paid-in capital	14,217	14,217	42,176
Retained earnings	12,344	12,344	12,344
Total shareholders' equity	26,694	26,694	54,671
Total capitalization	$26,996	$90,496	$96,496

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(1) Repayments of the Term Loans are applied pro rata to the Tranche A Term Loan and the Tranche B Term Loan.

(2) Excludes (i) 1,179,750 shares reserved for issuance under the Company's 1994 Stock Option Plan, of which options to purchase 823,750 shares of Common Stock were outstanding as of September 30, 1996, and (ii) 195,000 shares reserved for issuance upon the exercise of warrants to purchase Common Stock outstanding as of September 30, 1996 (170,000 shares following the consummation of the offering). As of December 31, 1996, the Company had 13,355,290 shares outstanding and outstanding pro forma, and 15,105,290 shares outstanding pro forma as adjusted, which excludes options to purchase 1,179,750 shares of Common Stock and warrants to purchase 195,000 shares of Common Stock outstanding as of December 31, 1996. See "Description of Capital Stock -- Warrants" and Note 9 of the Notes to the Consolidated Financial Statements of the Company included elsewhere in this Prospectus.

PENN NATIONAL GAMING, INC.

PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The accompanying pro forma consolidated financial statements present pro forma information for the Company, giving effect to the Pocono Downs Acquisition and the Charles Town Acquisition using the purchase method of accounting in each case and the related acquisition financing. These pro forma consolidated financial statements are based upon the historical financial statements of Penn National, The Plains Company and Charles Town as of September 30, 1996 and for the year ended December 31, 1995 and for the nine months ended September 30, 1996.

The accompanying pro forma consolidated balance sheet as of September 30, 1996 has been presented as if the Pocono Downs Acquisition and the Charles Town Acquisition had both occurred on September 30, 1996. The accompanying pro forma consolidated statements of income for the year ended December 31, 1995 and for the nine months ended September 30, 1996 have been presented as if the Pocono Downs Acquisition and the Charles Town Acquisition had both occurred on January 1, 1995.

The pro forma adjustments are based upon currently available information and upon certain assumptions described in the accompanying Notes to Pro Forma Consolidated Financial Statements. These assumptions include assumptions relating to the allocation of the purchase price paid in the Pocono Downs Acquisition and the purchase price paid in the Charles Town Acquisition to the respective assets and liabilities of Pocono Downs and Charles Town based upon preliminary estimates of their fair values; the actual allocation of such purchase prices may differ from that reflected in the pro forma consolidated financial statements. The Company's management believes the assumptions underlying the pro forma consolidated financial statements to be reasonable under the circumstances.

The pro forma consolidated financial statements are unaudited, are presented for informational purposes only and are not necessarily indicative of the results of operations that would actually have been obtained if the Acquisitions had occurred on the dates indicated, or the results of operations that may be obtained in the future. These statements are qualified in their entirety by, and should be read in conjunction with, the historical financial statements of Penn National, The Plains Company and Charles Town and related notes thereto included elsewhere in this Prospectus or incorporated herein by reference and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

PENN NATIONAL GAMING, INC.

PRO FORMA CONSOLIDATED BALANCE SHEET

SEPTEMBER 30, 1996

	PENN NATIONAL HISTORICAL	POCONO DOWNS HISTORICAL	CHARLES TOWN HISTORICAL	POCONO DOWNS PRO FORMA ADJUSTMENTS AND ELIMINATIONS	CHARLES TOWN PRO FORMA ADJUSTMENTS AND ELIMINATIONS	COMPANY PRO FORMA
			(IN THOUSANDS)			
ASSETS						
Cash and cash equivalents	$ 5,602	$ 4,521	$ 523	$(46,407)(1) 44,822(2) (1,780)(3)	(17,165)(a) 16,500 (b) (784)(c)	$ 5,832
Marketable securities	--	6,001	--	(6,001)(2)	--	--
Other current assets	3,362	1,557	190	--	(190)(a)	4,919
Total current assets	8,964	12,079	713	(9,366)	(1,639)	10,751
Property and equipment, net	19,629	12,712	9,093	22,541 (1)	7,407 (a)	71,382
Intangibles, including goodwill	1,848	--	--	11,563 (1)	2,025 (a)	15,436
Other assets, including deferred charges	3,292	235	56	(1,118)(1) 1,780 (3)	(1,939)(a) 784 (c)	3,090
Total assets	$33,733	$25,026	$9,862	$ 25,400	$ 6,638	$ 100,659
LIABILITIES AND SHAREHOLDERS' EQUITY						
Current maturities of long-term debt	$ 222	$ 1,020	$ 6,877	$ (1,020)(2)	$ (6,877)(a)	$ 222
Other current liabilities	5,748	3,426	2,027	--	(2,027)(a)	9,174
Total current liabilities	5,970	4,446	8,904	(1,020)	(8,904)	9,396
Long-term debt	80	7,159	2,704	39,841(2)	(2,704)(a) 16,500 (b)	63,580
Other long-term liabilities	989	--	84	--	(84)(a)	989
Total long-term liabilities	1,069	7,159	2,788	39,841	13,712	64,569
Minority interest	--	1,880	--	(1,880)(1)	--	--
Total shareholders' equity (deficit)	26,694	11,541	(1,830)	(11,541)(1)	1,830(a)	26,694
Total liabilities and shareholders' equity	$33,733	$25,026	$ 9,862	$ 25,400	$ 6,638	$100,659

The accompanying notes are an integral part of these pro forma consolidated financial statements.

PENN NATIONAL GAMING, INC.

PRO FORMA CONSOLIDATED STATEMENTS OF INCOME

YEAR ENDED DECEMBER 31, 1995

	PENN NATIONAL HISTORICAL	POCONO DOWNS HISTORICAL	CHARLES TOWN HISTORICAL	POCONO DOWNS PRO FORMA ADJUSTMENTS AND ELIMINATIONS	CHARLES TOWN PRO FORMA ADJUSTMENTS AND ELIMINATIONS	COMPANY PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
Total revenues	$57,676	$33,854	$11,027	$ --	$ --	$ 102,557
Total operating expenses	49,421	27,261	12,776	(1,053)(6) 861 (7)	182(e)	89,448
Income (loss) from operations	8,255	6,593	(1,749)	192	(182)	13,109
Total other income (expenses)	208	(461)	(402)	(3,995)(4) 561 (5)	(1,249)(d) 664 (g) (200)(h)	(4,874)
Minority interest	--	(1,571)	--	1,571 (9)	--	--
Income (loss) before income taxes	8,463	4,561	(2,151)	(1,671)	(967)	8,235
Taxes on income	3,467	1,602	--	(1,362)(8) 660 (9)	(979)(f)	3,388
Net income (loss)	$ 4,996	$ 2,959	$(2,151)	$ (969)	$ 12	$ 4,847
Net income per share	$ .38					$ .37
Weighted average common shares outstanding	13,104					13,104

NINE MONTHS ENDED SEPTEMBER 30, 1996

	PENN NATIONAL HISTORICAL	POCONO DOWNS HISTORICAL	CHARLES TOWN HISTORICAL	POCONO DOWNS PRO FORMA ADJUSTMENTS AND ELIMINATIONS	CHARLES TOWN PRO FORMA ADJUSTMENTS AND ELIMINATIONS	COMPANY PRO FORMA
	(IN THOUSANDS, EXCEPT PER SHARE DATA)					
Total revenues	$46,474	$25,746	$ 8,746	$ --	$ --	$ 80,966
Total operating expenses	39,237	21,306	10,328	(804)(6) 601 (7)	134(e)	70,802
Income (loss) from operations	7,237	4,440	(1,582)	203	(134)	10,164
Total other income (expenses)	185	(316)	(271)	(2,996)(4) 306 (5)	(936)(d) 534 (g) (200)(h)	(3,694)
Minority interest	--	(874)	--	874 (9)	--	--
Income (loss) before income taxes	7,422	3,250	(1,853)	(1,613)	(736)	6,470
Taxes on income	3,016	1,323	--	(1,045)(8) 367 (9)	(810)(f)	2,851
Net income (loss)	$ 4,406	$ 1,927	$(1,853)	$ (935)	$ 74	$ 3,619
Net income per share	$ .32					$ .26

Weighted average common shares outstanding.....	13,754	13,754

The accompanying notes are an integral part of these pro forma consolidated financial statements.

PENN NATIONAL GAMING, INC.

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

POCONO DOWNS ACQUISITION:

The pro forma adjustments are as follows:

(1) The Company purchased Pocono Downs for $47,000,000 and recorded a charge of $525,000 for estimated acquisition-related costs.

The purchase price of the Pocono Downs Acquisition is reflected as follows:

	(IN THOUSANDS)
Cost of Pocono Downs Acquisition	$ 47,525
Less: Historical minority interest	(1,880)
Pocono Downs historical equity	(11,541)
Excess acquisition cost	$ 34,104
Allocations:	
Increase to property and equipment	$ 22,541
Intangibles, including goodwill	11,563
	$ 34,104

The following pro forma adjustment records the Pocono Downs Acquisition:

	SEPTEMBER 30, 1996	
	DEBIT	CREDIT
	(IN THOUSANDS)	
Cash		$46,407
Property and equipment, net	$22,541	
Intangibles, including goodwill	11,563	
Minority interest	1,880	
Stockholders' equity	11,541	
Other assets, including deferred charges		1,118

(2) In connection with the Pocono Downs Acquisition, the Company borrowed $47,000,000. Approximately $8,179,000 of existing Pocono Downs cash and marketable securities was used to retire its long-term indebtedness. The following pro forma adjustment reflects the repayment of certain Pocono Downs indebtedness, as well as the transaction-related borrowings:

	SEPTEMBER 30, 1996	
	DEBIT	CREDIT
	(IN THOUSANDS)	
Current maturities of long-term debt	$ 1,020	
Long-term debt		$39,841
Cash	44,822	
Marketable securities		6,001

(3) Fees incurred or to be incurred in connection with the above-mentioned

bank borrowing are estimated to be $1,780,000. The following pro forma adjustment represents the payment of these fees:

	SEPTEMBER 30, 1996	
	DEBIT	CREDIT
	(IN THOUSANDS)	
Other assets, including deferred charges	$1,780	
Cash		$1,780

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(4) The purchase price was financed with the above-mentioned bank borrowing. The following pro forma adjustment records the interest expense in connection with this borrowing at an assumed interest rate of 8.5% per annum:

	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Interest expense -- senior debt.....	$3,995	$2,996

(5) The following pro forma adjustment reflects the elimination of Pocono Downs, net interest expense relating to the repayment of its indebtedness:

	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Eliminate historical net interest expense.....	$(561)	$(306)

(6) The following pro forma adjustment reflects the elimination of certain historical Pocono Downs corporate and administrative expenses, principally certain duplicative senior management compensation:

	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Operating expenses other than depreciation and amortization.....	$(1,053)	$(804)

(7) The following pro forma adjustment reflects the incurrence of additional depreciation and amortization:

	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Operating expenses -- depreciation and amortization.....	$861	$601

(8) Pro forma adjustment to record income tax effect of pro forma income statement adjustments at estimated effective tax rate of 42%:

	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Income tax effect	$(1,362)	$(1,045)

(9) Pro forma adjustment to eliminate allocation of income to Pocono Downs' minority interest and the related tax effect:

	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Minority interest	$1,571	$874
Income tax provision	660	367

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

CHARLES TOWN ACQUISITION:

The pro forma adjustments are as follows:

(a) The Charles Town Joint Venture, in which the Company has reached an agreement with its joint venture partner to hold an 89% interest, purchased substantially all of the assets of Charles Town for approximately $16,500,000 and has incurred or will incur $2,025,000 of estimated acquisition-related costs.

The purchase price of the Charles Town Acquisition is reflected as follows:

	(IN THOUSANDS)
Cost of Charles Town Acquisition.....	$18,525
Less: Historical value of assets being acquired.....	(9,093)
Excess acquisition cost.....	$ 9,432
Allocations:	
Increase to property and equipment.....	$ 7,407
Intangibles, including goodwill.....	2,025
	$ 9,432

The following pro forma adjustment records the Charles Town Acquisition and the elimination of all other components of Charles Town's balance sheet as of September 30, 1996:

	SEPTEMBER 30, 1996	
	DEBIT	CREDIT
	(IN THOUSANDS)	
Cash.....		$17,165
Other current assets.....		190
Property and equipment, net.....	$7,407	
Intangibles, including goodwill.....	2,025	
Current maturities of long-term debt.....	6,877	
Other current liabilities.....	2,027	
Long-term debt.....	2,704	
Other long-term liabilities.....	84	
Shareholders' equity.....		1,830
Other assets, including deferred charges.....		1,939

(b) The Company borrowed $16,500,000 to finance the Charles Town Acquisition. The following pro forma adjustment reflects the financing of the Charles Town Acquisition:

	SEPTEMBER 30, 1996	
	DEBIT	CREDIT
	(IN THOUSANDS)	
Long-term debt.....		16,500
Cash.....	$16,500	

(c) Fees incurred or to be incurred by the Company in connection with the above-mentioned bank borrowing are estimated to be $784,000. The following pro forma adjustment represents the payment for these costs:

	SEPTEMBER 30, 1996	
	DEBIT	CREDIT
	(IN THOUSANDS)	
Other assets, including deferred charges.....	$784	
Cash.....		$784

NOTES TO PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

(d) The following pro forma adjustment records the interest expense in connection with the above-mentioned bank borrowing at an assumed interest rate of 8.5% per annum:

	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Interest expense -- senior debt.....	$1,249	$936

(e) The following pro forma adjustment reflects the effect of additional depreciation and amortization:

	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Operating expenses -- depreciation and amortization.....	$182	$134

(f) Pro forma adjustment to record income tax effect of pro forma income statement adjustments at estimated effective tax rate of 34%:

	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Income tax effect.....	$(979)	$(810)

(g) The following pro forma adjustment reflects the elimination of substantially all of Charles Town's net interest expense:

	YEAR ENDED DECEMBER 31, 1995	NINE MONTHS ENDED SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Eliminate historical net interest expense.....	$(664)	$(534)

(h) The following pro forma adjustment reflects the elimination of other income recorded by Charles Town in relation to purchase option payments:

	YEAR ENDED	NINE MONTHS ENDED

	DECEMBER 31, 1995	SEPTEMBER 30, 1996
	(IN THOUSANDS)	
Other income	$(200)	$(200)

SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial information with respect to the Company's financial position as of December 31, 1994 and 1995 and its results of operations for each of the three years in the period ended December 31, 1995 has been derived from the audited consolidated financial statements of the Company appearing elsewhere in this Prospectus. The selected consolidated financial information with respect to the Company's results of operations for the years ended December 31, 1991 and 1992 and with respect to the Company's financial position as of December 31, 1991, 1992 and 1993 has been derived from audited financial statements of the Company that are not included in this Prospectus. The selected consolidated financial data for each of the nine-month periods ended September 30, 1995 and 1996 are derived from the Company's unaudited financial statements, which, in the opinion of management, reflect all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the results of such periods, adjusted as described in the notes below. The results for the nine-month period ended September 30, 1996 are not necessarily indicative of results for the full year, or any future period. The selected historical 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 elsewhere in this Prospectus or incorporated by reference herein.

	YEAR ENDED DECEMBER 31,					NINE MONTHS ENDED SEPTEMBER 30,	
	1991 (1)	1992 (1)	1993 (1)	1994	1995	1995	1996
	(IN THOUSANDS, EXCEPT SHARE, PER SHARE AND ATTENDANCE DATA)						
INCOME STATEMENT DATA:							
Revenues							
Pari-mutuel revenues							
Penn National races	$ 26,490	$ 31,967	$ 29,224	$ 23,428	$ 21,376	$ 16,578	$ 14,495
Import simulcasting	3,921	5,764	9,162	16,968	27,254	20,412	23,596
Export simulcasting	--	306	383	1,187	2,142	1,447	2,479
Admissions, programs and other racing revenues	2,252	2,502	2,485	2,563	3,704	2,978	3,403
Concession revenues	671	1,285	1,410	1,885	3,200	2,478	2,501
Total revenues	33,334	41,824	42,664	46,031	57,676	43,893	46,474
Operating expenses							
Purses, stakes and trophies	8,704	9,581	9,719	10,674	12,091	9,329	9,744
Direct salaries, payroll taxes and employee benefits	5,329	5,939	6,394	6,707	7,699	5,823	6,211
Simulcast expenses	7,576	10,403	10,136	8,892	9,084	6,905	6,920
Pari-mutuel taxes	2,930	3,504	3,568	4,054	4,963	3,773	3,954
Other direct meeting expenses	4,876	5,835	6,046	6,375	8,214	6,249	6,932
OTW concession expenses	--	541	806	1,231	2,221	1,689	1,766
Management fees paid to related entity	882	1,366	1,208	345	--	--	--
Other operating expenses	1,911	2,354	2,331	3,329	5,149	3,750	3,710
Total operating expenses	32,208	39,523	40,208	41,607	49,421	37,518	39,237
Income from operations	1,126	2,301	2,456	4,424	8,255	6,375	7,237
Other income (expenses)							
Interest income (expense), net	(910)	(917)	(962)	(340)	198	146	185
Other	89	56	6	15	10	4	--
Total other income (expenses)	(821)	(861)	(956)	(325)	208	150	185
Income before income taxes and extraordinary item	305	1,440	1,500	4,099	8,463	6,525	7,422
Taxes on income	76	150	42	1,381	3,467	2,680	3,016
Income before extraordinary item	229	1,290	1,458	2,718	4,996	3,845	4,406
Extraordinary item loss on early extinguishment of debt, net of income taxes of $83	--	--	--	115	--	--	--
Net income	$ 229	$ 1,290	$ 1,458	$ 2,603	$ 4,996	$ 3,845	$ 4,406

Net income per share.....					$ .38	$ .29	$ .32
Weighted average common shares outstanding.....					13,104,000	13,044,000	13,754,000
SUPPLEMENTAL PRO FORMA INCOME STATEMENT DATA (2):							
Net income.....			$ 1,81	$ 2,724			
Net income per share.....			0.15	0.22			
Weighted average common shares outstanding.....			12,249,000(3)	12,663,000			

SELECTED CONSOLIDATED FINANCIAL DATA -- (CONTINUED)

	YEAR ENDED DECEMBER 31,					NINE MONTHS ENDED SEPTEMBER 30,	
	1991 (1)	1992 (1)	1993 (1)	1994	1995	1995	1996
	(IN THOUSANDS, EXCEPT SHARE, PER SHARE AND ATTENDANCE DATA)						
OTHER DATA (UNAUDITED):							
Total paid attendance (4).....	636,944	785,569	799,625	848,482	1,051,803	813,823	802,948
Pari-mutuel wagering							
Penn National races.....	$ 128,551	$ 153,332	$ 138,939	$ 111,248	$ 102,145	$ 79,235	$ 69,200
Import simulcasting.....	28,660	42,159	58,252	93,461	142,499	106,664	122,895
Export simulcasting.....	--	10,202	12,746	40,337	72,252	48,327	84,228
Total pari-mutuel wagering.....	$ 157,211	$ 205,693	$ 209,937	$ 245,046	$ 316,896	$ 234,226	$ 276,323
Gross profit from wagering (5).....	$ 11,201	$ 14,549	$ 15,346	$ 17,963	$ 24,634	$ 18,430	$ 19,952

	DECEMBER 31,					SEPTEMBER 30,	
	1991	1992	1993	1994	1995	1995	1996
	(IN THOUSANDS)						
BALANCE SHEET DATA:							
Cash.....	$ 88	$ 937	$ 1,002	$ 5,502	$ 7,514	$ 6,865	$ 5,602
Working capital (deficiency)...	(4,120)	(4,700)	(4,549)	2,074	4,134	2,762	2,994
Total assets.....	14,602	18,071	18,373	21,873	27,532	26,579	33,733
Total debt.....	10,181	11,716	10,422	516	390	425	302
Shareholders' equity.....	1,224	2,516	3,418	15,627	20,802	19,472	26,694

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(1) The Consolidated Financial Statements of the Company include entities which, prior to a reorganization which occurred in 1994 shortly before the Company's initial public offering (the "Reorganization"), were affiliated through common ownership and control. See Note 1 of the Notes to the Consolidated Financial Statements of the Company included elsewhere in this Prospectus.

(2) 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 compensation, (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.

(3) 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.

(4) Does not reflect attendance at the Thoroughbred Track for wagering on simulcasts when live racing is not conducted, but does reflect attendance at the Reading, Chambersburg, York and Lancaster OTWs, which opened in May 1992, April 1994, March 1995 and July 1996, respectively.

(5) 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.

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

The following Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements which involve risks and uncertainties. The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of certain factors, including those set forth under "Risk Factors" and elsewhere in this Prospectus.

GENERAL

Penn National's pari-mutuel revenues have been derived from (i) wagering on Penn National races at the Thoroughbred Track, Penn National's OTWs, other Pennsylvania racetracks and OTWs and through Telebet, as well as wagering at the Thoroughbred Track on certain stakes races run at out-of-state racetracks (referred to in the Company's financial statements as "pari-mutuel revenues from Penn National races"), (ii) wagering on full cards of import simulcast races at the Thoroughbred Track, Penn National's OTWs and through Telebet (referred to in the Company's financial statements as "pari-mutuel revenues from import simulcasting") and (iii) fees from wagering on export simulcasting Penn National races at out-of-state locations (referred to in the Company's financial statements as "pari-mutuel revenues from export simulcasting"). Penn National's other revenues have been derived from admissions, program sales and certain other ancillary activities and food and beverage sales and concessions.

The amount of revenue to Penn National from a wager depends upon where the race is run and where the wagering takes place. Pari-mutuel revenues from Penn National races and import simulcasting of out-of-state races has consisted of the total amount wagered, less the amount paid as winning wagers. Pari-mutuel revenues from wagering at the Thoroughbred Track or Penn National's OTWs on import simulcasting from other Pennsylvania racetracks has 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 has consisted of amounts payable to Penn National by the out-of-state racetracks with respect to wagering on live races at the Thoroughbred Track.

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 Thoroughbred Track, pari-mutuel taxes on Penn National races 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 Penn National (prior to required payments to the Thoroughbred Horsemen and applicable taxing authorities). The percentages vary, based on the type of wager; the average percentage is approximately 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 Thoroughbred Track or the Penn National OTWs, Penn National'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. Penn National retains a higher percentage of wagers made at its own facilities than of wagers made at other locations. See "Business -- Purses; Agreements with Horsemen."

RECENT DEVELOPMENTS

Based on preliminary results, the Company expects that its net income for the fourth quarter ending December 31, 1996 will approximate $1,100,000, compared to net income of $1,151,000 for the fourth quarter ending December 31, 1995. The decrease in net income is due primarily to higher interest expense, approximately $453,000 of which is related to short-term borrowings in connection with the Pocono Downs Acquisition and less than expected net income from the Company's Lancaster OTW, which opened in July 1996 after a court challenge and strenuous opposition from local groups averse to gaming.

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,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
Revenues					
Pari-mutuel revenues					
Penn National races	68.5%	50.9%	37.1%	37.8%	31.2%
Import simulcasting	21.5	36.9	47.3	46.5	50.8
Export simulcasting	0.9	2.6	3.7	3.3	5.3
Admissions, programs and other racing revenues	5.8	5.5	6.4	6.8	7.3
Concession revenues	3.3	4.1	5.5	5.6	5.4
Total revenues	100.0	100.0	100.0	100.0	100.0
Operating expenses					
Purses, stakes and trophies	22.8	23.2	21.0	21.3	21.0
Direct salaries, payroll taxes and employee benefits	15.0	14.6	13.3	13.3	13.3
Simulcast expenses	23.8	19.3	15.8	15.7	14.9
Pari-mutuel taxes	8.3	8.8	8.6	8.6	8.5
Other direct meeting expenses	14.2	13.8	14.2	14.2	14.9
OTW concession expenses	1.9	2.7	3.9	3.9	3.8
Management fees paid to related entity	2.8	0.8	--	--	--
Other operating expenses	5.4	7.2	8.9	8.5	8.0
Total operating expenses	94.2	90.4	85.7	85.5	84.4
Income from operations	5.8	9.6	14.3	14.5	15.6
Other income (expenses)					
Interest income (expense), net	(2.3)	(0.7)	0.4	0.4	0.4
Other	0.1	--	--	--	--
Total other income (expenses)	(2.2)	(0.7)	0.4	0.4	0.4
Income before income taxes and extraordinary item	3.6	8.9	14.7	14.9	16.0
Net income	3.4	5.7	8.7	8.8	9.5

NINE MONTHS ENDED SEPTEMBER 30, 1996 COMPARED TO NINE MONTHS ENDED SEPTEMBER 30, 1995

Total revenue increased by approximately $2.6 million or 5.9% from $43.9 million for the nine months ended September 30, 1995 to $46.5 million for the nine months ended September 30, 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 Penn National races. Revenues also increased due to the opening of the Lancaster OTW on July 11, 1996. The increase in export simulcasting revenues of $1.0 million or 71.3% from $1.4 million to $2.5 million resulted from Penn National's races being broadcast to additional out-of-state locations. The decrease in pari-mutuel revenues on Penn National races was

due to increased import simulcasting revenue from wagering on other racetracks at Company facilities. For the nine-month period in 1996, Penn National was scheduled to run 165 live race days but canceled 11 days in the first quarter due to weather. In the comparable period in 1995, Penn National ran 154 live race days.

Total operating expenses increased by approximately $1.7 million or 4.6% from $37.5 million for the nine months ended September 30, 1995 to $39.2 million for the nine months ended September 30, 1996. The increase in operating expenses resulted from an increase in purses, stakes and trophies, pari-mutuel taxes, and simulcast expenses resulting from an increase in revenue from import simulcasting, nine months of operating expenses for the York OTW in 1996 compared to six months of expenses in 1995, and three months of operating expenses for the new Lancaster OTW.

Income from operations increased by approximately $0.9 million or 13.5% from $6.4 million to $7.2 million due to the factors described above.

Net income from operations increased by approximately $561,000 or 14.6% from $3.8 million for the nine months ended September 30, 1995 to $4.4 million for the nine months ended September 30, 1996. Income tax expense increased from $2.7 million to $3.0 million, primarily due to the increase in income for the period.

YEAR ENDED DECEMBER 31, 1995 COMPARED TO YEAR ENDED DECEMBER 31, 1994

Total revenues increased by approximately $11.6 million or 25.3% from $46.0 million to $57.7 million in 1995. This increase was primarily attributable to an increase in import and export simulcasting revenues, admissions programs, other racing revenues and concession revenues. The increase in revenues resulted from a full year of operations at the Chambersburg OTW compared to eight months of operations in 1994, the opening of the York OTW in March 1995, and an increase of approximately $955,000 or 80.5% from $1.2 million to $2.1 million in export simulcasting revenues due to Penn National races being broadcast to additional out-of-state locations. The decrease in pari-mutuel revenues from live races at the Thoroughbred Track was due to the decrease in the number of live race days from 219 race days in 1994 to 204 race days in 1995.

Total operating expenses increased by approximately $7.8 million or 18.8% from $41.6 million to $49.4 million in 1995. The increase in operating expenses resulted from a full year of operations at the Chambersburg OTW, the opening of the York OTW and the expansion of the corporate staff and office facility in Wyomissing. The decrease in management fees was a result of the management fees being discontinued when Penn National completed its initial public offering in 1994.

Income from operations increased by approximately $3.8 million or 86.6% from $4.4 million to $8.3 million due to the factors described above.

Total other income (expense) increased by approximately $533,000 due to the investment of available cash reserves and the decrease in interest expense as a result of repayment of all bank debt with the proceeds of Penn National's initial public offering in May 1994.

Net income increased by approximately $2.4 million or 91.9% from $2.6 million to $5.0 million reflecting the factors described above. Income tax expenses increased from $1.4 million to $3.5 million due to the increased income for the year.

YEAR ENDED DECEMBER 31, 1994 COMPARED TO YEAR ENDED DECEMBER 31, 1993

Total revenues increased by $3.4 million or 7.9% from $42.7 million to $46.0 million in 1994. This increase was primarily attributable to an increase in import and export simulcasting revenues, which was partially offset by a decrease in pari-mutuel revenues from live races at the Thoroughbred Track. The increase in import simulcasting revenues resulted from a full year of full-card import simulcasting and the opening of the Chambersburg OTW in April 1994. The decrease in wagering on live races at the Thoroughbred Track was attributable to a decrease in live racing days because of inclement

weather and competition from full-card import simulcasting. The increase in export simulcasting revenues resulted from Penn National races being broadcast to additional out-of-state locations.

Total operating expenses increased $1.4 million or 3.5% from $40.2 million to $41.6 million in 1994. The increase was attributable to an increase in purses, stakes and trophies, direct salaries, payroll taxes and employee benefits, pari-mutuel taxes, other direct meeting expenses, off-track wagering concession expenses and other operating expenses. These increases were partially offset by a decrease in simulcast expenses and management fees paid to a related entity. Direct salaries, payroll taxes and employee benefits, other direct meeting expenses and offtrack wagering concession expenses increased due to the April 26, 1994 opening of the Chambersburg OTW. The increases in purses, stakes and trophies, and pari-mutuel taxes was directly related to the increase in pari-mutuel revenues. The decrease in simulcast expenses was a result of the decrease in wagering on Penn National Races at other Pennsylvania racetracks. When Penn National completed its initial public offering in May 1994, it ceased to pay management fees to a related entity which resulted in a decrease in these fees. The increase in other operating expenses was attributable to the opening of the Chambersburg OTW and the increase in officers' salaries and wages after the initial public offering.

Income from operations increased by $2.0 million or 80.1% from $2.4 million to $4.4 million in 1994, reflecting the factors described above.

Total other (expenses) decreased by $631,000 or 66.0% from $956,000 to $325,000 primarily because of a decrease in interest expense as a result of Penn National repaying all of its bank debt with the proceeds of the initial public offering in May 1994.

Net income increased by $1.1 million, or 78.5% from $1.5 million to $2.6 million in 1994 reflecting the factors described above. The increase in income before extraordinary item was offset in part by an increase in loss on early extinguishment of debt of $115,000 net of income taxes in 1994.

LIQUIDITY AND CAPITAL RESOURCES

Historically, Penn National's primary sources of liquidity and capital resources have been cash flow from operations and borrowings from banks and related parties. During the nine months ended September 30, 1996, Penn National's cash position decreased by approximately $1.9 million from $7.5 million at December 31, 1995 to $5.6 million at September 30, 1996, as a result of expenditures for improvements and equipment at the Thoroughbred Track, construction of the Lancaster OTW, the start of construction of the Williamsport OTW and prepaid acquisition costs in connection with the Acquisitions. During the year ended December 31, 1995, the Company's cash position increased to $7.5 million from $5.5 million at December 31, 1994.

Net cash provided from operating activities totaled approximately $4.5 million for the nine months ended September 30, 1996, of which $5.3 million came from net income and non-cash expenses, which was offset by other operating activity items. Net cash provided from operating activities totaled $5.9 million during 1995, of which substantially all came from net income and non-cash expenses.

Cash flows used in investing activities for the nine months ended September 30, 1996 totaled approximately $7.8 million. Capital expenditures totaled $4.8 million for improvements and equipment at the Thoroughbred Track, the construction of the Lancaster OTW and the start of construction of the Williamsport OTW. Prepaid acquisition costs totaled $1.9 million for the Charles Town Acquisition and $1.1 million for the Pocono Downs Acquisition. Cash flows used in investing activities totaled $4.0 million for capital expenditures during the year ended December 31, 1995. Capital expenditures were primarily for improvements and equipment at the Thoroughbred Track and the cost of construction of the York OTW.

Cash flows from financing activities for the nine months ended September 30, 1996 totaled approximately $1.5 million from the exercise of warrants and the issuance of 385,290 shares of Common Stock.

The Company is subject to possible liabilities arising from environmental conditions at the Landfill adjacent to the Harness Track. 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. Any such expenses could have a material adverse effect on the Company's business, financial condition and results of operations. See "Risk Factors -- Potential Environmental Liability."

In May 1994, the Company completed an initial public offering which generated proceeds of $13.0 million after payment of commissions and other offering expenses. A portion of the proceeds was used to repay substantially all of the Company's bank debt and other indebtedness outstanding at that time, which aggregated approximately $11.0 million. In addition, the Company made S corporation distributions of $3.0 million during the year ended December 31, 1994 to the shareholders of the S corporations partially comprising the Company immediately prior to the initial public offering. Approximately $2.0 million of these distributions were not paid out in cash, but were offset against and applied to repay debts owed by the shareholders or their affiliates to the Company.

In November 1996, the Company entered an agreement with a syndicate of banks for which Bankers Trust Company acts as agent (the "Agent"), providing for a $75.0 million Credit Facility. Amounts outstanding under the Credit Facility bear interest, at the Company's option, at the Agent's 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 includes (i) a $47.0 million term loan, which was used to finance the consummation of the Pocono Downs Acquisition, (ii) a $23.0 million term loan a portion of which was used to finance the Charles Town Acquisition and the balance of which will be used to finance a portion of the refurbishment of the Charles Town Facility and (iii) a $5.0 million revolving loan, including a $2.0 million letter of credit sub-limit, of which $1.4 million was outstanding as of December 31, 1996. The Company's existing credit facility was repaid and terminated simultaneously with the closing of the Credit Facility. The Credit Facility is secured by the assets of the Company and contains customary covenants, including financial covenants with respect to the Company's leverage and interest coverage ratios, payments of dividends and sales of assets, and customary default provisions, including provisions related to non-payment of principal and interest, default under other debt agreements and bankruptcy. Pursuant to the terms of the credit agreement under which such borrowings were made, the Company is obligated to apply to repayment of amounts outstanding under the Credit Facility 100% of the net proceeds to the Company of any public offering of its equity securities or of any funded indebtedness issued by the Company if the aggregate amount of the remaining commitments and amounts outstanding under the Credit Facility exceeds $50.0 million, and 50% of the net proceeds to the Company of any public offering of its equity securities or of any funded indebtedness issued by the Company if the aggregate amount of the remaining commitments and amounts outstanding under the Credit Facility is between $25.0 million and $50.0 million or if the Company's leverage ratio is greater than 2-to-1; however, the credit agreement permits the Company to retain the first $6.0 million of proceeds from any public offering of its equity securities if the offering results in net proceeds to the Company of at least $25.0 million. The Credit Facility requires the Company to obtain the syndicate's consent prior to making additional investments in new or existing businesses, subject to certain exceptions. The Company and the Charles Town Joint Venture have applied to the West Virginia State Racing Commission for confirmation of the Company's preliminary license to conduct racing and pari-mutuel wagering and to the West Virginia Lottery Commission for a license to install and operate Gaming Machines at the refurbished Charles Town Facility; failure by the Company to obtain a license from the West Virginia Lottery Commission by June 1, 1997 or to retain both licenses constitutes an event of default under the Credit Facility. As of January 20, 1997, the principal amount outstanding under the Credit Facility was $63.5 million, all of which was used to pay the purchase price for the Pocono Downs Acquisition and the Charles Town Acquisition and related transaction costs, and the average interest rate applicable to such borrowings was approximately 8.625%.

During 1997, the Company anticipates capital expenditures of approximately $4.0 million to construct the Downingtown OTW, approximately $3.0 million to complete the Williamsport OTW, approximately $4.0 million towards the construction of two additional OTWs and approximately $1.0 million for miscellaneous capital expenditures and improvements. Under the Credit Facility, the Company is permitted to make capital expenditures (not including the refurbishment of the Charles Town Facility or the cost of Gaming Machines) of $12.0 million in 1997, $4.0 million in 1998 and $2.0 million in 1999 and thereafter. The Company anticipates expending approximately $16.0 million on the refurbishment of the Charles Town Facility (excluding the cost of Gaming Machines).

In December 1995, the Company agreed in principle to form a joint venture to develop, manage and operate pari-mutuel racing facilities in a state other than Pennsylvania or West Virginia. The actual formation of the joint venture is subject to numerous contingencies, including receipt of regulatory approval from that state's Horse Racing Commission and approval of the Company's lenders. The Company intends to fund, if successful, the joint venture's operations through additional borrowings and the Company's working capital.

On February 26, 1996, construction began on the Lancaster OTW. The construction costs totaled approximately $2.4 million and were funded from the Company's cash reserves. The Lancaster OTW opened July 11, 1996.

On May 13, 1996, the Company loaned $400,000 to an unrelated company in Downingtown in connection with an option to acquire land upon which the Company may construct an OTW. The loan bears interest at a rate of 10% per annum and matures on May 13, 1997.

Effective June 4, 1996, the Charles Town Joint Venture entered into a Loan and Security Agreement with Charles Town Races, Inc. The Loan and Security Agreement provided for a working capital line of credit in the amount of $1,250,000. Upon consummation of the Charles Town Acquisition, Charles Town Races, Inc. repaid the loan and the purchase price for the Charles Town Facility was to be reduced by $1.60 for each dollar borrowed. The parties agree 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. Approximately $350,000 has been escrowed pending resolution of this issue.

The Company currently estimates that the net proceeds of this offering, together with cash generated from operations and borrowings under the Credit Facility, will be sufficient to finance its current operations, potential obligations relating to the Acquisitions and planned capital expenditure requirements at least through 1997. There can be no assurance, however, that the Company will not be required to seek additional capital at an earlier date. 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. If additional funds are raised by issuing equity securities, existing shareholders may experience dilution.

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. During the year ended December 31, 1995, the Company lost six scheduled racing days due to weather conditions and during the nine month period ended September 30, 1996, the Company lost 11 scheduled racing days due to weather conditions. Over the previous five years, the Company lost an average of four days per year due to inclement weather. Because a substantial portion of the Company's Thoroughbred Track and Harness Track 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.

The severe winter weather in 1996 also resulted in the closure of the Company's OTW facilities for two days in January 1996. Although weather conditions reduced attendance at OTWs, the reduction in

attendance at OTWs on days when both the Thoroughbred Track and the OTWs were open was proportionately less than the reduction in attendance at the Thoroughbred Track. Because of the Company's growing dependence upon OTW operations, severe weather that causes the Company's OTWs to close could have a material adverse effect on 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 Breeders' Cup in autumn. 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.

OTHER MATTERS

During 1995, the Financial Accounting Standards Board ("FASB") adopted 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." The Company adopted the provisions of SFAS 121 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 indicate that the carrying amount of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell.

During 1995, the FASB also 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, 1995 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. The Company has decided to continue to apply Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," for its stock-based employee compensation arrangements. APB 25 uses what is referred to as an intrinsic value based method of accounting. The disclosure provisions of SFAS 123 are effective for fiscal years beginning after December 15, 1995. The Company will provide these disclosures when required.

GENERAL

Penn National Gaming, which began operations in 1972, operates the largest number of pari-mutuel wagering locations in Pennsylvania. The Company provides pari-mutuel wagering opportunities on both live and simulcast thoroughbred and harness horse races at two racetracks and six OTWs located principally in Eastern and Central Pennsylvania. Prior to the consummation of the Acquisitions, the Company owned and operated the Thoroughbred Track outside Harrisburg, Pennsylvania and four OTWs in Chambersburg, Lancaster, Reading and York, Pennsylvania. On November 27, 1996, the Company consummated the Pocono Downs Acquisition, and as a result acquired the Harness Track outside Wilkes-Barre, Pennsylvania and two OTWs in Allentown and Erie, Pennsylvania. The Company now operates one of the two thoroughbred tracks in Pennsylvania and one of the two harness tracks in Pennsylvania. The Company intends to develop five additional OTWs that have been allocated to it under Pennsylvania law, after which it would operate a total of 11 of the 23 OTWs currently authorized in Pennsylvania.

Following the consummation of the Charles Town Acquisition on January 15, 1997, the Company operates, and has reached an agreement with its joint venture partner to hold an 89% interest in, Charles Town Races, a thoroughbred racing facility located in Jefferson County, West Virginia. The Charles Town Facility is approximately a 60-minute drive from Baltimore, Maryland and approximately a 70-minute drive from Washington, D.C. After refurbishment, the Company expects to reopen Charles Town Races as an entertainment complex that will feature live racing, dining, simulcast wagering and Gaming Machines. On November 5, 1996, Jefferson County approved a referendum permitting the installation of Gaming Machines at the Charles Town Facility. Approval for the installation of 400 Gaming Machines has been applied for and is expected to be obtained from the West Virginia Lottery Commission within 90 to 120 days after the January 15, 1997 consummation of the Charles Town Acquisition. The Company expects that these machines will be installed and operational in mid-1997. The installation of additional Gaming Machines at the Charles Town Facility is subject to approval by the West Virginia Lottery Commission after application and a public hearing. The Company anticipates that it will apply for approval of the installation and operation of a total of 1,000 Gaming Machines within the first year after the opening of the Charles Town Facility.

The Company conducts pari-mutuel wagering at all of its locations on thoroughbred and harness races run at its own tracks and on thoroughbred and harness races import simulcast from other racetracks. The Company also export simulcasts races run at its own tracks for wagering at other racetracks and OTWs in Pennsylvania and at other locations throughout the United States. The Company's customers can also wager on Company Races and on races import simulcast from other racetracks through Telebet.

INDUSTRY OVERVIEW

Pari-mutuel wagering on thoroughbred or harness racing is pooled wagering, in which a totalisator system totals the amounts wagered and adjusts the payouts to reflect the relative amounts bet on different horses and various possible outcomes. Portions of the pooled wagers are retained by the wagering facility, paid to the applicable regulatory or taxing authorities and 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 paid out to bettors as winnings in accordance with the payoffs determined by the totalisator system. 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 racetrack ownership and operation is typically 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 slightly from approximately $14.1 billion in 1992 to approximately $14.6 billion in 1995, according to the Association of Racing Commissioners International, Inc.; an increase in simulcast, inter-track, off-track and telephone wagering from approximately $7.0 billion to approximately $10.1 billion during that period has offset declining wagering at tracks on live races. 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. 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 simulcasting and export simulcasting and the operation of Gaming Machines, to the extent permitted.

STRATEGY

The Company intends to be a leading participant in the wagering industry by capitalizing upon its horse racing expertise and its numerous wagering locations. The Company's strategy is to focus on:

Opening Additional OTWs

The Company intends to expand its operations and increase its OTW revenues by opening the five additional OTWs which it has been allocated under the Pennsylvania Racing Act. The Company has already obtained approval for and commenced construction of one additional OTW in Williamsport, Pennsylvania, which is expected to open in the first quarter of 1997, and has applied for approval of and is evaluating possible sites for an OTW in Downingtown, Pennsylvania. The Company expects to move expeditiously to select appropriate locations, apply for and obtain regulatory approvals and open its three remaining allocated OTWs in Pennsylvania. In addition, the Company will consider opening OTWs in other states to the extent that market conditions and the regulatory environment may present opportunities for it to leverage its OTW operating experience. West Virginia law currently does not permit the operation of OTWs.

Developing the Charles Town Facility and Operating Gaming Machines

The Company intends to refurbish the Charles Town Facility and reopen it as an entertainment complex integrating Gaming Machines with the Company's core business strengths of live racing and simulcast wagering. The refurbishment will include the renovation of the Charles Town Facility's thoroughbred track and barns, the remodeling of its clubhouse and dining facilities and the initial installation of 400 Gaming Machines; the cost of purchasing or leasing the Gaming Machines is not included in the $16.0 million estimated cost of the refurbishment. The installation of the initial 400 Gaming Machines and any additional Gaming Machines at the Charles Town Facility is subject to the approval of the West Virginia Lottery Commission after application and a public hearing. The Company has applied for, but has not yet obtained, approval for the installation of the initial 400 Gaming Machines and anticipates that it will apply for approval of the installation and operation of a total of 1,000 Gaming Machines within the first year after the opening of the Charles Town Facility. The Company expects that increased revenues at the Charles Town Facility from live and simulcast wagering and from Gaming Machines will result in significantly higher purse sizes and in a corresponding improvement in both the quality of live races and their marketability as an export simulcast product. In addition, the Company intends to explore opportunities to provide additional

forms of entertainment at land adjacent to the Charles Town Facility in order to attract additional patrons.

Maintaining Quality Import Simulcasting and Increasing Export Simulcasting

The Company intends to maintain the quality of import simulcast races that it makes available for wagering by customers at its tracks and OTWs and to increase the volume of export simulcasting of Company Races for wagering at the facilities of others. The Company believes that by import simulcasting high quality races from nationally known racetracks it can increase the number of wagerers as well as the size of the average wager. Subject to applicable regulations, the Company also will seek to increase export simulcasting of races from the Thoroughbred Track and the Harness Track, and introduce export simulcasting from the refurbished Charles Town Facility, for wagering at out-of-state racetracks, OTWs, casinos and other gaming facilities, and to improve the quality of its export simulcast products by increasing purse sizes where practicable and to the fullest extent that changing laws and regulations may make possible. The Company believes that the minimal direct costs associated with export simulcasting make it a particularly desirable source of revenue.

Exploring Other Gaming Opportunities

The Company intends to continue identifying strategic opportunities in the pari-mutuel wagering and gaming industry which complement the Company's core operations and leverage its pari-mutuel management and operating strengths. The Company intends to explore other opportunities to capitalize upon any changes in gaming legislation, in Pennsylvania, West Virginia and other states, including legislation relating to Gaming Machines and riverboat gaming. In December 1995, the Company agreed in principle with an unrelated party to form a joint venture to develop, manage and operate pari-mutuel racing facilities in a state other than Pennsylvania or West Virginia, and will seek further such opportunities as they may present themselves. Moreover, the Company is also closely monitoring possible legislation to authorize Gaming Machines in Pennsylvania.

ACQUISITIONS

Pocono Downs Acquisition

On November 27, 1996, the Company acquired Pocono Downs for an aggregate purchase price of $47.0 million plus approximately $525,000 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 Pocono Downs Acquisition, 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.

Pocono Downs conducts harness racing at the Harness Track located outside Wilkes-Barre, Pennsylvania, export simulcasting of Harness Track races to locations throughout the United States, pari-mutuel wagering at the Harness Track 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. For the year ended December 31, 1995 and the nine months ended September 30, 1996, Pocono Downs had revenues of approximately $33.9 million and $25.7 million, respectively, and EBITDA of approximately $8.0 million and $5.5 million, respectively.

Charles Town Acquisition

On January 15, 1997, the Charles Town Joint Venture acquired substantially all of the assets of Charles Town relating to the Charles Town Facility for an aggregate net purchase price of approximately $16.5 million plus approximately $2.0 million in acquisition-related fees and expenses. The Charles Town Facility conducts live thoroughbred horse racing, on-site pari-mutuel wagering on live races run at the Charles Town Facility and wagering on import simulcast races. The Company expects to refurbish the Charles Town Facility as an entertainment complex that will feature live racing, dining, simulcast wagering and, in mid-1997, upon completion of the interior refurbishment, 400 Gaming Machines. The estimated cost of the refurbishment, exclusive of the cost of the purchase or lease of the Gaming Machines, is approximately $16.0 million. For the year ended December 31, 1995 and the nine months ended September 30, 1996, Charles Town had revenues of approximately $11.0

million and $8.7 million, respectively, and net losses of approximately $2.2 million and $1.9 million, respectively.

Pursuant to the original operating agreement governing the Charles Town Joint Venture, the Company currently holds 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 Facility. In fact, the Company contributed 100% of the purchase price of the Charles Town Acquisition and expects to contribute 100% of the cost of refurbishing the Charles Town Facility. The Company has reached an agreement with Bryant pursuant to which the parties will amend the operating agreement to 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 will provide 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 Facility would be treated, as between the parties, as a loan to the Charles Town Joint Venture from the Company. The proposed changes in the ownership of the Charles Town Joint Venture are subject to the review of applicable West Virginia racing and lottery regulatory authorities.

The Charles Town Joint Venture acquired its option to purchase the Charles Town Facility from Bryant; Bryant, in turn, acquired the option from Showboat. Showboat has retained an option to operate any casino at the Charles Town Facility in return for a management fee (to be negotiated at the time, based on rates payable for similar properties). Showboat has also retained a right of first refusal to purchase or lease the site of any casino at the Charles Town Facility 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 extend for a period of five years from the date that the Charles Town Joint Venture exercises its option to purchase the Charles Town Facility and expire thereafter unless legislation to permit casino gaming at the Charles Town Facility 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 agreement with Showboat does not specify what activities at the Charles Town Facility would constitute operation of a casino, Showboat has agreed that the installation and operation of video lottery terminals (like the Gaming Machines the Company intends to install) at the Charles Town Facility's race track would not trigger the Showboat Option. If West Virginia law were to permit casino gaming at the Charles Town Facility 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.

RACING AND WAGERING OPERATIONS

The Company's revenues are derived from: (i) wagering on Company Races at Company facilities; (ii) wagering on non-Company Races import simulcast to Company facilities; (iii) fees from wagering on export simulcasting of Company Races to non-Company wagering venues; (iv) admissions, program sales and certain other ancillary activities; and (v) food and beverage sales and concessions.

The following table summarizes certain key operating statistics for the Company's pari-mutuel operations related to the Thoroughbred Track for the year ended December 31:

	1991	1992	1993	1994	1995
Number of live racing days.....	245	247	238	219	204
Paid attendance:					
At the Thoroughbred Track.....	636,944	619,359	548,085	485,224	430,128
At Reading OTW.....	--	166,210	251,540	253,183	246,012
At Chambersburg OTW.....	--	--	--	110,075	143,554
At York OTW.....	--	--	--	--	232,109
Total paid attendance (1).....	636,944	785,569	799,625	848,482	1,051,803
Wagering on Penn National races (2):					
At the Thoroughbred Track.....	$ 64,941,583	$ 62,661,360	$ 53,558,980	$ 44,650,714	$ 36,833,992
At Reading OTW.....	--	8,246,778	10,503,690	8,022,458	7,140,405
At Chambersburg OTW.....	--	--	--	3,550,529	4,193,087
At York OTW.....	--	--	--	--	8,542,707
Telebet.....	6,957,480	7,733,190	6,790,381	4,483,324	4,047,377
Simulcasts:					
At other PA racetracks.....	31,897,564	32,172,368	25,918,754	18,058,438	14,895,086
At other PA OTWs.....	24,754,654	42,518,067	42,167,129	32,481,721	26,492,679
Export simulcasting.....	--	10,201,902	12,745,934	40,337,450	72,251,622
Total wagers on Penn National races.....	128,551,281	163,533,665	151,684,868	151,584,634	174,396,955
Wagering by Simulcast on Non-Penn National races (2):					
At the Thoroughbred Track:					
Other PA races.....	28,660,122	29,576,594	23,326,210	14,429,800	10,370,871
Out-of-state races.....	--	--	10,599,425	32,817,789	38,455,811
By Telebet:					
Other PA races.....	--	--	795,054	1,232,123	1,267,306
Out-of-state races.....	--	--	517,850	2,251,377	2,966,226
At Reading OTW:					
Other PA races.....	--	12,582,339	17,263,753	10,411,832	8,611,521
Out-of-state races.....	--	--	5,750,123	21,279,647	27,058,178
At Chambersburg OTW:					
Other PA races.....	--	--	--	2,548,691	3,193,185
Out-of-state races.....	--	--	--	8,489,914	16,978,414
At York OTW:					
Other PA races.....	--	--	--	--	5,716,279
Out-of-state races.....	--	--	--	--	27,881,082
Total wagers on non-Penn National races.....	28,660,122	42,158,933	58,252,415	93,461,173	142,498,873
Total wagers on Penn National and non-Penn National races.....	$ 157,211,403	$ 205,692,598	$ 209,937,283	$ 245,045,807	$ 316,895,828
Average daily purses Penn National races.....	$ 35,613	$ 38,746	$ 40,834	$ 48,560	$ 57,897
Gross margin from wagering (3):					
Wagering on Penn National races.....	8,092,000	9,711,000	8,850,000	8,313,000	8,513,000
Wagering on non-Penn National races.....	3,109,000	4,838,000	6,496,000	9,650,000	16,121,000
Total gross margin from wagering.....	$ 11,201,000	$ 14,549,000	$ 15,346,000	$ 17,963,000	$ 24,634,000

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(1) Does not reflect attendance at the Thoroughbred Track for wagering on simulcasts when live racing is not conducted, but does reflect attendance at the Reading, Chambersburg, York and Lancaster OTWs, which opened in May 1992, April 1994, March 1995, and July 1996, respectively.

(2) Wagering on certain imported stakes races is included in Wagering on Penn National races.

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

The following table summarizes certain key operating statistics for the Company's pari-mutuel operations related to the Harness Track for the year ended December 31:

	1991	1992	1993	1994	1995
Number of live racing days:	150	149	147	143	135
Paid attendance:					
At the Harness Track.....	279,683	257,249	211,629	253,521	242,870
At Erie OTW.....	101,411	141,108	135,617	129,074	116,367
At Allentown OTW.....	--	--	136,620	275,118	272,491
Total paid attendance (1).....	381,094	398,357	483,866	657,713	631,728
Wagering on Pocono Downs races (2):					
At the Harness Track.....	$ 24,612,036	$ 21,327,604	$ 18,895,856	$ 17,758,559	$ 15,672,606
At Erie OTW.....	942,647	1,311,185	1,392,676	1,014,707	653,745
At Allentown OTW.....	--	--	1,432,042	2,455,269	2,025,988
Simulcasts:					
At other PA racetracks.....	7,765,756	7,196,291	7,122,072	5,241,868	4,063,992
At other PA OTWs.....	6,998,177	13,674,763	13,050,534	9,645,719	7,690,019
Export simulcasting.....	--	--	--	10,835,744	18,366,920
Total wagers on Pocono Downs races.....	$ 40,318,616	$ 43,509,843	$ 41,893,180	$ 46,951,866	$ 48,473,270
Wagering by Simulcast on Non-Pocono Downs races (2):					
At the Harness Track:					
Other PA races.....	$ 21,785,756	$ 24,536,505	$ 21,243,244	$ 12,252,776	$ 13,261,224
Out-of-state races.....	--	--	5,816,721	21,968,275	28,849,841
By Dial-A-Bet:					
Other PA races.....	--	--	--	--	40,925
Out-of-state races.....	--	--	--	--	34,141
At Erie OTW:					
Other PA races.....	10,911,442	17,049,662	14,412,508	8,232,309	7,034,298
Out-of-state races.....	--	--	4,646,966	17,157,155	21,690,819
At Allentown OTW:					
Other PA races.....	--	--	12,998,716	17,697,563	15,289,894
Out-of-state races.....	--	--	6,699,300	32,523,258	39,123,872
Total wagers on non-Pocono Downs races.....	$ 32,697,198	$ 41,586,167	$ 65,817,455	$ 109,831,336	$ 125,325,014
Total wagers on Pocono Downs and non-Pocono Downs races.....	$ 73,015,814	$ 85,096,010	$ 107,710,635	$ 156,783,202	$ 173,873,350
Average daily purses Pocono Downs races.....	$ 24,205	$ 22,448	$ 26,022	$ 35,790	$ 42,314
Gross margin from wagering (3).....	$ 7,204,591	$ 8,100,860	$ 10,918,491	$ 16,652,676	$ 17,838,231

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(1) Does not reflect attendance at the Harness Track for wagering on simulcasts when live racing is not conducted, but does reflect attendance at the Erie and Allentown OTWs, which opened in May 1991 and July 1993, respectively.

(2) Wagering on certain imported stakes races is included in Wagering on Pocono Downs races.

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

The following table summarizes the Company's operations and facilities:

TRACKS

FACILITY	LOCATION	DATE OPENED/STATUS	OPERATIONS CONDUCTED
Penn National Race Course	Grantville, PA	Constructed in 1972; operated by Penn National since 1972	Live thoroughbred racing; simulcast wagering; dining; telephone account wagering
Pocono Downs Racetrack	Plains Township, PA	Constructed in 1965; operated by Penn National since 1996	Live harness racing; simulcast wagering; dining; telephone account wagering
Charles Town Races	Charles Town, WV	Constructed in 1933; acquired by Charles Town Joint Venture on January 15, 1997; to be refurbished in 1997	When reopened: live thoroughbred racing; simulcast wagering; dining; Gaming Machines

OTWS(1)

FACILITY	LOCATION	DATE OPENED/STATUS	SIZE (SQ. FT.)	COST (2)	LICENSEE
Allentown	Allentown, PA	Opened July 1993	28,500	$ 5,207,000	Pocono Downs
Chambersburg	Chambersburg, PA	Opened April 1994	12,500	1,500,000	Penn National
Erie	Erie, PA	Opened May 1991	22,500	3,575,000	Pocono Downs
Lancaster	Lancaster, PA	Opened July 1996	24,000	2,200,000	Penn National
Reading	Reading, PA	Opened May 1992	22,500	2,100,000	Penn National
York	York, PA	Opened March 1995	25,000	2,200,000	Penn National
Williamsport	Williamsport, PA	Under construction; anticipated opening February 1997	14,000	3,000,000 (estimated)	Penn National
Downingtown	Downingtown, PA	Proposed	20,000 (estimated)	4,000,000 (estimated)	Penn National

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(1) This table does not include three additional Pennsylvania OTWs which the Company is authorized to operate under Pennsylvania law.

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

Live Racing

The Company has conducted live racing at the Thoroughbred Track since 1972, and has held at least 204 days of live racing at the facility in each of the last five years. The Thoroughbred Track is one of only two thoroughbred racetracks in Pennsylvania. Although other regional racetracks offer nighttime thoroughbred racing, the Thoroughbred Track 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 Thoroughbred Track is 7:30 p.m. on Wednesdays, Fridays and Saturdays, and 1:30 p.m. on Sundays and holidays.

The Pocono Downs Acquisition was consummated following the last day of racing at the Harness Track for the 1996 season. The Company expects to resume live racing at the Harness Track in April 1997 and plans to conduct 135 days of live harness racing at the facility in the 1997 season. Post time at the Harness Track is expected to be 7:30 p.m. The Charles Town Facility is currently closed. The Company has received preliminary approval for, and plans to conduct, 159 days of thoroughbred racing at the facility in the 1997 season following the reopening of the Charles Town Facility's racetrack

(currently anticipated to be in April 1997). Post time at the Charles Town Facility is expected to be 7:30 p.m. on Fridays and Saturdays and 1:30 p.m. on Wednesdays and Sundays.

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 and the balance is divided between the Company and purses for the horsemen at that track. 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 is approximately 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 Thoroughbred Track 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 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 Facility, with the average percentage of wagers retained by Charles Town 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).

OTW Wagering

At OTWs, as at the Company's racetracks, customers place wagers on thoroughbred and harness races simulcast from the Company's racetracks and on import simulcast races from other tracks around the country. Under the Pennsylvania Racing Act, only licensed thoroughbred and harness racing associations, such as the Company, can operate OTWs or accept customer wagers on simulcast races at Pennsylvania racetracks. Each OTW is required by the Pennsylvania Racing Act to provide various amenities, including dining and other services designed to attract a wide range of patrons. The Company operates six of the 16 OTWs now open in Pennsylvania, located in Allentown, Chambersburg, Erie, Lancaster, Reading and York, Pennsylvania, and has the right (subject to applicable regulatory approvals) to open and operate an additional five Pennsylvania OTWs, which would give the Company a total of 11 of the 23 OTWs currently authorized by Pennsylvania law. Of its five additional allocated OTWs, one new OTW has been approved and is under construction in Williamsport, Pennsylvania, and regulatory approval has been sought for a new OTW in Downingtown, Pennsylvania. The Company expects to move expeditiously to select appropriate locations, apply for and obtain regulatory approvals and open the remaining three allocated OTWs. The Company believes that expansion through the opening of the five additional Pennsylvania OTWs which the Company has been allocated will increase its customer wagering base. The Company intends to open its OTWs outside of large metropolitan areas and away from the Thoroughbred Track and the Harness Track and other existing OTWs; the Company thus believes that it will be offering a new form of entertainment to the communities that it enters.

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, and the balance is retained by the Company. The Company believes that full card import simulcasting, in which all of the races at a non-

Company track are import simulcast to a Company wagering facility, has improved the wagering opportunities for its customers and thereby increased the amount wagered at Company facilities. When the Company export simulcasts Company Races for wagering at non-Company locations, it receives a fixed percentage of the amounts wagered on that race from the location to which the simulcast is exported, while incurring minimal additional expense. During the year ended December 31, 1996, the Company received import simulcasts from approximately 57 racetracks (including Belmont Park, Saratoga, Gulfstream Park, Santa Anita and Arlington International Racecourse) and transmitted export simulcasts of Company Races to 63 locations.

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.

Wagering at the Company's facilities on import simulcasting of races from other tracks, especially from nationally-known tracks in other states, competes with wagering on Company Races. The Company believes, however, 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 thus increases the size of the average wager.

Telebet

In 1983, the Company pioneered Telebet, Pennsylvania's first telephone account wagering system. Telebet customers open an account by depositing funds with the Company at one of its locations. 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 future wagers. In December 1995, the Harness Track instituted Dial-A-Bet, a similar telephone account betting system.

Gaming Machine Operations

On November 5, 1996, Jefferson County, West Virginia approved a referendum authorizing the installation and operation of Gaming Machines at the Charles Town Facility. As a result, the Company consummated the Charles Town Acquisition on January 15, 1997. In mid-1997, the Company intends to reopen the Charles Town Facility as an entertainment complex that will feature live racing, dining, simulcast wagering and Gaming Machines. The Company has applied to the West Virginia Lottery Commission for approval to operate initially 400 Gaming Machines, and expects to obtain such approval within 90 to 120 days after the January 15, 1997 consummation of the Charles Town Acquisition. The machines will be slot-machine-style video machines that depict spinning reels and video card games such as blackjack and poker. The West Virginia Gaming Machine Act specifies the maximum percentage of each dollar wagered on Gaming Machines which can be retained by the Company; the maximum statutory rate is 20%. 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 installation of additional Gaming Machines at the Charles Town Facility is subject to approval by the West Virginia Lottery Commission after application and a public hearing. The Company anticipates that it will apply for approval of the installation and operation of a total of 1,000 Gaming Machines at the Charles Town Facility within the first year after the opening of the Charles Town Facility.

Other Gaming Opportunities

In December 1995, the Company agreed in principle with an unrelated party to form a joint venture for the purpose of developing, managing and operating pari-mutuel racing facilities in a state other than Pennsylvania or West Virginia. The actual formation of the joint venture is subject to numerous contingencies including receipt of regulatory approval from that state's Horse Racing Commission. Additional investments by the Company in new or existing businesses are subject to the

consent of the Company's lenders under the Credit Facility. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources." To date, the Company has not invested a material amount and the joint venture has conducted no operations.

MARKETING

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

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 Thoroughbred Track. The program provides color commentary on the races at the Thoroughbred Track (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 Thoroughbred Track and on various cable television systems in Pennsylvania and is transmitted to all OTWs that receive Penn National Races. The Company intends to expand Racing Alive and/or to create additional televised programming to cover racing at the Harness Track and at other harness racing venues throughout the United States. The Company's satellite transmissions are encoded so that only authorized facilities can receive the program.

Automated Wagering Systems

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

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 Thoroughbred Track and the Harness Track, 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% 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 also 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, 1993, 1994 and 1995, the Thoroughbred Horsemen earned an aggregate of approximately $9.7 million, $10.7 million and $12.0 million in purses, respectively. The average daily purses at the Thoroughbred Track during the three-year period increased from approximately $40,800 to approximately $57,900. During the nine months ended September 30, 1995 and 1996, the Thoroughbred Horsemen earned an aggregate of approximately $9.3 million and $9.7 million in purses, respectively. The Company believes that the increases in daily purses have contributed to an incremental increase in the quality of horses racing at the Thoroughbred Track. The average daily purses at the Thoroughbred Track for calendar 1996 were approximately $59,600 per day. During the years ended December 31, 1993, 1994 and 1995, the Harness Horsemen earned an aggregate of approximately $4.7 million, $6.0 million and $6.5 million in purses, respectively. The average daily purses at the Harness Track during the three-year period increased from approximately $26,000 to approximately $42,300. During the nine months ended September 30, 1995 and 1996, the Harness Horsemen earned an aggregate of approximately $5.2 million and $5.0 million in purses, respectively. The average daily purses earned at the Harness Track for calendar 1996 were approximately $42,300 per day.

The 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. Currently, there is no agreement with the Charles Town Horsemen. The Company has entered into discussions with the Charles Town Horsemen toward obtaining an agreement. The future success of the Company depends, in part, on its ability to maintain a good relationship with the Horsemen and to obtain renewal of the Horsemen Agreements and required approvals for import simulcast wagering from the Charles Town Horsemen on satisfactory terms.

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. 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.

Company 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, upon 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 Thoroughbred Track, due to incrementally 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 Thoroughbred Track or in any material improvement in the quality of racing at the Harness Track or the Charles Town Facility.

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 Pocono Downs Acquisition and which is approximately 50 miles from the Thoroughbred Track and 35 miles from the Company's Reading OTW, has drawn some patrons from the Thoroughbred Track, the Reading OTW and Telebet and that its Lancaster OTW, which is approximately 31 miles from the Thoroughbred Track and 25 miles from the Company's York OTW, has drawn some patrons from the Thoroughbred Track, the York OTW and Telebet. 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. The opening of new OTWs 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.

If the Company obtains approval for the installation of Gaming Machines at the Charles Town Facility, the Company's Gaming Machine operations will 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 Facility, 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 Thoroughbred Track and Harness Track 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.

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 a material 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 Breeders' Cup in autumn. 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 -- Effect of Inclement Weather and Seasonality."

REGULATION AND TAXATION

General

The Company is authorized to conduct thoroughbred racing and harness racing in Pennsylvania under the Pennsylvania Racing Act. The Company is also authorized, under the Pennsylvania Racing Act and the Federal Horseracing Act, to conduct import simulcast wagering. The Company is also subject to the provisions of the West Virginia Racing Act, which governs the conduct of horseracing in West Virginia, and 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.

Sunset Provisions in Gaming Machine Legislation

The Company has applied for aproval to install and operate Gaming Machines at the refurbished Charles Town Facility pursuant to the West Virginia Gaming Machine Act. The West Virginia Gaming Machine Act was adopted in 1994, and will terminate on June 30, 1997 unless extended or reenacted. If the West Virginia Gaming Machine Act terminates, then the Company will be required to discontinue any Gaming Machine operations for which it may obtain approval. There can be no assurance that the West Virginia legislature will extend or reenact the West Virginia Gaming Machine Act beyond June 30, 1997. If the Company obtains approval for the installation of Gaming Machines at the Charles Town Facility and the West Virginia Gaming Machine Act is not extended or reenacted, then the Company's business, financial condition and results of operations would be materially and adversely affected.

Pennsylvania Racing Regulations

The Company's horse racing operations at the Thoroughbred Track and the Harness Track are subject to extensive regulation under the Pennsylvania Racing Act, which established 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 Thoroughbred Racing Commission withheld approval for the Company's initial site for its Lancaster OTW, but the Company applied and was ultimately approved for another site in Lancaster, which opened in July 1996. The Pennsylvania legislature also has reserved the right to revoke the power of the Pennsylvania Racing Commissions to approve additional OTWs and could, at any time, terminate pari-mutuel wagering as a form of legalized gaming in Pennsylvania or subject such wagering to additional restrictive regulation; such termination would, and any further restrictions could, have a material adverse effect upon the Company's business, financial condition and results of operations.

The Company may not be able to obtain all necessary approvals for the 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 Thoroughbred Track since it commenced operations in 1972, and has obtained permission from the Pennsylvania State Harness Racing Commission to conduct live racing at the Harness Track beginning with the 1997 season. Currently, the Company has approval from the Pennsylvania Racing Commissions to operate six OTWs and the right, under the Pennsylvania Racing Act, to operate five additional OTWs, subject to approval by the Pennsylvania Racing Commissions. 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 shall be licensed to conduct harness racing and that no corporation licensed to conduct harness racing shall be licensed to conduct thoroughbred racing. 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 Facility 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 Company and the Charles Town Joint Venture have applied to the West Virginia Racing Commission for a license to conduct racing and pari-mutuel wagering at the Charles Town Facility. The West Virginia Racing Commission has issued this license, subject to its review and approval of the documents pursuant to which the Charles Town Acquisition was consummated and financing therefor was obtained and to its review and approval of any changes in the ownership of the Charles Town Joint Venture, among other conditions. The Company and the Charles Town Joint Venture have also applied to the West Virginia Lottery Commission for approval to install and operate 400 Gaming Machines at the refurbished Charles Town Facility; this approval has not yet been granted. The Company anticipates, but cannot assure, that it will obtain approval for the installation and operation of the 400 Gaming Machines within 90 to 120 days after the January 15, 1997 consummation of the Charles Town Acquisition. The Company and the Charles Town Joint Venture may not receive or retain all of the regulatory approvals necessary from time to time to conduct racing and pari-mutuel wagering operations at the Charles Town Facility. The failure to receive or retain a delay in receiving such approvals could cause the reduction or suspension of racing and pari-mutuel wagering, as well as of Gaming Machine operations, at the Charles Town Facility and have a material adverse effect upon the Company's business, financial condition and results of operations.

The installation and operation of Gaming Machines at the Charles Town Facility are subject to the provisions of the West Virginia Gaming Machine Act and the regulatory authority of the West Virginia Lottery Commission. Pursuant to the West Virginia Gaming Machine Act and regulatory approval currently being sought by the Company thereunder, the Company plans, following the completion of the interior refurbishment of the Charles Town Facility in mid-1997, to install initially 400 Gaming Machines at the Charles Town Facility. The installation of additional Gaming Machines at the Charles Town Facility is subject to approval by the West Virginia Lottery Commission after application and a public hearing. The Company anticipates that it will apply for approval of the installation and operation of a total of 1,000 Gaming Machines at the Charles Town Facility within the first year after the opening of the Charles Town Facility. The West Virginia Lottery Commission may not approve the installation of the initial or any additional Gaming Machines, however, or may not do so in a timely manner, or may ultimately approve the installation of a smaller number of Gaming Machines than the Company expects to request.

Moreover, the West Virginia Gaming Machine Act requires that the operator of the Charles Town Facility enter into a written agreement with the Charles Town Horsemen in order to conduct Gaming Machine operations. The West Virginia Gaming Machine Act also requires that the Charles Town Joint Venture enter into a written agreement with the pari-mutuel clerks in order to operate Gaming Machines. Currently there is no agreement between the Charles Town Joint Venture and either the Charles Town Horsemen or the pari-mutuel clerks. The Company has entered into discussions with both the Charles Town Horsemen and the pari-mutuel clerks toward obtaining such agreements. The absence of an agreement with the Charles Town Horsemen or the pari-mutuel clerks at the Charles

Town Facility, or the termination or non-renewal of such agreement, would have a material adverse effect on the Company's business, financial condition and results of operations.

State and Federal Simulcast Regulation

Both the Federal Horseracing 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 upon the allocations of the Company's revenues from import simulcast wagering to the purse funds for the Thoroughbred Track and the Harness Track. 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.

The Federal Horseracing Act requires that the operator of the Charles Town Facility obtain the approval of the Charles Town Horsemen before import simulcast wagering can be conducted there. While such approval has been obtained by Charles Town in the past, there is no written agreement with the Charles Town Horsemen providing for such approval in the future. The Company has entered into discussions with the Charles Town Horsemen toward obtaining an agreement evidencing such approval. The failure to obtain such approval 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. See "Description of Capital Stock -- Certain Restrictions on Share Ownership and Transfer."

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 Landfill is on a parcel of land adjacent to the Harness Track. 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 PADER. 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 CERCLA 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 chart:

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

The Company has purchased the land for the Williamsport OTW facility and is constructing a 14,000 square foot facility at a total estimated cost of $3.0 million including the purchase of the land for approximately $555,000. The Company plans to open the facility in February 1997.

The Company has an agreement to purchase land for its proposed Downingtown OTW facility. The agreement is subject to numerous contingencies including approval from the Pennsylvania State Horse Racing Commission. On March 26, 1996, the Company submitted an application to the Pennsylvania State Horse Racing Commission for approval of the Downingtown OTW facility. The application is pending.

Other Property and Equipment

The Company currently leases 2,100 square feet of office space in an office building in Wyomissing, Pennsylvania for the Company's executive offices. The lease is for a five-year term expiring April 2000 with an annual minimum rental of $23,320. The office building is owned by an affiliate of Peter M. Carlino.

The Company considers its properties adequate for its present purposes. In addition to the anticipated openings of the Williamsport and Downingtown OTWs, the Company intends to open three additional OTWs for which sites have not been selected. The Company believes, but cannot assure, that suitable sites will be available on satisfactory terms.

LEGAL PROCEEDINGS

On December 11, 1996, GTECH commenced an action in the United States District Court for the Northern District of West Virginia against Charles Town, the Company, Penn National Gaming of West Virginia, Inc., a wholly owned subsidiary of the Company, and Bryant. The complaint filed by GTECH alleges that Charles Town and AmTote were parties to the October 20, 1994 AmTote Agreement, pursuant to which AmTote was granted an exclusive right to install and operate a "video lottery system" at the Charles Town Facility. When the AmTote Agreement was entered into, AmTote was a subsidiary of GTECH; GTECH has since divested itself of AmTote, but is purportedly the assignee of certain of AmTote's rights under the AmTote Agreement pursuant to an assignment and assumption agreement dated February 22, 1996. The complaint seeks (i) preliminary and permanent injunctive relief enjoining Charles Town, Bryant, the Company and its subsidiary from consummating the Charles Town Acquisition or any similar transaction unless the purchasing party explicitly accepts and assumes the AmTote Agreement, (ii) a declaratory judgment that the AmTote Agreement is valid and binding, that GTECH has the right to be the exclusive installer, operator, provider and servicer of a video lottery system at the Charles Town Facility and that any party buying the stock or assets of Charles Town must accept and assume the AmTote Agreement and recognize such rights of GTECH thereunder, (iii) compensatory damages, (iv) legal fees and costs and (v) such other further legal and equitable relief as the court deems just and appropriate. On December 23, 1996, the court denied GTECH's motion to preliminarily enjoin the Company from consummating the Charles Town Acquisition unless it accepts and assumes the AmTote Agreement. The court noted that GTECH may pursue its claim for damages and, if warranted, pursue other injunctive relief in the future. The Company consummated the Charles Town Acquisition on January 15, 1997, at which time Charles Town assigned to the Charles Town Joint Venture all legally valid and binding obligations, if any, under the AmTote Agreement. In addition, the Company has agreed to indemnify Charles Town for any damages Charles Town may suffer as a result of a claim that Charles Town failed to fulfill its obligations under the AmTote Agreement. On January 13, 1997, Charles Town filed a motion to dismiss GTECH's complaint; the court has not yet ruled on this motion. The Company believes the allegations of the complaint to be without merit and intends to contest the action vigorously.

EMPLOYEES AND LABOR RELATIONS

At November 30, 1996, the Company had 1,298 permanent employees, of whom 390 were full-time and 908 part-time. Of the total 1,298 employees, 417 were employed at the Thoroughbred Track, 292 were employed at the Harness Track and 589 were employed at the Company's OTWs. Employees of the Company who work in the admissions department and pari-mutuels department at the Thoroughbred Track, the Harness Track 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 Company believes that its relations with its employees are satisfactory.

During the 1996 racing season at the Charles Town Facility, there were approximately 113 full-time and 215 part-time employees. Charles Town employees who work as pari-mutuel clerks were represented under a collective bargaining agreement between Charles Town and the West Virginia Union of Mutuel Clerks, Local No. 553. The agreement expired December 31, 1996. The Company has entered into discussions with the pari-mutuel clerks toward entering into an agreement. Entering into such an agreement is a requirement under the West Virginia Gaming Machine Act to operate Gaming Machines. See "-- Regulation -- West Virginia Racing and Gaming Regulation."

DIRECTORS AND EXECUTIVE OFFICERS

The directors and executive officers of the Company are:

NAME	AGE	POSITION
Peter M. Carlino.....	50	Chairman of the Board and Chief Executive Officer
William J. Bork.....	63	President, Chief Operating Officer and Director
Robert S. Ippolito.....	45	Chief Financial Officer, Secretary and Treasurer
Philip T. O'Hara, Jr.....	43	Vice President and General Manager
Harold Cramer.....	69	Director
David A. Handler.....	32	Director
Robert P. Levy.....	65	Director
John M. Jacquemin.....	50	Director

Peter M. Carlino. Mr. Carlino has served as Chairman of the Board and Chief Executive Officer of the Company since April 1994, and has devoted a significant amount of time to the activities of the Company as a director since 1991. From 1984 to 1994, Mr. Carlino devoted a substantial portion of his business time to developing, building and operating residential and commercial real estate projects located primarily in Central Pennsylvania. He has been President of Carlino Financial Corporation ("Carlino Financial"), a holding company which owns and operates various Carlino family businesses, since 1976, in which capacity he has been continuously active in strategic planning for the Company and monitoring its operations. From 1972 until 1976, Mr. Carlino served as President of Mountainview Thoroughbred Racing Association ("Mountainview"), a predecessor in interest of the Company.

William J. Bork. Mr. Bork was elected President, Chief Operating Officer and a director in June 1995. From 1987 to June 1995 he was Vice President for Ladbroke Racing Corporation. Prior to working with Ladbroke, Mr. Bork served as Vice President of Operations of racetracks previously owned by Ogden Corporation including Fairmount Park in Collinsville, Illinois; Mountaineer Park in Chester, West Virginia; Wheeling Downs in Wheeling, West Virginia; and Suffolk Downs in Boston, Massachusetts.

Robert S. Ippolito. Mr. Ippolito, a certified public accountant, was elected Chief Financial Officer, Secretary and Treasurer of the Company in April 1994. He was Corporate Controller and Secretary of Carlino Financial and certain of its affiliates between June 1987 and May 1994, and from 1979 to 1987 was engaged in public accounting.

Philip T. O'Hara, Jr. Mr. O'Hara has been Vice President and General Manager since January 1989. Mr. O'Hara joined the Company in April 1985 and has served in various management capacities, including Director of Marketing and Assistant General Manager. He has been a Director of the Thoroughbred Racing Association since 1990.

Harold Cramer. Mr. Cramer has been a director of the Company since 1994. Since November 1996, Mr. Cramer has been of counsel to Mesirov, Gelman, Jaffe, Cramer & Jamieson, a Philadelphia law firm which provides legal services to the Company. From November 1995 until November 1996, Mr. Cramer was Chairman of the Board and Chief Executive Officer of HSI Management Co., Inc. From 1989 until November 1995, Mr. Cramer was Chairman of the Board and Chief Executive Officer of Graduate Health System, Inc. ("GHS"), and has been a Director of GHS since November 1996. He also serves as a director of Mountainview and as a director of Pennsylvania National Turf Club, Inc., a subsidiary of Penn National.

David A. Handler. Mr. Handler has been a director of the Company since 1994. From 1995 to the present, Mr. Handler has been an investment banker and is currently a Senior Vice President of Corporate Finance at Jefferies & Company, Inc. From 1991 to 1995, Mr. Handler was a Vice President at Fahnestock & Co., Inc.

Robert P. Levy. Mr. Levy has been a director of the Company since 1995. He is Chairman of the Board of the Atlantic City Racing Association and served a two-year term as President from 1989 to 1990 of the Thoroughbred Racing Association. Mr. Levy has served as the Chairman of the Board of DRT Industries, Inc., a diversified business based in the Philadelphia metropolitan area, since 1960. Mr. Levy owns the Robert P. Levy Stable, a thoroughbred racing and breeding operation which has bred and owned several award-winning horses, including the 1987 Belmont Stakes winner, Bet Twice.

John M. Jacquemin. Mr. Jacquemin has been a director of the Company since 1995 and is President of Mooring Financial Corporation, a financial services group specializing in the purchase and administration of commercial loan portfolios and equipment leases. Mr. Jacquemin joined Mooring Financial Corporation in 1982 and has served as its President since 1987.

PRINCIPAL AND SELLING SHAREHOLDERS

The following table sets forth certain information regarding the shares of Common Stock beneficially owned as of December 31, 1996 by (i) each person known to the Company to own beneficially more than five percent of the Company's outstanding Common Stock, (ii) each director of the Company, (iii) each executive officer of the Company, (iv) all of the executive officers and directors of the Company as a group and (v) each Selling Shareholder.

NAME AND ADDRESS OF BENEFICIAL OWNER (1)	SHARES BENEFICIALLY OWNED PRIOR TO OFFERING (1)		SHARES BEING OFFERED (2)	SHARES BENEFICIALLY OWNED AFTER OFFERING (1)	
	NUMBER	PERCENT		NUMBER	PERCENT
Peter D. Carlino (3).....	6,043,178	45.2%	350,000(4)	5,693,178	37.7%
Peter M. Carlino (5).....	6,661,842	49.3	550,000(6)	6,111,842	40.1
David E. Carlino (7).....	5,546,838	41.5	255,000(8)	5,291,838	35.0
Richard J. Carlino (9).....	5,522,504	41.4	255,000(8)	5,267,504	34.9
Harold Cramer (10).....	5,701,386	42.7	255,000(11)	5,446,386	36.0
Carlino Family Trust.....	5,511,308	41.3	255,000(12)	5,256,308	34.8
Carlino Financial Corporation....	301,132	2.3	95,000	206,132	1.4
William J. Bork (13).....	50,000	*	0	50,000	*
Philip T. O'Hara, Jr. (14).....	18,750	*	0	18,750	*
David A. Handler (15).....	120,000	*	25,000(16)	95,000	*
Robert S. Ippolito (17).....	29,100	*	0	29,100	*
John M. Jacquemin (18).....	4,350	*	0	4,350	*
Robert P. Levy (19).....	3,750	*	0	3,750	*
FMR Corp. (20) 82 Devonshire Street Boston, MA 02109.....	879,000	6.6	0	879,000	5.8
All executive officers and directors as a group (8 persons) (21).....	7,068,495	51.5	575,000(22)	6,493,495	42.0

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* Less than one percent.

(1) Unless otherwise indicated in the footnotes to this table and subject to community property laws where applicable, each of the shareholders named in this table has sole voting and investment power with respect to the shares shown as beneficially owned. The address of each of the shareholders named in this table, other than FMR Corp., is: c/o Penn National Gaming, Inc., Wyomissing Professional Center, Suite 203, 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610.

(2) Assumes no exercise of the Underwriters' over-allotment option. Of the 345,000 shares to be sold if the over-allotment option is exercised in full, 258,750 shares will be issued and sold by the Company, and 86,250 shares will be sold by certain of the Selling Shareholders.

(3) Includes 301,132 shares of Common Stock of the Company owned of record by Carlino Financial; such shares are reported as beneficially owned by Peter D. Carlino as he is the Chairman of the Board of Carlino Financial and has shared voting and investment power over such shares. Following the consummation of the offering and the sale of 95,000 shares by Carlino Financial, includes 206,132 shares owned of record by Carlino Financial. Also includes: 5,511,308 shares owned by the Carlino Family Trust among Peter D. Carlino and his eight children, as settlors, and certain trustees, as to which Peter D. Carlino has shared investment and voting power; 24,000 shares of Common Stock held by Penn Title Insurance Company as to which Peter D. Carlino has shared voting and investment power; and 182,578 shares owned by a marital trust for the benefit of Peter D. Carlino and by a residuary trust for the benefit of Peter D. Carlino's children as to both of which Peter D. Carlino has shared investment power and shared voting power. Following the consummation of the offering and the sale of 255,000 shares by the Carlino Family Trust, includes 5,256,308 shares owned by the Carlino Family Trust.

(4) Consists of 255,000 shares being sold by the Carlino Family Trust and 95,000 shares being sold by Carlino Financial. Of the shares being sold by the Carlino Family Trust, 31,875 shares are being sold for the benefit of Peter D. Carlino as a settlor and beneficiary of the Carlino Family Trust.

(5) Includes 301,132 shares of Common Stock owned of record by Carlino Financial, as to which Peter M. Carlino has shared voting and investment power. Following the consummation of the offering and the sale of 95,000 shares by Carlino Financial, includes 206,132 shares owned of record by Carlino Financial. Also includes 5,511,308 shares owned by the Carlino Family Trust, as to which Peter M. Carlino has sole voting power for the election of directors and certain other matters, shared voting power with respect to certain matters and shared investment power. Following the consummation of the offering and the sale of 255,000 shares by the Carlino Family Trust, includes 5,256,308 shares owned by the Carlino Family Trust. Also includes 699,402 shares owned jointly by Mr. Carlino and his spouse Marshia Carlino. Following the consummation of the offering and the sale of 200,000 shares by Peter M. and Marshia Carlino, includes 499,402 shares owned jointly by Peter M. and Marshia Carlino. Also includes 150,000 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of options under the Company's 1994 Stock Option Plan.

(6) Consists of 200,000 shares being sold by Peter M. Carlino and Marshia Carlino, 255,000 shares being sold by the Carlino Family Trust and 95,000 shares being sold by Carlino Financial. None of the shares being sold by the Carlino Family Trust are being sold for the benefit of Peter M. Carlino.

(7) Includes 5,511,308 shares of Common Stock owned by the Carlino Family Trust, as to which David E. Carlino has shared voting power with respect to certain matters and shared investment power. Following consummation of the offering and the sale of 255,000 shares by the Carlino Family Trust, includes 5,256,308 shares owned by the Carlino Family Trust. Also includes 24,000 shares of Common Stock held by Penn Title Insurance Company, as to which David E. Carlino has shared voting and investment power. Also includes 11,530 shares held by Mr. Carlino's minor children. Mr. Carlino disclaims beneficial ownership of such shares.

(8) Consists of shares being sold by the Carlino Family Trust. Of such shares, 31,875 shares are being sold for the benefit of this individual as a settlor and beneficiary of the Carlino Family Trust.

(9) Includes 5,511,308 shares of Common Stock owned by the Carlino Family Trust, as to which Richard J. Carlino has shared voting power with respect to certain matters and shared investment power. Following consummation of the offering and the sale of 255,000 shares by the Carlino Family Trust, includes 5,256,308 shares owned by the Carlino Family Trust.

(10) Includes 5,511,308 shares of Common Stock owned by the Carlino Family Trust, and an aggregate of 182,578 shares owned by a marital trust for the benefit of Peter D. Carlino and by a residuary trust for the benefit of Peter D. Carlino's children as to both of which Harold Cramer has shared investment power and shared voting power. Following consummation of the offering and the sale of 255,000 shares by the Carlino Family Trust, includes 5,256,308 shares owned by the Carlino Family Trust. Also includes 7,500 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of options granted under the Company's 1994 Stock Option Plan.

(11) Consists of shares being sold by the Carlino Family Trust, of which Mr. Cramer is a trustee. None of the shares being sold by the Carlino Family Trust are being sold for the benefit of Mr. Cramer.

(12) Of the 255,000 shares being sold by the Carlino Family Trust, 31,875 shares are being sold for the benefit of each of the following settlors and beneficiaries of the trust: Peter D. Carlino (see footnote (3)); Richard J. Carlino (see footnote (9)); David E. Carlino (see footnote (9)); Susan F. Harrington; Anne de Lourdes Irwin; Robert M. Carlino; Stephen P. Carlino; and Rosina E. Carlino Gilbert.

(13) Consists of 50,000 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of options granted under the Company's 1994 Stock Option Plan.

(14) Consists of 18,750 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of options granted under the Company's 1994 Stock Option Plan.

(15) Includes 7,500 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of options granted under the Company's 1994 Stock Option Plan. Also includes 100,500 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of warrants granted in connection with the Company's initial public offering in May 1994. Following consummation of the offering and the sale of 25,000 shares by Mr. Handler, includes 75,500 shares issuable upon the exercise of such warrants. Mr. Handler is a Senior Vice President of Jefferies & Company, Inc., one of the Underwriters of the offering.

(16) Consists of shares issuable upon the exercise of warrants.

(17) Includes 28,500 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of options granted under the Company's 1994 Stock Option Plan.

(18) Includes 3,750 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of options granted under the Company's 1994 Stock Option Plan.

(19) Consists of 3,750 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of options granted under the Company's 1994 Stock Option Plan.

(20) Based on information contained in a Schedule 13G filed by FMR Corp. with the Commission on or about March 16, 1996. Fidelity Management & Research Company, a wholly owned subsidiary of FMR Corp. acting as an investment adviser to various investment companies registered under Section 8 of the Investment Company Act of 1940, is the beneficial owner of 828,000 shares of Common Stock. Edward C. Johnson 3d, Chairman of FMR Corp., has investment power with respect to these shares.

(21) Includes (i) 269,750 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of options granted under the Company's 1994 Stock Option Plan, (ii) 100,500 shares which may be acquired within 60 days of December 31, 1996 pursuant to the exercise of warrants granted in connection with the Company's initial public offering in May 1994 (75,500 shares following consummation of the offering), (iii) 301,132 shares owned of record by Carlino Financial (206,132 shares following consummation of the offering), (iv) 5,511,308 shares of Common Stock owned by the Carlino Family Trust (5,256,308 shares following consummation of the offering) and (v) 182,578 shares owned by a marital trust for the benefit of Peter D. Carlino and by a residuary trust for the benefit of Peter D. Carlino's children. See footnotes (5), (10), (11) and (13) through (19).

(22) Consists of 200,000 shares being sold by Peter M. Carlino, 255,000 shares being sold by the Carlino Family Trust, 95,000 shares being sold by Carlino Financial and 25,000 shares being sold by David A. Handler. None of the shares being sold by the Carlino Family Trust are being sold for the benefit of executive officers or directors of the Company.

DESCRIPTION OF CAPITAL STOCK

GENERAL

The Company's authorized capital stock consists of 21,000,000 shares, of which 20,000,000 shares are Common Stock and 1,000,000 shares are preferred stock, par value $.01 per share (the "Preferred Stock"). As of December 31, 1996, there were 13,355,290 shares of Common Stock outstanding held of record by approximately 261 persons, 1,179,750 shares of Common Stock reserved for issuance upon the exercise of outstanding stock options and 195,000 shares reserved for issuance upon the exercise of outstanding warrants.

COMMON STOCK

The holders of Common Stock are entitled to one vote for each share held of record on each matter submitted to a vote of shareholders and do not have cumulative voting rights. Holders of Common Stock are entitled to receive ratably those dividends, if any, as may be declared from time to time by the Board of Directors, in its discretion, out of funds legally available therefor, subject to any preferential dividend rights of outstanding Preferred Stock. In the event of a liquidation, dissolution or winding up of the Company, the holders of Common Stock are entitled to share ratably in all assets remaining after the payment of all liabilities of the Company and subject to the liquidation preferences of any outstanding Preferred Stock. The Common Stock does not carry preemptive rights, is not redeemable, does not have any conversion rights, is not subject to further calls and is not subject to any sinking fund provisions. The outstanding shares of Common Stock are and the shares offered by the Company in this offering will be, when issued and paid for, fully paid and nonassessable. Except in certain circumstances as discussed below under "-- Possible Antitakeover Effect of Certain Charter, By-Law and Other Provisions," the Common Stock is not subject to discriminatory provisions based on ownership thresholds.

The rights, preferences and privileges of holders of Common Stock are subject to, and may be adversely affected by, the rights of the holders of shares of any series of Preferred Stock which the Company may designate and issue in the future. See "-- Preferred Stock."

PREFERRED STOCK

The Company is authorized to issue up to 1,000,000 shares of Preferred Stock. The Board of Directors is authorized, subject to any limitations prescribed by law, without further shareholder approval, to issue such shares of Preferred Stock in one or more series, with such rights, preferences, privileges and restrictions, including voting rights, dividend rights, conversion rights, redemption privileges and liquidation preferences, as shall be established by the Board of Directors at the time of issuance.

The issuance of Preferred Stock by the Board of Directors could adversely affect the rights of holders of Common Stock. For example, the issuance of shares of Preferred Stock could result in securities outstanding that would have preference over the Common Stock with respect to dividends and in liquidation and that could (upon conversion or otherwise) enjoy all of the rights of the Common Stock.

The authority possessed by the Board of Directors to issue Preferred Stock could potentially be used to discourage attempts by third persons to obtain control of the Company through merger, tender offer, proxy or consent solicitation or otherwise, by making such attempts more difficult to achieve or more costly. The Board of Directors may issue Preferred Stock without shareholder approval and with voting rights that could adversely affect the voting power of holders of Common Stock. There are no agreements or understandings for the issuance of Preferred Stock, and the Company has no plans to issue any shares of Preferred Stock. See "-- Possible Antitakeover Effect of Certain Charter, By-Law and Other Provisions."

WARRANTS

In connection with its initial public offering, the Company issued to Fahnestock & Co. Inc. and Brenner Securities Corporation and their assignees (together, the "Warrantholders") warrants to purchase shares of Common Stock, of which warrants to purchase 195,000 shares (the "Warrants") remain outstanding as of December 31, 1996. The Warrants are exercisable, at a price of $4.00 per share, for a period expiring on May 31, 2000. The Warrantholders are entitled to certain registration rights under the Securities Act in connection with the issuance of the underlying shares of Common Stock received upon the exercise of the Warrants. The exercise price and the number of shares of Common Stock which may be purchased are subject to adjustment pursuant to anti-dilution provisions of the Warrants.

CERTAIN RESTRICTIONS ON SHARE OWNERSHIP AND TRANSFER

The Pennsylvania Racing Act requires that any shareholder proposing to transfer beneficial ownership of 5% or more of the Company's shares file an affidavit with the Company setting forth certain information about the proposed transfer and transferee, a copy of which the Company is required to furnish to the Pennsylvania Racing Commissions. The certificates representing shares owned by 5% beneficial shareholders are required to bear certain legends prescribed by the Pennsylvania Racing Act. In addition, each Pennsylvania Racing Commission has the authority to order a 5% beneficial shareholder of the Company to dispose of its Common Stock if the commission determines that continued ownership would be inconsistent with the public interest, convenience or necessity or the best interest of racing generally.

The Pennsylvania Racing Act also specifies certain reporting and notification requirements to the Company or the Pennsylvania Racing Commissions relating to transfers of beneficial ownership of stock (i) comprising 5% or more of a corporation licensed to conduct racing or any corporation which leases a racetrack to a corporation licensed to conduct racing or (ii) comprising 5% or more of a corporation which owns 25% or more of the stock of a corporation licensed to conduct racing, such as the Company.

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.

POSSIBLE ANTITAKEOVER EFFECT OF CERTAIN CHARTER, BY-LAW AND OTHER PROVISIONS

The Company's Amended and Restated Articles of Incorporation and By-Laws provide that the Board of Directors is to consist of three classes of directors, each comprised as nearly as practicable of one-third of the Board, and that one-third of the Board is to be elected each year. At each annual meeting, only directors of the class whose term is expiring are voted upon, and upon election each such director serves a three-year term. The Company's Amended and Restated Articles of Incorporation provide that a director may be removed with or without cause only by the affirmative vote of the holders of 75% of the voting power of all shares of the Company entitled to vote generally in the election of directors, voting as a single class; the Company's By-Laws provide that a director may only be removed without cause by written consent of the shareholders and not at a meeting.

The Company's Amended and Restated Articles of Incorporation provide that shareholder-proposed nominations for election of directors and shareholder-proposed business at meetings of shareholders shall be subject to such advance notice requirements as may be contained in the By-Laws, which may be amended by the directors.

The provisions of the Company's Amended and Restated Articles of Incorporation with respect to classification of the Board of Directors and shareholder approval of the removal of directors with or without cause may not be altered, amended or repealed without the affirmative vote of the holders of at least 75% of the voting power of all shares of the Company entitled to vote generally in the election of directors, voting as a single class.

The Pennsylvania Business Corporation Law ("BCL") contains a number of interrelated provisions which are designed to support the validity of actions taken by the Board of Directors in response to takeover bids, including specifically the Board's authority to "accept, reject or take no action" with respect to a takeover bid, and permitting the unfavorable disparate treatment of a takeover bidder. One provision requires that mergers with or sales of assets to an "interested shareholder" (which includes a shareholder who is a party to the proposed transaction) be approved by a majority of voting shares outstanding, other than those held by the interested shareholder, unless the transaction has been approved by a majority of the corporation's directors who are not affiliated with the interested shareholder, or the transaction results in the payment to all other shareholders of an amount not less than the highest amount paid for shares by the interested shareholder. Another provision of the BCL gives the directors broad discretion in considering the best interests of the corporation, including a provision which permits the Board, in taking any action, to consider various corporate interests, including employees, suppliers, clients and communities in which the corporation is located, the short and long-term interests of the corporation, and the resources, intent and conduct of any person seeking to acquire control of the corporation. Another provision prohibits, subject to certain exceptions, a "business combination" with a shareholder or group of shareholders beneficially owning more than 20% of the voting power of a public corporation (excluding certain shares) for a five-year period following the date on which the holder became an interested shareholder.

The effect of the BCL's antitakeover provisions may be to deter unsolicited takeover attempts or other attempts to accumulate stock in the Company. This may promote stability in the business, management and control, and in the price of stock, of the Company. However, by discouraging open market accumulation of stock in the Company and non-solicited, non-negotiated takeover attempts, shareholders may be disadvantaged by foregoing the opportunity to participate in such transactions, which may be in excess of the prevailing market price for the Company's stock. In addition, while the antitakeover provisions may encourage a party considering accumulating stock in or acquiring the Company to negotiate with the Board, and place the Board in a better position to defend against actions it believes not to be in the best interests of the Company and its shareholders, the provisions may also make it more difficult to accomplish a transaction requiring shareholder approval if the Board disapproves (even if the shareholders may be in favor of such a transaction).

The restrictions of the Pennsylvania Racing Act on share ownership and transfer may also discourage or make it more difficult for a party to accumulate stock in or acquire the Company, as the Pennsylvania Racing Commission has broad discretion in approving the activities of the Company and approving its shareholders. The restrictions of the West Virginia Gaming Machine Act on share ownership and transfer may also discourage or make it more difficult for a party to accumulate stock in or acquire the Company, as the West Virginia Lottery Commission has broad discretion in approving the activities of the Company and approving its shareholders. See "-- Certain Restrictions on Share Ownership and Transfer."

Peter M. Carlino may, by virtue of his ability to vote shares of the Common Stock, be able significantly to influence the election of directors and the business and affairs of the Company. The trustees of the Carlino Family Trust may, by virtue of their ability to vote the shares of Common Stock held in the Carlino Family Trust in certain circumstances, be able significantly to influence the approval or disapproval of the sale of all or substantially all of the assets of the Company, a merger, consolidation or liquidation of the Company. In addition, in the event the Carlino Family Trust proposes to sell Common Stock representing more than 3% of the Company's outstanding Common Stock, Peter M. Carlino and other Carlino siblings have the right to acquire such Common Stock on the price and terms proposed. Peter M. Carlino's control position and certain other provisions of the Carlino Family Trust could deter unsolicited takeover attempts to the same or greater extent than the BCL or the Pennsylvania Racing Act. See "Risk Factors -- Concentration of Ownership."

TRANSFER AGENT

The transfer agent for the Common Stock is Continental Stock Transfer & Trust Company.

Subject to the terms and conditions set forth in an underwriting agreement (the "Underwriting Agreement") among the Company, the Selling Shareholders and the underwriters named below (the "Underwriters"), for whom Salomon Brothers Inc, Gerard Klauer Mattison & Co., Inc. and Jefferies & Company, Inc. are acting as representatives (the "Representatives"), the Company and the Selling Shareholders have agreed to sell to each of the Underwriters, and each of the Underwriters severally has agreed to purchase from the Company and the Selling Shareholders, the shares of Common Stock set forth opposite its name below:

UNDERWRITERS	NUMBER OF SHARES
Salomon Brothers Inc.....	
Gerard Klauer Mattison & Co., Inc.....	
Jefferies & Company, Inc.....	
Total.....	2,300,000

In the Underwriting Agreement, the several Underwriters have agreed, subject to the terms and conditions set forth therein, to purchase all of the shares of Common Stock offered hereby (other than those subject to the over-allotment option described below) if any such shares are purchased. In the event of a default by an Underwriter, the Underwriting Agreement provides that, in certain circumstances, the purchase commitments of the nondefaulting Underwriters may be increased or the Underwriting Agreement may be terminated.

The Company has been advised by the Representatives that the several Underwriters initially propose to offer the shares of Common Stock directly to the public at the public offering price set forth on the cover page of this Prospectus, and to certain dealers at such price less a concession not in excess of $ per share. The Underwriters may allow, and such dealers may reallow, a concession not in excess of $ per share. After the initial public offering, the public offering price and such concessions may be changed from time to time by the Underwriters.

The Company and the Selling Shareholders have granted to the Underwriters an option, expiring at the close of business on the 30th day subsequent to the date of this Prospectus, to purchase up to 258,750 and 86,250 additional shares of Common Stock, respectively, at the public offering price set forth on the cover page of this Prospectus, less the underwriting discount. The Underwriters may exercise such option only to cover over-allotments, if any, incurred in the sale of the shares of Common Stock. To the extent that the Underwriters exercise such option, each Underwriter will be obligated, subject to certain conditions, to purchase approximately the same percentage of such additional shares as the percentage it is required to purchase of the total number of shares of Common Stock in the above table.

The Company's directors and executive officers, the Selling Shareholders and certain members of the Carlino family have agreed that they will not offer, sell or contract to sell or otherwise dispose of, directly or indirectly, or announce the offering of, any shares of Common Stock or any securities convertible into, or exchangeable for, shares of Common Stock for a period of 120 days after the date of this Prospectus, except for the shares of Common Stock offered hereby, the issuance of shares by the Company pursuant to stock options and the issuance of shares or options by the Company pursuant to employee benefit, stock option or ownership plans of the Company outstanding or in effect on the date of this Prospectus, without the prior written consent of the Representatives.

The Underwriting Agreement provides that the Company and the Selling Shareholders will indemnify the Underwriters against certain liabilities, including liabilities under the Securities Act, or contribute to payments the Underwriters may be required to make in respect thereof.

David A. Handler, one of the Selling Shareholders, is a Senior Vice President of Jefferies & Company, Inc., one of the Representatives, and a director of the Company. The Shares being sold by Mr. Handler will be issued by the Company pursuant to the exercise by Mr. Handler of warrants assigned to him by his previous employer, Fahnestock & Co. Inc., which received the warrants from the Company in connection with the Company's initial public offering in 1994.

LEGAL MATTERS

Certain legal matters with respect to the shares of Common Stock offered hereby will be passed upon for the Company by Morgan, Lewis & Bockius LLP, Pittsburgh, Pennsylvania. Certain legal matters relating to this offering will be passed upon for the Underwriters by Cleary, Gottlieb, Steen & Hamilton, New York, New York.

EXPERTS

The consolidated financial statements of the Company included and incorporated by reference in this Prospectus and in the Registration Statement have been audited by BDO Seidman, LLP, independent certified public accountants, to the extent and for the periods set forth in their report included and incorporated herein by reference, and are included and incorporated herein in reliance upon such report given upon the authority of said firm as experts in accounting and auditing.

The consolidated financial statements of The Plains Company included in this Prospectus and elsewhere in the Registration Statement have been audited by Robert Rossi & Co., independent certified public accountants, to the extent and for the periods set forth in their report appearing elsewhere herein and in the Registration Statement and have been included herein in reliance upon such report given upon the authority of said firm as experts in accounting and auditing.

The consolidated financial statements of Charles Town included in this Prospectus and elsewhere in the Registration Statement have been audited by Leonard J. Miller & Associates, Chartered, independent certified public accountants, to the extent and for the periods set forth in their report appearing elsewhere herein and in the Registration Statement and have been included herein in reliance upon such report given upon the authority of said firm as experts in accounting and auditing.

INDEX TO FINANCIAL STATEMENTS

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, 1994 and 1995, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 1995. 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, 1994 and 1995, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

BDO SEIDMAN, LLP

Philadelphia, Pennsylvania

February 2, 1996

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AND SHARE DATA)

	DECEMBER 31,		SEPTEMBER 30,
	1994	1995	1996
			(UNAUDITED)
ASSETS			
Current assets			
Cash	$ 5,502	$ 7,514	$ 5,602
Accounts receivable	1,256	1,618	1,968
Prepaid expenses and other current assets	442	600	1,332
Deferred income taxes	49	104	62
Total current assets	7,249	9,836	8,964
Property, plant and equipment, at cost			
Land and improvements	3,253	3,336	4,225
Building and improvements	7,867	8,651	8,740
Furniture, fixtures and equipment	2,802	4,696	5,660
Transportation equipment	240	309	322
Leasehold improvements	2,814	4,363	6,388
Leased equipment under capitalized lease	934	824	824
Construction in progress	566	255	1,059
	18,476	22,434	27,218
Less accumulated depreciation and amortization	5,914	6,728	7,589
Net property and equipment	12,562	15,706	19,629
Other assets			
Excess of cost over fair market value of net assets acquired (net of accumulated amortization of $646, $713 and $763, respectively)	1,965	1,898	1,848
Prepaid acquisition costs	--	--	3,001
Miscellaneous	97	92	291
Total other assets	2,062	1,990	5,140
	$21,873	$27,532	$33,733
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Current maturities of long-term debt and capital lease obligations	$ 258	$ 250	$ 222
Accounts payable	1,410	1,395	1,868
Purses due horsemen	996	1,293	1,329
Uncashed pari-mutuel tickets	520	704	617
Accrued expenses	1,078	702	618
Customer deposits	299	315	515
Income taxes	607	797	328
Taxes, other than income taxes	7	246	473
Total current liabilities	5,175	5,702	5,970
Long-term liabilities			
Long-term debt and capital lease obligations, net of current maturities	258	140	80
Deferred income taxes	813	888	989
Total long-term liabilities	1,071	1,028	1,069
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 12,900,000, 12,945,000 and 13,330,290, respectively	43	43	133
Additional paid-in capital	12,642	12,821	14,217
Retained earnings	2,942	7,938	12,344
Total shareholders' equity	15,627	20,802	26,694
	$21,873	$27,532	$33,733

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

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE AND SHARE DATA)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Revenues					
Pari-mutuel revenues					
Penn National races	$ 29,224	$ 23,428	$ 21,376	$ 16,578	$ 14,495
Import simulcasting	9,162	16,968	27,254	20,412	23,596
Export simulcasting	383	1,187	2,142	1,447	2,479
Admissions, programs and other racing revenues	2,485	2,563	3,704	2,978	3,403
Concession revenues	1,410	1,885	3,200	2,478	2,501
Total revenues	42,664	46,031	57,676	43,893	46,474
Operating expenses					
Purses, stakes and trophies	9,719	10,674	12,091	9,329	9,744
Direct salaries, payroll taxes and employee benefits	6,394	6,707	7,699	5,823	6,211
Simulcast expenses	10,136	8,892	9,084	6,905	6,920
Pari-mutuel taxes	3,568	4,054	4,963	3,773	3,954
Other direct meeting expenses	6,046	6,375	8,214	6,249	6,932
Off-track wagering concession expenses	806	1,231	2,221	1,689	1,766
Management fees paid to related party	1,208	345	--	--	--
Other operating expenses	2,331	3,329	5,149	3,750	3,710
Total operating expenses	40,208	41,607	49,421	37,518	39,237
Income from operations	2,456	4,424	8,255	6,375	7,237
Other income (expenses)					
Interest (expense)	(989)	(465)	(71)	(55)	(44)
Interest income	27	125	269	201	229
Other	6	15	10	4	--
Total other income (expense)	(956)	(325)	208	150	185
Income before income taxes and extraordinary item	1,500	4,099	8,463	6,525	7,422
Taxes on income	42	1,381	3,467	2,680	3,016
Income before extraordinary item	1,458	2,718	4,996	3,845	4,406
Extraordinary item					
Loss on early extinguishment of debt, net of income taxes of $83	--	115	--	--	--
Net income	$ 1,458	$ 2,603	$ 4,996	$ 3,845	$ 4,406
Net income per share			$ .38	$ .29	$ .32
Supplemental pro forma					
Historical net income before taxes on income	1,500	4,099			
Supplemental pro forma adjustments	1,834	625			
Supplemental pro forma income before taxes on income	3,334	4,724			
Supplemental pro forma taxes on income	1,515	2,000			
Supplemental pro forma net income	$ 1,819	$ 2,724			
Supplemental pro forma net income per share	$ .15	$ .22			
Weighted average common shares outstanding	12,249,000	12,663,000	13,104,000	13,044,000	13,754,000

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

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)

	COMMON STOCK		ADDITIONAL PAID-IN CAPITAL	RETAINED EARNINGS	TOTAL
	SHARES	AMOUNT			
Balance, January 1, 1993	8,400,000	$ 28	$ 2	$ 2,486	$ 2,516
Net income for the year ended December 31, 1993	--	--	--	1,458	1,458
Distributions to shareholders	--	--	--	(556)	(556)
Balance, December 31, 1993	8,400,000	28	2	3,388	3,418
Deferred income taxes of S corporations and partnerships	--	--	(302)	--	(302)
Distributions to shareholders	--	--	--	(3,049)	(3,049)
Issuance of common stock	4,500,000	15	12,942	--	12,957
Net income for the year ended December 31, 1994	--	--	--	2,603	2,603
Balance, December 31, 1994	12,900,000	43	12,642	2,942	15,627
Issuance of common stock	45,000	--	179	--	179
Net income for the year ended December 31, 1995	--	--	--	4,996	4,996
Balance, December 31, 1995	12,945,000	43	12,821	7,938	20,802
Issuance of common stock (unaudited)	385,290	3	1,483	--	1,486
Stock splits (unaudited)	--	87	(87)	--	--
Net income for the nine months ended September 30, 1996 (unaudited)	--	--	--	4,406	4,406
Balance, September 30, 1996 (unaudited)	13,330,290	$133	$14,217	$ 12,344	$26,694

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

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Cash flows from operating activities					
Net income	$ 1,458	$ 2,603	$ 4,996	$ 3,845	$ 4,406
Adjustments to reconcile net income to net cash provided by operating activities					
Depreciation and amortization	640	699	881	648	911
Extraordinary loss related to early extinguishment of debt, before income tax benefit	--	198	--	--	--
Deferred income taxes	61	493	20	(2)	144
Decrease (increase) in					
Accounts receivable	(114)	(309)	(362)	16	(350)
Prepaid expenses and other current assets	(73)	(60)	(158)	(263)	(732)
Miscellaneous other assets	(2)	(56)	5	(29)	(197)
Increase (decrease) in					
Accounts payable	281	(228)	(15)	182	473
Purses due horsemen	107	85	297	701	36
Uncashed pari-mutuel tickets	94	(12)	184	14	(88)
Accrued expenses	151	196	(376)	(539)	(85)
Customer deposits	12	(10)	16	205	200
Taxes other than income taxes	21	(147)	239	132	81
Income taxes	(62)	607	190	234	(324)
Net cash provided by operating activities	2,574	4,059	5,917	5,144	4,475
Cash flows from investing activities					
Expenditures for property and equipment	(412)	(2,852)	(3,958)	(3,690)	(4,784)
Decrease (increase) in advances to related parties	(210)	3,688	--	--	--
(Increase) in prepaid acquisition costs	--	--	--	--	(3,001)
Net cash (used) provided by investing activities	(622)	836	(3,958)	(3,690)	(7,785)
Cash flows from financing activities					
Proceeds from sale of common stock	--	12,957	179	--	1,486
Principal payments on notes payable, banks	(6)	(1,289)	--	--	--
Proceeds from notes payable, related party	64	178	--	--	--
Principal payments on notes payable, related party	(381)	(361)	--	--	--
Proceeds of long-term debt	--	800	--	--	--
Principal payments on long-term debt and capitalized lease obligations	(1,024)	(9,433)	(126)	(91)	(88)
Increase in unamortized financing cost	--	(182)	--	--	--
Distributions to shareholders	(556)	(3,049)	--	--	--
(Decrease) increase in advances from related parties	16	(16)	--	--	--
Net cash (used) provided by financing activities	(1,887)	(395)	53	(91)	1,398
Net increase (decrease) in cash	65	4,500	2,012	1,363	(1,912)
Cash, at beginning of period	937	1,002	5,502	5,502	7,514
Cash, at end of period	$ 1,002	$ 5,502	$ 7,514	$ 6,865	$ 5,602

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

PRINCIPLES OF CONSOLIDATION AND REORGANIZATION

The consolidated financial statements include the following entities of Penn National Gaming, Inc. (collectively, the "Company") prior to the reorganization, as described below, and which were affiliated through common ownership and control.

Mountainview Thoroughbred Racing Association ("Mountainview")
Pennsylvania National Turf Club, Inc. ("Turf Club")
PNRC Reading, Inc. (An S corporation)
PNRC Chambersburg, Inc. (An S corporation)
PNRC Limited Partnership
Carlino Family Partnership
Penn National Gaming, Inc., formerly called PNRC Corp. (An S corporation)

The consolidated financial statements for the periods prior to the reorganization have been prepared as if the entities had operated as a single consolidated group assuming that the reorganization had taken place. After the reorganization, the consolidated financial statements include Penn National Gaming, Inc. and its wholly owned subsidiaries Turf Club, Mountainview, Penn National Speedway, Inc. (formed in 1995) and Sterling Aviation, Inc. (formed in 1995). All significant intercompany accounts and transactions have been eliminated in consolidation.

REORGANIZATION

The Company completed an initial public offering on May 25, 1994 by selling 4,500,000 shares of its common stock.

On April 11, 1994, the Company entered into an agreement and plan of reorganization, pursuant to which, on May 24, 1994: (1) Penn National Gaming, Inc. ("Penn National") acquired all of the outstanding stock of Mountainview, Turf Club, PNRC Reading, Inc. and PNRC Chambersburg, Inc., (2) Penn National Gaming, Inc. acquired the limited partners' interests in PNRC Limited Partnership and all of the partnership interests in Carlino Family Partnership, and these partnerships were liquidated into the Company. In exchange for the stock and assets acquired in the transactions, the Company issued 8,400,000 shares of its common stock. Pursuant to the reorganization, Turf Club, Mountainview, PNRC Reading, Inc. and PNRC Chambersburg, Inc. became wholly-owned subsidiaries of Penn National. Subsequent to the reorganization, the Company merged PNRC Reading, Inc. and PNRC Chambersburg, Inc. into Mountainview in accordance with a statutory merger, leaving Turf Club and Mountainview as the only subsidiaries of the Company.

The transaction was treated similar to a pooling of interests and the exchange of stock and partnership interests was a tax-free exchange.

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 six off-track wagering facilities ("OTWs") located principally in Eastern and Central Pennsylvania. Prior to the consummation of the acquisition of Pocono Downs (see Note 11), the Company owned and operated Penn National Race Course located outside Harrisburg, Pennsylvania (the "Thoroughbred Track"), and four OTWs in Chambersburg, Lancaster, Reading and York, Pennsylvania. On November 27, 1996, the Company consummated the Pocono Downs Acquisition, and as a result acquired Pocono Downs Racetrack, located outside Wilkes-Barre, Pennsylvania (the "Harness Track"), and OTWs in Allentown and Erie, Pennsylvania.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: -- (CONTINUED)

On January 15, 1997, a joint venture in which the Company has reached an agreement to hold an 89% interest acquired substantially all of the assets relating to Charles Town Races, a thoroughbred racing facility in Jefferson County, West Virginia. The Company expects to refurbish the Charles Town facility as an entertainment complex that will feature live racing, dining, simulcast wagering and, upon completion of the interior refurbishment in mid-1997, 400 Gaming Machines.

The Company conducts wagering at its tracks and at its OTWs on thoroughbred and harness races which it runs at its tracks and on thoroughbred and harness races simulcast from other racetracks. The Company also simulcasts its races for wagering at other racetracks and OTWs, including all Pennsylvania racetracks and OTWs and locations outside Pennsylvania. Wagering on Company races and races simulcast from other racetracks also occurs through the Company's telephone account betting network.

GLOSSARY OF TERMINOLOGY

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

OTW -- Off-track wagering location.

Pari-mutuel wagering -- All wagering at Penn National's racetracks, at Penn National's OTWs and all wagering on Penn National's races at other racetracks and their OTWs.

Telebet -- Telephone account wagering.

Totalisator Services -- Computer services provided to Penn National by Autotote Enterprises, Inc. for processing pari-mutuel betting odds and wagering proceeds.

Pari-mutuel Revenues:

Penn National Races -- Penn National's share of pari-mutuel wagering on Penn National races within Pennsylvania and certain stakes races from racetracks outside of Pennsylvania after payment of the amount returned as winning wagers.

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

Export Simulcasting -- Penn National's share of wagering at out-of-state locations on Penn National races.

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

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
	(IN THOUSANDS)				
Pari-mutuel wagering in Pennsylvania on Penn National races	$ 138,939	$ 111,248	$ 102,145	$ 79,235	$ 69,200
Pari-mutuel wagering on simulcasting					
Import simulcasting from other Pennsylvania race tracks	41,385	28,622	29,159	22,018	17,704
Import simulcasting from out of Pennsylvania race tracks	16,867	64,839	113,340	84,646	105,191
Export simulcasting to out of Pennsylvania wagering facilities	12,746	40,337	72,252	48,327	84,228
	70,998	133,798	214,751	154,991	207,123

Total pari-mutuel wagering................	$ 209,937	$ 245,046	$ 316,896	$ 234,226	$ 276,323

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: -- (CONTINUED)

RACING MEET

The Company's racing seasons for the years ended December 31, 1993, 1994 and 1995 totaled 238, 219 and 204 live race days, respectively. The Company's racing seasons for the nine month periods ended September 30, 1995 and 1996 totaled 154 live race days for each period.

The Reading OTW commenced simulcasting operations on May 15, 1992. During the years ended December 31, 1993, 1994 and 1995, this facility was open 359, 363 and 364 calendar days, respectively. During the nine month periods ended September 30, 1995 and 1996, this facility was open 273 and 272 calendar days, respectively.

The Chambersburg OTW commenced simulcasting operations on April 25, 1994. During the years ended December 31, 1994 and 1995, this facility was open 249 and 364 calendar days, respectively. During the nine month periods ended September 30, 1995 and 1996, this facility was open 273 and 272 calendar days, respectively.

The York OTW commenced simulcasting operations on March 20, 1995. During the year ended December 31, 1995, this facility was open 286 calendar days. During the nine months ended September 30, 1995 and 1996, this facility was open 195 and 272 calendar days, respectively.

The Lancaster OTW commenced simulcasting operations on July 11, 1996. During the nine months ended September 30, 1996, this facility was open 82 calendar days.

DEPRECIATION AND AMORTIZATION

Depreciation of property 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, 1993, 1994 and 1995 amounted to $553,000, $612,000 and $814,000, respectively. Depreciation and amortization for the nine month periods ended September 30, 1995 and 1996 amounted to $598,000 and $861,000, 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 1993, 1994 and 1995 amounted to $67,000 in each year. Amortization expense for the nine month periods ended September 30, 1995 and 1996 amounted to $50,250 in each period. The Company evaluates the recoverability of the goodwill quarterly, or more frequently whenever events and circumstances warrant revised estimates, and considers whether the goodwill should be completely or partially written off or the amortization period accelerated.

The Company 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 indentifiable 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 indicate that the carrying amount of the assets may not be recoverable. Any long-lived assets held for disposal are reported at the lower of their carrying amounts or fair value less cost to sell.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: -- (CONTINUED)

INCOME TAXES

Mountainview had historically joined in filing a consolidated federal income tax return with Carlino Financial Corporation, its previous parent company. Prior to the reorganization, federal income taxes were paid to or recovered from Carlino Financial Corporation, based upon the terms of a tax sharing agreement and the provision for federal income taxes was computed on a separate return basis.

Turf Club had filed its income tax returns as a separate entity.

Prior to the reorganization, the other entities included within these financial statements were partnerships and "S" corporations. Therefore, no provision had been made for income taxes since such taxes, if any, were the liabilities of the individual partners and shareholders.

The Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109") effective January 1, 1993. 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.

EARNINGS PER COMMON SHARE (SUPPLEMENTAL)

Supplemental pro forma earnings per share is calculated by dividing supplemental pro forma net income by the weighted average number of common stock outstanding (see Note 7) adjusted by the dilutive effect of common stock equivalents, which consist of stock options (using the treasury stock method) and warrants. All earnings per share calculations reflect all stock splits (see Note 9).

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, 1995 and September 30, 1996, the Company had bank deposits which exceeded federally insured limits by approximately $248,000 and $517,000, respectively, and money market and tax free bond funds of approximately $6,400,000 and $5,100,000, respectively. 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 race tracks and OTWs. Historically, the Company has not incurred any significant credit related losses.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: -- (CONTINUED)

FAIR VALUE OF FINANCIAL INSTRUMENTS

As of December 31, 1995 and September 30, 1996, the following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practical to estimate:

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

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

USE OF ESTIMATES

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

2. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS:

	DECEMBER 31,		SEPTEMBER 30,
	1994	1995	1996
	(IN THOUSANDS)		
Long-Term Debt			
Notes are payable to former minority stockholders of Pennsylvania National Turf Club, Inc. upon demand	$ 136	$ 132	$ 132
Other	6	--	--
Capital Lease Obligations			
Various leases are payable in monthly installments ranging from $213 to $5,431 including interest between 8.5% to 18.96% per annum. The leases are collateralized by equipment and the final payments are due in 1999	374	258	170
	516	390	302
Less current maturities	258	250	222
	$ 258	$ 140	$ 80

2. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS: -- (CONTINUED)

The following is a schedule of future minimum lease payments under capitalized leases as of December 31, 1995:

	(IN THOUSANDS)
1996	$146
1997	92
1998	49
1999	9
Total minimum lease payments	296
Less amount representing interest	38
Present value of net minimum lease payments	$258

The net book value of property under capitalized lease obligations as of December 31, 1995 and September 30, 1996 was $323,000 and $222,000 respectively.

3. RELATED PARTY TRANSACTIONS:

Management fees of $345,000 and $1,028,000 were paid in 1993 and 1994 to a related company.

PCC Builders, Inc., a company owned by the chairman and chief executive officer of Penn National Gaming, Inc., was engaged in 1993 to serve as the general contractor to renovate the building in which the Company's Chambersburg OTW is located. The contract provided for a fixed fee contract price of $1,020,871. The renovation was completed on April 22, 1994.

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

4. CUSTOMER DEPOSITS:

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

5. COMMITMENTS AND CONTINGENCIES:

Mountainview and Turf Club are jointly liable for Totalisator Services and equipment under a five-year agreement expiring March 31, 1998. The agreement provides for annual payments based on a specified percentage of the total amount wagered at the track, with a minimum annual payment of $300,000.

The Company is also liable under numerous operating leases for automobiles, other equipment and buildings, which expire through 2004. Total rental expense under these agreements was $492,000, $636,000 and $672,000 for the years ended December 31, 1993, 1994 and 1995, respectively. Total rental expense under these agreements was $504,000 and $578,000 for the nine month periods ended September 30, 1995 and 1996, respectively.

5. COMMITMENTS AND CONTINGENCIES: -- (CONTINUED)

The future lease commitments relating to non-cancelable operating leases as of December 31, 1995 are as follows:

	(IN THOUSANDS)
1996	$ 703
1997	698
1998	453
1999	330
2000	315
Thereafter	1,005
	$3,504

On July 11, 1996, the Company opened its Lancaster OTW facility. The Company entered into a ten-year lease agreement for the 24,050 square feet Lancaster OTW facility. The Lancaster OTW lease provides for minimum annual lease payments of $192,400 in years one through five and $211,640 in years six through ten. The table presented above does not reflect this lease commitment.

In March 1996, the Company assumed an agreement to purchase land for its proposed Downingtown OTW facility. The agreement which provides for a purchase price of $1,696,000, is subject to numerous contingencies including approval from the Pennsylvania State Horse Racing Commission.

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 his death.

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 $3.33 per share expiring May 31, 2000.

Effective January 1, 1990, the Company adopted a profit sharing plan under the provisions of Section 401(k) of the Internal Revenue Code covering all eligible employees who are not members of a bargaining unit. The Company's contributions are set at 50% of employees' elective salary deferrals which may be made up to a maximum of 6% of employee compensation. The Company made contributions to the plan of approximately $48,000, $60,000 and $70,000 for the years ended December 31, 1993, 1994 and 1995, respectively. The Company made contributions to the plan of approximately $57,000 and $64,000 for the nine month periods ended September 30, 1995 and 1996, respectively.

In December 1995, the Company agreed in principal with an unrelated party to form a joint venture for the purpose of developing, managing and operating pari-mutuel racing facilities in a state other than Pennsylvania or West Virginia. The joint venture is subject to numerous contingencies, including receipt of regulatory approvals from that state's horse racing commission.

5. COMMITMENTS AND CONTINGENCIES: -- (CONTINUED)

In February 1996, the Company entered into an agreement to purchase land for its proposed Williamsport OTW facility. The agreement provides for a purchase price of $555,000 and is subject to numerous contingencies including approval from the Pennsylvania State Horse Racing Commission. On May 22, 1996, the Company received tentative approval from the Pennsylvania State Horse Racing Commission for the Williamsport OTW facility which is expected to open during February 1997.

CREDIT FACILITIES

Prior to November 1996, the Company had a $4,200,000 credit facility with a commercial bank. The facility provided for a working capital line of credit in the amount of $2,500,000 at various interest rates and a letter of credit facility for $1,700,000. The credit facility was unsecured and contained various covenants, such as tangible net worth, debt to tangible net worth and debt coverage ratio. At both December 31, 1995 and September 30, 1996, the Company was contingently obligated under the letter of credit facility with face amounts aggregating $1,436,000. The $1,436,000 consisted of $1,336,000 relating to the horsemens' account balances and $100,000 for Pennsylvania pari-mutuel taxes. This entire credit facility was repaid and terminated in November 1996, simultaneously with the closing of the Company's new credit facilities.

In November 1996, the Company entered into an agreement with a bank group which provides an aggregate of $75 million of credit facilities ("Credit Facility Agreement"). The credit facilities consist 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 (see Note 11), respectively, and which will be used for a portion of the cost of refurbishment of the Charles Town Facility, and a revolving credit facility of $5 million (together, the "Loans"). The Loans, which mature in November 2001, are secured by substantially all of the assets of the Company. The Credit Facility Agreement provides for certain covenants, including those of a financial nature.

Funding of the first $47 million Term Loan facility took place on November 27, 1996. On January 15, 1997, the Charles Town Acquisition was consummated and, in accordance with the terms of the Credit Facility Agreement, the second $23 million Term Loan was made available for utilization by the Company. The Company borrowed $16.5 million of the $23 million Term Loan on January 15, 1997.

Commencing on December 31, 1997, the Term Loans will amortize on a quarterly basis with payments thereunder to be split proportionately between the two Term Loans in annual aggregate amounts as follows (assuming the Term Loans are fully drawn):

YEAR	AMOUNT
1997	$ 2,000,000
1998	8,000,000
1999	20,000,000
2000	20,000,000
2001	20,000,000

The $5 million revolving credit facility (the "Revolving Facility") includes a $2 million sublimit for standby letters of credit for periods of up to twelve months. $3 million of the Revolving Facility was made available on November 27, 1996. In accordance with the terms of the Credit Facility Agreement, the remaining $2 million became available upon consummation of the Charles Town Acquisition on January 15, 1997.

At the Company's option, the Loans may be maintained from time to time as Base Rate Loans, which 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%. The Loans may

5. COMMITMENTS AND CONTINGENCIES: -- (CONTINUED)

also be maintained as Reserve Adjusted Eurodollar Loans, which bear interest at a rate tied to a eurodollar rate plus an applicable margin of up to 3%.

Mandatory repayments of the Term Loans and 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 balances of the Term Loans and the Revolving Facility and the Company's leverage ratio; however, the Credit Facility Agreement permits the Company to retain the first $6 million of proceeds from any public offering of the Company's equity securities if the offering results in net proceeds to the Company of at least $25 million. 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.

6. INCOME TAXES:

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

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
	(IN THOUSANDS)				
Current tax expense (benefit)					
Federal	$ (28)	$ 495	$ 2,580	$ 2,000	$ 2,166
State	17	377	842	653	707
Total current	(11)	872	3,422	2,653	2,873
Deferred tax expense					
Federal	37	501	34	20	108
State	16	8	11	7	35
Total deferred	53	509	45	27	143
Total provision	$ 42	$ 1,381	$ 3,467	$ 2,680	$ 3,016

In 1993, the Company adopted the provisions of Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109") effective January 1, 1993 (see Note 1). The adoption of the new standard had an immaterial effect on the tax provision for 1993 and on periods ending prior to January 1, 1993. The nature of deferred tax adjustments and their effect on income tax expense are as follows:

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
	(IN THOUSANDS)				
Depreciation methods	$ 61	$ 74	$ 126	$ 81	$ 101
Reserve for debit balances of horsemens' accounts, bad debts and litigation	(8)	(11)	(81)	(54)	42
Net operating loss	--	446	--	--	--
	$ 53	$ 509	$ 45	$ 27	$ 143

6. INCOME TAXES: -- (CONTINUED)

Deferred tax assets and liabilities are comprised of the following:

	DECEMBER 31,		SEPTEMBER 30,
	1994	1995	1996
	(IN THOUSANDS)		
Deferred tax assets			
Reserve for debit balances of horsemens' accounts, bad debts and litigation	$ 24	$ 104	$ 62
Loss carryforwards	25	--	--
	$ 49	$ 104	$ 62
Deferred tax liabilities			
Depreciation	$ 813	$ 888	$ 989

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

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
PERCENT OF PRETAX INCOME					
Federal tax rate	34.0%	34.0%	34.0%	34.0%	34.0%
Increase in taxes resulting from state and local income taxes, net of federal tax benefit	1.5	6.2	6.7	6.8	6.4
Net change attributable to adoption of SFAS No. 109	2.5	--	--	--	--
Permanent difference relating to amortization of goodwill	1.9	0.6	0.3	0.3	0.2
Entities previously taxed as S corporations and partnerships	(45.3)	(9.2)	--	--	--
Other	8.2	2.1	--	--	--
	2.8%	33.7%	41.0%	41.1%	40.6%

7. SUPPLEMENTAL PRO FORMA NET INCOME PER SHARE:

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 compensation; (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, (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 had been taxed as a C corporation. There were no supplemental pro forma adjustments for any subsequent periods.

Supplemental pro forma earnings per share are based on the weighted average number of shares of common stock outstanding, plus the number of shares the Company would have needed to sell to fund the retirement of debt and the number of shares the Company would have needed to sell to fund $1,190,000 of distributions of undistributed S corporation earnings.

8. SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

Cash paid during the year for interest was $905,000, $535,000 and $71,000 in 1993, 1994 and 1995, respectively. Cash paid during the nine month periods ended September 30, 1995 and 1996 for interest was $55,000 and $44,000, respectively.

Cash paid during the year for income taxes was $920,000, $250,000 and $2,839,000 in 1993, 1994 and 1995, respectively. Cash paid during the nine month periods ended September 30, 1995 and 1996 for income taxes was $2,475,000 and $3,196,000, respectively.

Non-cash investing and financing activities were as follows:

During 1993 and 1994, capital lease obligations of $53,000 and $199,000, respectively, were incurred to lease new equipment.

9. SHAREHOLDERS' EQUITY:

COMMON STOCK

On June 3, 1994, the Company completed its initial public offering. The proceeds, net of expenses, amounted to $12,957,000 for 4,500,000 shares of common stock issued. The initial public offering price per share was $3.33.

STOCK OPTIONS AND WARRANTS

In April 1994, the Company's Board of Directors and shareholders adopted and approved the Stock Option Plan ("Plan"). The Plan permits the grant of options to purchase up to 1,290,000 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 the 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 non-qualified 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. As of December 31, 1995 and September 30, 1996, the Company had 480,000 and 466,250 options, respectively, still permitted to be granted under the Plan.

Stock options that expire between May 26, 2000 and 2003 have been granted to officers and directors to purchase Common Stock at prices ranging from $3.33 to $5.58 per share.

All options were granted at market prices. A summary of the stock option transactions follows:

	SHARES	OPTION PRICE PER SHARE	AGGREGATE
Outstanding at January 1, 1994	--	$ --	$ --
Granted	765,000	3.33	2,550,000
Cancelled	(300,000)	3.33	(1,000,000)
Outstanding at December 31, 1994	465,000	3.33	1,550,000
Granted	345,000	3.33 to 5.58	1,548,750
Outstanding at December 31, 1995	810,000	3.33 to 5.58	3,098,750
Granted	99,000	5.58	552,915
Exercised	(85,250)	3.33	(284,309)
Outstanding at September 30, 1996	823,750	3.33 to 5.58	$ 3,367,356

Options to purchase 270,000 shares at $3.33 per share were exercisable at December 31, 1995.

9. SHAREHOLDERS' EQUITY: -- (CONTINUED)

On May 25, 1994, the Compensation Committee granted options to purchase 765,000 shares of Common Stock to officers and directors of the Company at an exercise price of $3.33, the fair market value on the day of the grant. On December 20, 1994, the Company cancelled options to purchase 300,000 shares of Common Stock granted to a former officer of the Company.

Warrants outstanding have been granted to the underwriters of the Company's initial public offering and 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 cancelled warrants to purchase 150,000 shares 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 cancelled warrants were replaced with options to purchase 150,000 shares of common stock at an exercise price of $3.33 per share. A summary of the warrant transactions follows:

	SHARES	WARRANT PRICE PER SHARE	AGGREGATE
Warrants outstanding at January 1, 1994	--	$ --	$ --
Warrants granted	690,000	3.33 to 4.00	2,660,000
Warrants outstanding at December 31, 1994	690,000	3.33 to 4.00	2,660,000
Warrants cancelled	(150,000)	3.33	(500,000)
Warrants exercised	(45,000)	4.00	(180,000)
Warrants outstanding at December 31, 1995	495,000	4.00	1,980,000
Warrants exercised	(300,000)	4.00	(1,200,000)
Warrants outstanding at September 30, 1996	195,000	4.00	$ 780,000

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, 1995, 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. The Company has decided to continue to apply Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," for its stock-based employee compensation arrangements. APB 25 uses what is referred to as an intrinsic value based method of accounting. The disclosure provisions of SFAS 123 are effective for fiscal years beginning after December 15, 1995. The Company will provide the disclosures when required.

STOCK SPLITS

The Board of Directors authorized a three-for-two stock split on April 18, 1996 on its Common Stock to shareholders of record on May 3, 1996, which was paid on May 23, 1996. On November 13, 1996, the Board of Directors authorized a two-for-one stock split on its Common Stock to shareholders of record on November 22, 1996, which was paid on December 20, 1996. In addition, authorized shares of Common Stock were increased from 10,000,000 to 20,000,000. All references in the financial statements to number of shares, per share amounts and market prices of the Company's Common Stock have been retroactively restated to reflect the stock splits and the increased number of shares of Common Stock outstanding.

10. LOSS FROM RETIREMENT OF DEBT:

In 1994, the Company recorded an extraordinary loss of $115,000 after taxes for the early retirement of debt. The extraordinary loss consists primarily of the write-off of deferred finance costs associated with the retired notes, and legal and bank fees relating to the early extinguishment of the debt.

11. ACQUISITIONS:

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 $47 million plus acquisition-related fees and expenses (the "Pocono Downs Acquisition"). Pocono Downs conducts live harness racing at the harness racetrack located outside Wilkes-Barre, Pennsylvania (the "Harness Track"), export simulcasting of Harness Track races to locations throughout the United States, pari-mutuel wagering at the Harness Track 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. 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 is payable in annual installments of $2 million a year for five years, beginning on the date that the Company first offers such additional form of gaming.

On February 26, 1996, the Company entered into a joint venture agreement (the "Charles Town Joint Venture") with Bryant Development Company, 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 Facility") in Jefferson County, West Virginia. In connection with the Charles Town Joint Venture agreement, Bryant Development Company 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 Facility. On January 15, 1997 the Charles Town Joint Venture acquired substantially all of the assets of Charles Town (the "Charles Town Acquisition") for approximately $16.5 million plus acquisition-related fees and expenses. 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 Facility. In fact, the Company contributed 100% of the purchase price of the Charles Town Acquisition and expects to contribute 100% of the cost of refurbishing the Charles Town Facility. The Company has reached an agreement with its joint venture partner, Bryant Development Company ("Bryant"), pursuant to which the parties have agreed to amend the operating agreement to increase the Company's ownership interest to 89% and decrease Bryant's ownership interest to 11%. In addition, the amendment will provide 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 Facility would be treated, as between the parties, as a loan to the Charles Town Joint Venture from the Company. The proposed changes in the ownership of the Charles Town Joint Venture are subject to the review of applicable West Virginia racing and regulatory authorities.

The Charles Town Joint Venture has developed plans for the refurbishment of the Charles Town Facility as an entertainment complex that will feature live racing, dining, simulcast wagering and the

11. ACQUISITIONS: -- (CONTINUED)

installation of gaming machines; the estimated cost of the refurbishment is approximately $16 million exclusive of the costs of gaming machines.

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.

On December 11, 1996, GTECH Corporation ("GTECH") commenced an action in the United States District Court for the Northern District of West Virginia against Charles Town, the Company, Penn National Gaming of West Virginia, Inc., a wholly owned subsidiary of the Company, and Bryant. The complaint filed by GTECH alleges that Charles Town and AmTote International, Inc. ("AmTote") were parties to an October 20, 1994 agreement (the "AmTote Agreement"), pursuant to which AmTote was allegedly granted an exclusive right to install and operate a "video lottery system" at the Charles Town Facility. When the AmTote Agreement was entered into, AmTote was a subsidiary of GTECH; GTECH has since divested itself of AmTote, but is purportedly the assignee of certain of AmTote's rights under the AmTote Agreement pursuant to an assignment and assumption agreement dated February 22, 1996. The complaint seeks (i) preliminary and permanent injunctive relief enjoining Charles Town, Bryant, the Company and its subsidiary from consummating the Charles Town Acquisition or any similar transaction unless the purchasing party explicitly accepts and assumes the AmTote Agreement, (ii) a declaratory judgment that the AmTote Agreement is valid and binding, that GTECH has the right to be the exclusive installer, operator, provider and servicer of a video lottery system at the Charles Town Facility and that any party buying the stock or assets of Charles Town must accept and assume the AmTote Agreement and recognize such rights of GTECH thereunder, (iii) compensatory damages, (iv) legal fees and costs and (v) such other further legal and equitable relief as the court deems just and appropriate. On December 23, 1996, the court denied GTECH's motion to preliminarily enjoin the Company from consummating the Charles Town Acquisition unless it accepts and assumes the AmTote Agreement. The court noted that GTECH may pursue its claim for damages and, if warranted, pursue other injunctive relief in the future. The Company consummated the Charles Town Acquisition on January 15, 1997. On January 13, 1997, Charles Town filed a motion to dismiss GTECH's complaint; the court has not yet ruled on this motion. The Company believes the allegations of the complaint to be without merit and intends to contest the action vigorously.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To the Stockholders of The Plains Company

We have audited the accompanying consolidated balance sheets of The Plains Company and its subsidiaries as of December 31, 1994 and 1995 and the related consolidated statements of income and retained earnings, and cash flows for each of the three years in the period ended December 31, 1995. 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatements. 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 financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of The Plains Company and its subsidiaries at December 31, 1994 and 1995, and the results of their operations and cash flows for each of the three years in the period ended December 31, 1995 in conformity with generally accepted accounting principles.

Robert Rossi & Co.

Olyphant, Pennsylvania

December 6, 1996

THE PLAINS COMPANY AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS)

	DECEMBER 31,		SEPTEMBER 30,
	1994	1995	1996
			(UNAUDITED)
ASSETS			
Current Assets			
Cash and Cash Equivalents	$ 6,116	$ 5,490	$ 4,521
Marketable Securities	2,142	4,701	6,001
Accounts Receivable	258	499	981
Inventories	65	65	69
Due from Related Parties	41	41	41
Prepaid Insurance & Other Current Assets	283	256	466
Total Current Assets	8,905	11,052	12,079
Property and Equipment			
Land	4,131	4,146	4,146
Land Improvements	1,612	1,612	1,612
Buildings & Improvements	6,004	6,362	6,362
Equipment	3,348	3,698	3,749
Race Track	22	22	22
Property Held Under Capital Lease	1,172	1,326	1,326
Construction in Progress	64	--	--
Total	16,353	17,166	17,217
Less: Accumulated Depreciation	3,046	3,852	4,505
Net Property and Equipment	13,307	13,314	12,712
Other Assets			
Marketable Securities	102	--	--
Deferred Expenses	443	324	235
Other Assets	27	27	--
Total Other Assets	572	351	235
Total Assets	$ 22,784	$ 24,717	$ 25,026

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

CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS EXCEPT PER SHARE AND SHARE DATA)

	DECEMBER 31,		SEPTEMBER 30,
	1994	1995	1996
			(UNAUDITED)
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Accounts Payable	$ 1,828	$ 1,693	$ 2,215
Underpaid Purses	501	936	530
Payroll & Sales Taxes Payable	57	50	105
Accrued Expenses	292	332	154
Deferred Income	57	19	5
Income Taxes Payable	1,308	19	86
Deferred Income Taxes	543	364	331
Current Portion of Long-Term Liabilities	602	656	1,020
Total Current Liabilities	5,188	4,069	4,446
Long-Term Liabilities, Net of Current Portion	8,863	8,345	7,159
Limited Partner Interest in Controlled Limited Partnership Investments	2,078	2,689	1,880
Commitments and Contingencies			
Shareholders' Equity			
Common Stock, $50 Par Value, 1,000 Shares Authorized, 100, 0 and 0 Shares Issued and Outstanding, respectively	5	--	--
Common Stock, Class A Voting, $1 Par Value, 100 Shares Authorized, 0, 10 and 10 Shares Issued and Outstanding, respectively	--	--	--
Common Stock, Class B Non-Voting, $1 Par Value, 300,000 Shares Authorized, 0, 30,000 and 30,000 Shares Issued and Outstanding, respectively	--	30	30
Additional Paid In Capital	1,009	984	984
Retained Earnings	5,641	8,600	10,527
Total Shareholders' Equity	6,655	9,614	11,541
Total Liabilities and Shareholders' Equity	$ 22,784	$ 24,717	$ 25,026

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

THE PLAINS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME AND RETAINED EARNINGS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Operating Income					
Pari-Mutuel Commissions and Breakage, Net	$ 18,159	$ 26,244	$ 28,444	$ 22,348	$ 22,187
Purse Income	234	199	155	133	103
Operating Income from Programs, Admissions, Concessions, Parking, and Other Sources	1,983	2,531	2,586	2,016	1,861
Rental Income	1,226	2,431	2,669	1,653	1,595
Total Operating Income	21,602	31,405	33,854	26,150	25,746
Operating Expenses					
Purses	4,721	6,038	6,500	5,225	5,003
Rent	1,226	2,431	2,669	1,653	1,595
Operating Fees & Expenses	4,118	5,667	6,235	4,755	4,997
Salaries	4,377	5,321	5,779	3,810	4,476
Payroll Taxes, Benefits, and Union Dues	553	756	671	575	612
Advertising & Promotions	700	684	937	746	867
Utilities	517	600	593	456	451
Repairs & Maintenance	800	1,032	1,136	970	964
Real Estate Taxes	268	251	247	188	185
Insurance	341	364	403	268	336
General & Administrative	903	1,023	1,150	828	1,079
Depreciation and Amortization	732	927	941	628	741
Total Operating Expenses	19,256	25,094	27,261	20,102	21,306
Income Before Other Income & (Expenses)	2,346	6,311	6,593	6,048	4,440
Other Income & (Expenses)					
Interest & Dividend Income	158	208	396	287	334
Interest Expense	(695)	(934)	(957)	(723)	(640)
Miscellaneous Income	--	58	100	--	--
Bad Debt Expense	--	--	--	--	(10)
Total Other Income & (Expenses)	(537)	(668)	(461)	(436)	(316)
Income Before Limited Partner Share of Income from Controlled Limited Partnership Investment	1,809	5,643	6,132	5,612	4,124
Limited Partner Pro-Rata Share of Income from Controlled Limited Partnership Investment	(571)	(1,361)	(1,571)	(831)	(874)
Income Before Provision for Income Taxes	1,238	4,282	4,561	4,781	3,250
Provision for Income Taxes	477	1,708	1,602	1,937	1,323
Income before Extraordinary Item	761	2,574	2,959	2,844	1,927
Extraordinary Item (Net of Income Taxes)	(175)	--	--	--	--
Net Income	586	2,574	2,959	2,844	1,927
Retained Earnings, Beginning of Period	2,481	3,067	5,641	5,641	8,600
Retained Earnings, End of Period	$ 3,067	$ 5,641	$ 8,600	$ 8,485	$ 10,527

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

THE PLAINS COMPANY AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Cash Flows from Operating Activities					
Net Income	$ 586	$ 2,574	$ 2,959	$ 2,844	$ 1,927
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities					
Depreciation and Amortization	732	927	941	628	741
Extraordinary Item	300	--	--	--	--
Limited Partner Interest in Net Income of Consolidated Limited Partnerships	571	1,361	1,571	831	874
(Increase) Decrease in Accounts Receivable	89	(115)	(241)	(533)	(482)
(Increase) Decrease in Inventories	(30)	16	--	(4)	(4)
(Increase) Decrease in Prepaid Insurance and Other Current Assets	12	(111)	27	16	(210)
(Increase) Decrease in Other Assets	--	(27)	--	27	27
(Decrease) Increase in Accounts Payable	595	678	(135)	(30)	522
(Decrease) Increase in Underpaid Purses	270	101	435	198	(406)
(Decrease) Increase in Payroll and Sales Tax Payable	12	(19)	(7)	20	55
(Decrease) Increase in Accrued Expenses	74	136	40	(138)	(178)
(Decrease) Increase in Deferred Income	(78)	(53)	(38)	(29)	(14)
(Decrease) Increase in Income Taxes Payable	31	1,277	(1,289)	(767)	67
(Decrease) Increase in Deferred Income Taxes	88	103	(179)	(33)	(33)
Net Cash Provided by Operating Activities	3,252	6,848	4,084	3,030	2,886
Cash Flows from Investing Activities					
Investment in Marketable Securities	--	(2,244)	(4,701)	(1,001)	(3,000)
Proceeds from Sale of Marketable Securities	2,266	--	2,244	2,244	1,700
Purchase of Property and Equipment	(3,476)	(818)	(829)	(691)	(51)
Investment of Proceeds from Long-Term Borrowing	(289)	--	--	--	--
Net Cash (Used in) Provided by Investing Activities	(1,499)	(3,062)	(3,286)	552	(1,351)
Cash Flows from Financing Activities					
Proceeds Received on Long-Term Debt	815	--	154	154	--
Payments Made on Short-Term Borrowings	(50)	--	--	--	--
Payments Made on Long-Term Debt	(712)	(873)	(618)	(465)	(821)
Loan Acquisition Costs	(19)	--	--	--	--
Distribution to Limited Partners	--	(80)	(960)	(960)	(1,683)
Net Cash (Used in) Provided by Financing Activities	34	(953)	(1,424)	(1,271)	(2,504)
Net Increase (Decrease) in Cash & Cash Equivalents	1,787	2,833	(626)	2,311	(969)
Cash and Cash Equivalents at Beginning of Period	1,496	3,283	6,116	6,116	5,490
Cash and Cash Equivalents at End of Period	$ 3,283	$ 6,116	$ 5,490	$ 8,427	$ 4,521
Supplemental Cash Flow Disclosures:					
Cash Paid During the Period for:					
Interest	$ 695	$ 934	$ 957	$ 723	$ 640
Income Taxes	247	323	3,049	2,757	1,428
Schedule of Non-Cash Investing & Financing Activities:					
Financing Property and Equipment	13	--	--	--	--
Investment in Property and Equipment	(13)	--	--	--	--
Release of Restricted Cash Applied Against Related Mortgage Note Payable	--	200	--	--	--
Reduction in Mortgage Note Payable	--	(200)	--	--	--

See accompanying summary of significant accounting policies and

notes to consolidated financial statements.

THE PLAINS COMPANY AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS

ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation: The consolidated financial statements include the following subsidiaries and controlled enterprises of The Plains Company (collectively, "The Plains Company").

Pocono Downs, Inc. (a Pennsylvania corporation), a wholly-owned subsidiary of The Plains Company, holds the Pennsylvania racing license and conducts harness race meets with pari-mutuel wagering.

The Downs Off-Track Wagering, Inc. (a Pennsylvania corporation), a wholly-owned subsidiary of Pocono Downs, Inc. and sole general partner of Lehigh Off-Track Wagering, L.P., operates both the Erie and Lehigh off-track wagering facilities.

Northeast Concessions, Inc. (a Pennsylvania corporation), a wholly-owned subsidiary of Pocono Downs, Inc., operates the concessions at the Company's racetrack and off-track wagering facilities.

Audio Video Concepts, Inc. (a Pennsylvania corporation), a wholly-owned subsidiary of Pocono Downs, Inc., supplies audio-video services to the Company's racetrack and off-track wagering facilities.

Mill Creek Land, Inc. (a Pennsylvania corporation), a wholly-owned subsidiary of Pocono Downs, Inc., holds title to a certain parcel of land adjoining the racetrack, which land was previously operated as a landfill.

Backside, Inc. (a Pennsylvania corporation), a wholly-owned subsidiary of Pocono Downs, Inc., operates the horsemen's cafeteria located at the Plains Township racetrack facility.

Peach Street Ltd. Partnership (a Pennsylvania limited partnership), which is controlled by Pocono Downs, Inc., its sole general partner, holds title to the off-track wagering facility located in Erie, Pennsylvania.

Lehigh Off-Track Wagering, L.P. (a Pennsylvania limited partnership), which is controlled by the Downs Off-Track Wagering, Inc., its sole general partner, held title to the off-track wagering facility located in Lehigh County, Pennsylvania. In the acquisition of The Plains Company and its affiliated entities on November 27, 1996, Lehigh Off-Track Wagering, L.P. was dissolved into The Downs Off-Track Wagering, Inc., which now holds title to the Lehigh County facility.

All intercompany accounts and transactions have been eliminated in consolidation. The limited partnership interests in Peach Street Limited Partnership and Lehigh Off-Track Wagering, L.P. have been recorded in the accompanying financial statements as consolidated subsidiaries as described in Note 10.

Nature of Operations: The Plains Company conducts harness race meets with pari-mutuel wagering at its race track in Plains Township, Luzerne County, Pennsylvania. The racing license must be obtained annually from the Pennsylvania Harness Racing Commission. In addition to pari-mutuel wagering on the The Plains Company's live harness race meet, The Plains Company also conducts simulcasted racing programs from other Pennsylvania licensed racetracks and interstate simulcasted racing programs from racetracks located outside Pennsylvania. The

Plains Company also simulcasts racing programs from its two off-track wagering facilities (non-primary locations) located in Erie and Lehigh County, Pennsylvania. The Erie off-track wagering facility was opened on May 1, 1991, and the Lehigh off-track wagering facility began operating on July 28, 1993. During December 1995, The Plains Company commenced acceptance of pari-mutuel wagering through telephone account wagering.

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: -- (CONTINUED)

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Marketable Securities: Marketable securities are accounted for using the accounting provisions of Statement of Financial Accounting Standards No. 115, "Accounting for Investments in Debt and Equity Securities" ("SFAS 115"), whereby debt securities which The Plains Company has the ability and intent to hold to maturity are classified as held to maturity and are carried at cost. All other marketable securities are classified as available for sale and are carried at fair value. Unrealized gains and losses on securities available for sale are recognized as direct increases or decreases in shareholders' equity. Cost of securities sold is recognized using the specific identification method.

Accounts Receivable: Accounts receivable are written off to an expense account in the year determined by management to be uncollectible. It is management's position that the reserve method is not necessary because of the current status and nature of the accounts.

Inventories: Inventories are stated at the lower of cost or market. Cost is determined on a first-in, first-out basis.

Property & Equipment: Property and equipment are carried at cost. Depreciation is provided for over the estimated useful life of the assets principally using the straight line and declining balance method for financial purposes and the straight line method and accelerated cost recovery system for income tax purposes.

Deferred Expenses: Costs associated with debt financing are amortized over the term of the related obligation; and costs associated with the activities of organizing newly created entities are amortized over a five year period.

Deferred Income: Deferred mortgage discount is recognized as interest income using the interest method.

Income Taxes: The Plains Company files a consolidated federal income tax return, and each entity files a separate state income tax return. The provision for federal and state income taxes has been computed on such basis.

The income and deductions of The Plains Company's affiliated limited partnerships are passed through and reported on the tax returns of the limited partnerships' partners in accordance with their respective percentage shares of ownership. Accordingly, federal and state income taxes have been provided on The Plains Company's pro-rata share of partnership income incurred during the years ended December 31, 1993, 1994 and 1995.

In January 1993, The Plains Company adopted Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109"). SFAS 109 is an asset and liability approach that requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in The Plains Company's financial statements or tax returns. In estimating future tax consequences, SFAS 109 generally considers all expected future events other than the enactment of changes in tax laws or rates.

Deferred income taxes are provided for in the accompanying consolidated financial statements based on differences in the financial accounting basis of property and equipment over their tax basis;

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: -- (CONTINUED)

depreciation is computed under the straight line and declining balance method for financial purposes and under the straight line and accelerated cost recovery system for income tax purposes; and based upon the timing differences relative to recognition of deferred mortgage discount.

Cash Equivalents: For purposes of reporting cash flows, cash equivalents include cash on hand, certificates of deposit and all highly liquid investments with original maturities of three months or less.

2. COMMITMENTS AND CONTINGENCIES:

Concentration of Credit Risk: Financial instruments that potentially subject The Plains Company to significant concentrations of credit risk consist principally of cash investments, marketable securities and trade accounts receivable.

The Plains Company maintains its cash investments and certain other financial instruments with various financial institutions located throughout Pennsylvania. At December 31, 1994 and 1995, these investments included $2,000,000 and $4,700,000 of municipal debt securities and cash balances in excess of the $100,000 federal deposit insurance limits amounting to $5,158,741 and $4,563,261, respectively. Concentration of credit risk, with respect to accounts receivable, is limited due to The Plains Company's credit evaluation and collection process. The Plains Company does not require collateral from it's customers. The Plains Company's accounts receivable are mainly concentrated in the horse racing industry and consist principally of amounts due from other racetracks and off-track wagering facilities located in various parts of the country. Historically, The Plains Company has not incurred any significant credit related losses in regard to its trade accounts receivable.

Harness Horsemen's Agreement: In January 1995, The Plains Company entered into an agreement with the Pennsylvania Harness Horsemen's Association (PHHA) which expires January 15, 2000. The agreement requires that The Plains Company distribute to its horsemen a racing purse determined on varying percentages of handle or commission and breakage as stipulated in the agreement. For the years ended December 31, 1993 and 1994, a similar agreement with the Pennsylvania Harness Horsemen's Association was also in force which expired in January 1995.

Purse expense as determined in accordance with The Plains Company's agreement with the PHHA and with the Pennsylvania statute for off-track wagering locations usually do not equal the actual purses paid. Any resulting overpayment or underpayment of purses is applied to future race meets. The amount of purses underpaid at December 31, 1994 and 1995 was $500,528 and $936,314, respectively.

The total purse expense under the aforementioned agreements was $4,721,366, $6,038,421 and $6,499,979 for the years ended December 31, 1993, 1994 and 1995, respectively.

Leases: In December 1993, The Plains Company entered into a lease agreement for certain totalisator equipment. The agreement provides for a five-year term expiring on December 31, 1998 and requires an annual fee determined by the greater of a specified percentage of gross handle wagered plus a flat per item rental charge computed on a daily basis for equipment used at The Plains Company's two off-track wagering locations, or a minimum annual payment of $200,000. For the year ended December 31, 1993, a similar agreement was also in force which expired in December 1993.

Totalisator equipment rentals charged to The Plains Company under the aforementioned lease agreements were $564,676, $636,890 and $735,844 for the years ended December 31, 1993, 1994 and 1995, respectively. Minimum future rental payments under this agreement are $200,000 for each of the years ending

December 31, 1996, 1997 and 1998.

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

2. COMMITMENTS AND CONTINGENCIES: -- (CONTINUED)

The Plains Company entered into a transponder service agreement during 1993, 1994 and 1995 with an unrelated service provider to utilize a satellite system for distribution of a horse racing television service. The agreements are negotiated on an annual basis and expire at the end of each harness racing year. Such agreements require monthly payments based on the hours the transponder is accessed at a rate specified in the agreement. The total fees charged to expense for the years ended December 31, 1993, 1994 and 1995 were $136,246, $244,184 and $128,369, respectively.

Pocono Downs, Inc. leases its Erie off-track wagering facility from Peach Street Ltd. Partnership, an affiliate as described in Note 1, under a long-term operating lease agreement through April 27, 2005. Such lease requires Pocono Downs, Inc. to pay an annual rent equal to the debt service required to finance the construction of the premises, plus the payment of all taxes, utilities and expenses associated with the premises, and a contingent rental based on a percentage of gross handle in excess of a minimum handle as defined within the lease. Rent charged to expense for the years ended December 31, 1993, 1994 and 1995 was $552,568, $672,770 and $730,350, which included contingent rents of $88,168, $208,370 and $265,950, for each respective year.

Pocono Downs, Inc. leases its Lehigh off-track wagering facility from Lehigh Off-Track Wagering, L.P., an affiliate as described in Note 1, under a long-term operating lease agreement through July 27, 2008. The lease requires Pocono Downs, Inc. to pay an annual rent equal to the debt service required to finance the construction of the premises, plus the payment of all taxes, utilities and expenses associated with the premises, and a contingent rental based on a percentage of gross handle in excess of a minimum handle as defined within the lease. Pursuant to the lease agreement, Pocono Downs, Inc. has guaranteed the repayment of the mortgage notes issued by Lehigh Off-Track Wagering, L.P. as described in Note 6. Rent charged to expense for the years ended December 31, 1993, 1994 and 1995 was $673,928, $1,758,568 and $1,938,362, which included contingent rents of $405,277, $1,113,805 and $1,293,599, for each respective year.

Minimum future rental payments under the aforementioned non-cancelable operating leases which have a remaining term in excess of one year as of December 31, 1995 and for each of the next five periods are as follows:

DECEMBER 31,	AMOUNT
1996	$1,109,400
1997	1,109,400
1998	1,109,400
1999	1,109,400
2000	1,109,400
Subsequent to 2000	6,010,332

Restricted Cash: The Plains Company was required to maintain a $200,000 cash balance as additional collateral for the term loan at the local bank which provided the financing to purchase the original mortgage held on Pocono Downs, Inc. as described in Notes 6 and 8. During the year ended December 31, 1994, the bank released the $200,000 cash balance and The Plains Company applied the proceeds to reduce the outstanding balance of the related debt.

Guarantee of Debt Obligation: The Plains Company's racetrack facilities in Plains Township were pledged on a secondary lien mortgage to provide additional collateral on a $3.4 million mortgage note payable by Peach Street Limited Partnership.

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

2. COMMITMENTS AND CONTINGENCIES: -- (CONTINUED)

Consulting Agreement: In March 1989, The Plains Company entered into a consulting agreement with a former officer and director of The Plains Company. The agreement, which would have expired in December 2003, included an agreement not to compete in any business similar to The Plains Company's operations and required monthly payments of $12,500. On November 27, 1996, The Plains Company's obligations under this consulting agreement were terminated by The Plains Company pursuant to the terms of the sale agreement described in Note 14. The termination of The Plains Company's obligations required a payment of $1.8 million as stipulated by the terms of the consulting and non-compete agreement.

401(k) Plan: The Plains Company has an employee retirement plan under Section 401(k) of the Internal Revenue Code, which covers all eligible employees who are not members of a bargaining unit. The retirement plan enables employees choosing to participate to defer a portion of their salary in a retirement fund to be administered by The Plains Company. The Plains Company has no obligation to contribute to such plan. However, for the year ended December 31, 1995, The Plains Company made a discretionary contribution based upon a percentage of the employee elective deferrals. The Plains Company's contributions to the plan amounted to $0, $0 and $40,334, for the year ended December 31, 1993, 1994 and 1995, respectively.

Employment Agreements: During February 1996 and March 1996, The Plains Company entered into employment agreements with two of its corporate officers. Both agreements provided for minimum salary and benefits subject to scheduled annual increases through March 1999 and March 2006. These agreements were terminated on November 27, 1996 by The Plains Company at a cost of approximately $1,083,000 as stipulated in the agreement of sale described in Note 14.

3. MARKETABLE SECURITIES:

At December 31, 1994 and 1995, marketable securities consist of The Plains Company's investment in debt and equity securities which management has classified in accordance with SFAS 115. The carrying amount and approximate fair value of theses securities included in the accompanying classified balance sheet are as follows:

	DECEMBER 31, 1994		DECEMBER 31, 1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
			(IN THOUSANDS)	
Current:				
Equity Securities -- Available for Sale	$ 142	$ 142	$ 1	$ 1
Obligation of State and Political Subdivisions -- Available for Sale	2,000	2,000	4,700	4,700
	$2,142	$2,142	$4,701	$4,701
Non-Current:				
U.S. Government Securities Held to Maturity	$ 102	$ 102	$ --	$ --

At December 31, 1994 and 1995, the fair value of The Plains Company's investment in marketable securities equaled their cost basis; accordingly, there is no unrealized holding gains or losses associated with such investments.

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

3. MARKETABLE SECURITIES: -- (CONTINUED)

Gross proceeds from the sale or maturity of marketable securities for the years ended December 31, 1994 and 1995 were $0 and $2,244,009, respectively. There were no realized gain or losses on the sale or maturity of The Plains Company's investment in marketable securities for the years ended December 31, 1994 and 1995.

4. INVENTORIES:

Inventories valued at the lower of cost or market are summarized as follows:

	DECEMBER 31,	
	1994	1995
	(IN THOUSANDS)	
Food and Beverage Products	$ 63	$ 63
Audio-Video Equipment & Parts	2	2
	$ 65	$ 65

5. DUE FROM RELATED PARTIES:

At December 31, 1994 and 1995, The Plains Company's sole shareholder was indebted to The Plains Company on a non-interest bearing unsecured advance with no stated maturity date in the amount of $41,000. Such indebtedness was subsequently repaid during November 1996.

6. LONG-TERM LIABILITIES:

Long-term liabilities consist of the following:

	DECEMBER 31,	
	1994	1995
	(IN THOUSANDS)	
Promissory Note Payable	$1,077	$ 958
Mortgage Payable	2,670	2,460
Mortgage Notes Payable	5,000	4,995
Capitalized Lease Obligations	718	588
	9,465	9,001
Less: Current Portion	602	656
	$8,863	$8,345

Promissory Note Payable: The Plains Company was indebted to a local area bank on a term loan which was secured by the assignment of a related party mortgage on the Plains Township racetrack facilities between Pocono Downs, Inc. and The Plains Company as described in Note 8 and by land with a carrying value of $750,000 as of December 31, 1994 and 1995.

The promissory note payable bore interest at a rate of 1% above the national prime lending rate and required monthly payments of principal and interest in the amount of $18,085. Such amount was fixed for the succeeding twelve month period at which time the monthly payment would have been recalculated to an amount necessary to amortize the then outstanding principal amount over the remaining amortization term. The promissory note was being amortized over a 15-year period and had a due date of January 1997. The note was paid in November 1996 in conjunction with the sale of The Plains Company to Penn National Gaming, Inc. as described in Note 14.

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

6. LONG-TERM LIABILITIES: -- (CONTINUED)

Mortgage Payable: Peach Street Ltd. Partnership was indebted to a local bank on a mortgage obligation which financed the acquisition and construction of an off-track wagering facility located in Erie, Pennsylvania. The debt was secured by the off-track wagering facility, a first lien on all machinery, equipment and fixtures located at the facility, a secondary mortgage on The Plains Company's racetrack facility located in Plains Township and the personal guarantee of an officer of The Plains Company. The loan agreement required monthly payments of $38,700, which included principal and interest computed at 1% over the prime rate, for a 10-year term through December 2001. The note was paid in November 1996 in conjunction with the sale of The Plains Company to Penn National Gaming, Inc., as described in Note 14.

Mortgages Notes Payable: During 1992, Lehigh Off-Track Wagering, L.P. filed a registration statement with the Pennsylvania Securities Commission under which the partnership would offer for sale from time to time up to $5,000,000 of secured mortgage notes pursuant to the Pennsylvania Securities Act of 1972, as amended. Proceeds from the sale of such mortgage notes were used to acquire property located in Lehigh County, Pennsylvania and to finance the construction of an off-track wagering facility at this location. The mortgage notes would have matured five years from the date of issuance and required quarterly interest payments computed at a rate of 2% above the national prime rate of a local area bank. Additionally, the rate of interest paid on these notes was further restricted to a floor and ceiling of 10% and 15%, respectively. These mortgage obligations were secured by a first lien mortgage on the Lehigh County property, the off-track wagering facility and the corporate guarantee of Pocono Downs, Inc. through the terms of the lease agreement with Lehigh Off-Track Wagering, L.P. The note was paid in November 1996 in conjunction with the sale of The Plains Company to Penn National Gaming, Inc., as described in Note 14.

Capitalized Lease Obligations: The Plains Company leased various audio-video, camera, telecommunication and computer equipment installed at the Plains Township racetrack facility, and the Erie and Lehigh off-track wagering facilities, under six capital leases which would have expired between November 1995 and January 2000. The assets and liabilities under capital leases were recorded at the present value of the minimum lease payments. The Plains Company was obligated to pay insurance, maintenance and expenses related to the leased property. The leases were paid in November 1996 in conjunction with the sale of The Plains Company to Penn National Gaming, Inc., as described in Note 14.

Depreciation expense of $135,325, $176,681 and $186,714 has been recorded on these assets held under capital lease for the years ended December 31, 1993, 1994 and 1995, respectively. Such depreciation has been recorded based on the estimated useful life of the equipment.

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

6. LONG-TERM LIABILITIES: -- (CONTINUED)

Minimum future lease payments under these capital leases for each of the five years succeeding December 31, 1995 and in the aggregate were as follows:

	(IN THOUSANDS)
1996	$329
1997	193
1998	127
1999	38
2000	3
Total Minimum Lease Payments	690
Less: Amount Representing Interest	102
Present Value of Net Minimum Lease Payments	$588

Maturities of long-term liabilities including minimum future lease payments under capital lease for each of the five years succeeding December 31, 1995 were as follows:

	(IN THOUSANDS)
1996	$ 656
1997	5,837
1998	807
1999	356
2000	355

7. DEFERRED EXPENSES:

Deferred expenses net of accumulated amortization consists of the following:

	DECEMBER 31,	
	1994	1995
	(IN THOUSANDS)	
Loan Acquisition Costs, Net of Accumulated Amortization of $555,689 in 1994 and $672,798 in 1995	$438	$321
Organization Costs, Net of Accumulated Amortization of $10,056 in 1994 and $11,912 in 1995	5	3
	$443	$324

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

8. DEFERRED INCOME:

Discount on Mortgage: The Plains Company holds a mortgage note from its wholly-owned subsidiary Pocono Downs, Inc., which operates the Plains Township racetrack facility. Such mortgage note was originally issued by Pocono Downs, Inc. to the Teamsters Central States, Southeast and Southwest Areas Pension Fund (the "Pension Fund") in the amount of $4.5 million. On May 5, 1983, as part of a plan of reorganization of Pocono Downs, Inc., The Plains Company purchased such mortgage note from the Pension Fund at a cost of $2,450,000. At that time, the mortgage note had a balance of approximately $4.3 million including interest through October 30, 1974. The purchase price of the mortgage note was discounted from the outstanding balance by the cash received by the Pension Fund in the reorganization as a Class IV creditor to Pocono Downs, Inc. This discount is being amortized over the life of the mortgage using a constant rate on the outstanding balance under the interest method.

The aforementioned mortgage note is secured by a mortgage on all of the real property of the mortgagor used in connection with the Plains Township racing establishment, restaurant and other related business. The mortgage also provides for the assignment of all leases and all rental and profits of the mortgaged premises as further security. The mortgage has been assigned by The Plains Company as collateral for the promissory note payable as described in Note 6.

9. INCOME TAXES:

The provision for income taxes included in the consolidated statements of income and retained earnings is comprised of the following components.

	DECEMBER 31,		
	1993	1994	1995
	(IN THOUSANDS)		
Current Tax Expense			
Federal	$276	$1,145	$1,350
State	112	461	431
Total Current	388	1,606	1,781
Deferred Tax (Benefits)/Expense			
Federal	63	75	(113)
State	26	27	(66)
Total Deferred	89	102	(179)
Total Provision for Income Taxes	$477	$1,708	$1,602

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

9. INCOME TAXES: -- (CONTINUED)

Deferred tax (assets)/liabilities are comprised of the following at December 31, 1994 and 1995.

	DECEMBER 31,	
	1994	1995
	(IN THOUSANDS)	
Deferred Tax Assets		
Property and Equipment --		
Depreciation and Basis Adjustments	$ --	$(86)
Gross Deferred Tax Asset	--	(86)
Valuation Allowance	--	86
Net Deferred Tax Asset	--	--
Deferred Tax Liabilities		
Property and Equipment --		
Depreciation and Basis Adjustments	139	--
Discount on Mortgage	402	362
Other	2	2
Gross Deferred Tax Liability	543	364
Net Deferred Tax Liability	$543	$364

The provision for income taxes differs from the amount of income tax determined applying the applicable U.S. statutory federal income tax rate to pre-tax income from continuing operations as a result of the following differences.

	DECEMBER 31,					
	1993		1994		1995	
	(DOLLARS IN THOUSANDS)					
Federal Statutory Provision on Financial Statement Income	$420	34.0%	$1,456	34.0%	$1,551	34.0%
Non-Taxable Interest Income at Statutory Rates	0	0.0	(6)	(0.1)	(21)	(0.5)
Non-Deductible Expenses Incurred at Statutory Rates	6	0.4	5	0.1	12	0.3
State Income Tax, Net of Federal Income Tax Benefits	74	6.0	304	7.1	284	6.2
Other, Including Tax Credits, and Deferred Income Tax Expense (Benefit) Arising from Timing Differences in Reporting Income & Expense	(23)	(1.9)	(51)	(1.2)	(224)	(4.9)
Provision for Income Taxes	$477	38.5%	$1,708	39.9%	$1,602	35.1%

The net change in the valuation allowance for deferred tax asset for the year ended December 31, 1995 was an increase of $85,826. The change relates to an increase in the provision for income taxes to which the valuation relates.

During the year ended December 31, 1995, Pennsylvania reinstated a statute permitting a deduction for net operating losses. Accordingly, The Plains Company received a tax benefit which resulted from the utilization of a net operating loss carryforward from an earlier year to reduce its current year state income tax liability.

At December 31, 1995, The Plains Company had available a $6,519 unused

operating loss carryforward that may be applied against future state taxable income which expires in various years through 1997.

(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

10. INVESTMENTS IN LIMITED PARTNERSHIPS:

The Plains Company and subsidiaries hold the controlling general partnership interest in Peach Street Ltd. Partnership and Lehigh Off-Track Wagering L.P., which have been recorded as consolidated subsidiaries in the financial statements. At December 31, 1994 and 1995, the limited partnership interests have been recorded as liabilities in the accompanying consolidated balance sheets in the amount of $2,078,177 and $2,688,893, respectively.

11. RECAPITALIZATION:

On November 28, 1995, The Plains Company approved a plan of recapitalization under which it converted all of the outstanding shares of common stock into shares of newly created classes of common stock. As a result of the transaction, the 100 issued and outstanding shares of common stock were converted into 10 shares of Class A voting common stock and 30,000 shares of Class B non-voting common stock.

Immediately after the November 28, 1995 recapitalization, The Plains Company's capital consisted of:

Common Stock, Class A Voting (10 Shares)	$ 10
Common Stock, Class B Non-Voting (30,000 Shares)	30,000
	$30,010

12. EXTRAORDINARY ITEM:

In March 1993, The Plains Company dedicated a portion of its Lehigh County, Pennsylvania real estate to Hanover Township as part of a land development agreement entered into by The Plains Company. An extraordinary loss of $173,745, net of income tax benefit of $126,255, represents the cost of the land transferred to the municipality.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS:

The following methods and assumptions were used to estimate the fair value of each class of financial instruments for which it is practicable to estimate that value:

Cash and Cash Equivalents: The carrying amount approximated fair value because of the short-term nature of those instruments.

Marketable Securities: The fair values for marketable debt and equity securities are based on quoted market prices.

Long Term Debt: The carrying amount approximated fair value because the current rates being charged The Plains Company for debt are similar to the borrowing rates currently available for bank loans with similar terms and average maturities.

13. FAIR VALUE OF FINANCIAL INSTRUMENTS: -- (CONTINUED)

The carrying amounts and fair values of The Plains Company's financial instruments at December 31, 1994 and 1995 are as follows:

	DECEMBER 31, 1994		DECEMBER 31, 1995	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
Cash and Cash Equivalents				
Current	$6,116	$6,116	$5,490	$5,490
Non-Current	--	--	--	--
Marketable Securities:				
Current	2,142	2,142	4,701	4,701
Non-Current	102	102	--	--
Long-Term Debt	$9,465	$9,465	$9,001	$9,001

14. SALES AGREEMENT:

On September 13, 1996, The Plains Company's sole shareholder entered into an agreement to sell all of the outstanding stock of The Plains Company and the limited partnership interests in affiliated entities to Penn National Gaming, Inc. As stipulated by the terms of the agreement of sale, The Plains Company was required to retire all of its long-term liabilities described in Note 6 and terminate its commitment under the consulting/non-compete agreement described in Note 2. On November 27, 1996, the stock sale was settled with change of ownership and control being transferred to Penn National Gaming, Inc. effective November 28, 1996.

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Charles Town Racing Limited Partnership
Charles Town Races, Inc.
Charles Town, West Virginia

We have audited the accompanying combined balance sheets of Charles Town Racing Limited Partnership and Charles Town Races, Inc., as of December 31, 1994 and 1995, and the related combined statements of income and equity (deficit) and cash flows for each of the three years in the period ended December 31, 1995. These combined financial statements are the responsibility of the entities' management. Our responsibility is to express an opinion on these 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Charles Town Racing Limited Partnership and Charles Town Races, Inc. as of December 31, 1994 and 1995, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 1995, in conformity with generally accepted accounting principles.

The accompanying financial statements have been prepared assuming that Charles Town Racing Limited Partnership and Charles Town Races, Inc. will continue as a going concern. As discussed in Note 8 to the financial statements, such entities' significant operating losses raise substantial doubt about their ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Leonard J. Miller & Associates, Chartered

Baltimore, Maryland
April 8, 1996

CHARLES TOWN RACING LIMITED PARTNERSHIP
CHARLES TOWN RACES, INC.

COMBINED BALANCE SHEETS
(IN THOUSANDS)

ASSETS	DECEMBER 31, 1994	DECEMBER 31, 1995	SEPTEMBER 30, 1996 (UNAUDITED)
Current Assets			
Cash	$ 1,436	$ 1,007	$ 523
Inventory	3	2	2
Accounts Receivable	43	2	8
Prepaid Expenses	52	8	148
Deposits	26	25	32
Total Current Assets	1,560	1,044	713
Property, Plant and Equipment (at cost)			
Furniture and Fixtures	18	31	31
Machinery and Equipment	1,402	1,485	1,448
Building and Improvements	13,423	13,493	13,581
Land Improvements	962	962	962
Land	1,811	1,804	1,804
Vehicles	91	67	67
Construction in Progress	--	38	--
	17,707	17,880	17,893
Less: Accumulated Depreciation	(7,764)	(8,334)	(8,800)
Net Property, Plant and Equipment	9,943	9,546	9,093
Other Assets			
Restricted Cash	--	29	56
Advances and exchanges -- Capital Improvement Fund, restricted	180	--	--
Unamortized Loan Acquisition Costs	2	1	--
Total Other Assets	182	30	56
Total Assets	$11,685	$10,620	$ 9,862
LIABILITIES AND EQUITY (DEFICIT)			
Current Liabilities			
Payables	$ 296	$ 845	$ 542
Accrued Expenses and Deposits	640	1,025	1,424
Nominating Fees and Outstanding Mutuel Tickets	--	85	61
Demand Notes payable -- Partners	767	--	--
Current Portion of Long-Term Debt	555	73	6,877
Total Current Liabilities	2,258	2,028	8,904
Long-Term Liabilities			
Accrued Pension	--	104	84
Notes Payable -- Partners	656	1,631	1,779
Long-Term Debt, Less Current Portion	6,597	6,834	925
Total Non-Current Liabilities	7,253	8,569	2,788
Total Liabilities	9,511	10,597	11,692
Commitments and Contingencies (Note 7)			
Equity (Deficit)	2,174	23	(1,830)
Total Liabilities and Equity (Deficit)	$11,685	$10,620	$ 9,862

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

CHARLES TOWN RACING LIMITED PARTNERSHIP
CHARLES TOWN RACES, INC.

COMBINED STATEMENTS OF INCOME AND EQUITY (DEFICIT)
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Revenues					
Pari-mutuel revenues	$14,240	$11,619	$10,136	$ 7,578	$ 7,231
Admissions, programs, parking and other racing revenues	1,250	1,076	875	673	605
Concession revenues	686	312	16	15	--
Restaurant revenues	--	--	--	--	910
Total revenues	16,176	13,007	11,027	8,266	8,746
Operating Expenses					
Purses and trophies	6,330	5,194	4,332	3,263	3,053
Direct salaries, payroll taxes and employee benefits	4,669	4,008	3,455	2,470	2,654
Simulcast expenses	1,449	1,129	1,358	943	1,104
State licence fee -- simulcast	351	288	312	222	254
Other direct meeting expenses	1,869	1,708	2,000	1,490	1,564
Restaurant expenses	--	--	--	--	679
Other operating expenses	1,762	1,764	1,319	967	1,020
Total operating expenses	16,430	14,091	12,776	9,355	10,328
(Loss) from Operations	(254)	(1,084)	(1,749)	(1,089)	(1,582)
Other Income (Expense)					
Interest expense	(573)	(650)	(769)	(573)	(564)
Interest income	159	132	106	85	30
Rent income	18	57	19	18	18
Apartment building income	47	56	63	47	49
Apartment building expenses	(64)	(76)	(71)	(55)	(54)
Other Income -- (Note 5)	12	--	250	250	250
Total Other Income (Expense)	(401)	(481)	(402)	(228)	(271)
Net Loss	(655)	(1,565)	(2,151)	(1,317)	(1,853)
Equity, beginning of period	4,394	3,739	2,174	2,174	23
Equity (deficit), end of period	$ 3,739	$ 2,174	$ 23	$ 857	$(1,830)

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

CHARLES TOWN RACING LIMITED PARTNERSHIP
CHARLES TOWN RACES, INC.

COMBINED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)

	YEAR ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
				(UNAUDITED)	
Cash Flows from Operating Activities:					
Net Loss	$ (655)	$(1,565)	$(2,151)	$(1,317)	$(1,853)
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:					
Depreciation and Amortization	640	630	621	474	467
(Gain) Loss on Disposition of Asset	13	--	--	(48)	--
Changes in Assets and Liabilities:					
(Increase) Decrease In Inventory	4	4	1	2	--
(Increase) Decrease In Accounts Receivable	261	(153)	40	(2)	(6)
(Increase) Decrease In Prepaid Expenses	41	29	44	44	(140)
(Increase) Decrease In Deposits	(7)	(1)	2	(60)	(8)
(Increase) Decrease In Restricted Cash	(29)	185	(29)	121	(26)
(Increase) Decrease In Advances and Exchanges	--	--	180	--	--
Increase (Decrease) In Payables	(20)	139	548	217	(302)
Increase (Decrease) In Accrued Expenses	(59)	14	561	271	399
Increase (Decrease) In Nominating Fees And Outstanding Mutuel Tickets	88	(115)	85	88	(25)
Increase (Decrease) In Reserve For Deferred Compensation Plan	25	8	--	--	(20)
Total Adjustments	957	740	2,053	1,107	339
Net Cash Provided (Used) By Operating Activities	302	(825)	(98)	(210)	(1,514)
Cash Flows From Investing Activities:					
Capital Expenditures, net of Reimbursement from W.V. Thoroughbred Development Fund	(296)	--	(294)	(280)	(13)
Net Cash Provided (Used) By Investing Activities	(296)	--	(294)	(280)	(13)
Cash Flows From Financing Activities:					
Loan Acquisition Costs	(3)	--	--	--	--
Principal Payments on Debts	(257)	(236)	(245)	(182)	(42)
Increase (Decrease) in Demand Notes -- Partners	(456)	(793)	(767)	331	16
Borrowings	--	1,020	975	--	1,069
Net Cash Provided (Used) by Financing Activities	(716)	(9)	(37)	149	1,043
Net Increase (Decrease) in Cash and Cash Equivalents	(710)	(834)	(429)	(341)	(484)
Cash And Cash Equivalents, Beginning of Period	2,980	2,270	1,436	1,436	1,007
Cash And Cash Equivalents, End of Period	$2,270	$ 1,436	$ 1,007	$ 1,095	$ 523
Supplemental Disclosures of Cash Flow Information:					
Cash Paid During the Year for:					
Interest	$ 608	$ 654	$ 734	$ 549	$ 676

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

NOTES TO COMBINED FINANCIAL STATEMENTS
(INFORMATION AS OF SEPTEMBER 30, 1996 AND FOR THE
NINE MONTHS ENDED SEPTEMBER 30, 1995 AND 1996 IS UNAUDITED)

1. SUMMARY OF ACCOUNTING POLICIES

ORGANIZATION

The accompanying combined financial statements reflect the accounts of Charles Town Racing Limited Partnership (the "Partnership") and Charles Town Races, Inc. (the "Corporation"). The Corporation is wholly-owned by its sole shareholder, the Partnership. All material intercompany transactions have been eliminated.

DESCRIPTION OF BUSINESS

The Partnership owns equipment and the real estate at Charles Town Races in Charles Town, West Virginia, which it leases to the Corporation.

The Corporation conducts thoroughbred horse racing with facilities for pari-mutuel wagering at Charles Town Race Course, as well as other business activities related to such racing.

PURSE EXPENSE

Purses earned by the horsemen are recorded as purse expenses and are calculated as a percentage of the daily pari-mutuel handle as set by state law. Because of the manner in which purses are calculated, the Corporation may overpay or underpay purses earned for any individual meet during the year. Purse overpayments are recorded as assets, while purse underpayments are recorded as liabilities.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

PARI-MUTUEL WAGERING

	YEARS ENDED DECEMBER 31,			NINE MONTHS ENDED SEPTEMBER 30,	
	1993	1994	1995	1995	1996
	(IN THOUSANDS)				
Pari-mutuel wagering -- live.....	$ 53,129	$ 43,440	$ 23,043	$ 18,224	$ 15,095
Pari-mutuel wagering -- simulcast.....	26,395	20,082	29,815	21,318	22,724

INVENTORY

Inventory is valued at the lower of cost (first-in, first-out basis) or market.

DEPRECIATION AND AMORTIZATION

Property, plant and equipment are recorded at cost. The entities, for financial reporting purposes, compute depreciation using the straight-line method over the estimated useful lives of the respective assets. Expenditures for additions, major renewals and betterments are capitalized and expenditures for maintenance and repairs are expensed as incurred. Amortization of loan acquisition costs are computed on the straight-line method over the life of the loan.

1. SUMMARY OF ACCOUNTING POLICIES -- CONTINUED

INCOME TAXES

The Partnership is a partnership; therefore, it incurs no liability for income taxes. The profits and losses are reportable in individual income tax returns.

For tax purposes, depreciation is computed on the accelerated method in accordance with applicable tax laws for both the Partnership and the Corporation.

The Corporation accounts for income taxes using Financial Accounting Standard No. 109, Accounting for Income Taxes, which requires an asset and liability approach to financial accounting and reporting for income taxes. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus or minus the change during the period in deferred tax assets and liabilities.

The types of temporary differences that resulted in deferred taxes are net operating loss carryforwards, contribution carryforwards, bad debt reserves and depreciation. The net deferred tax account consists of the following:

	DECEMBER 31,		SEPTEMBER 30,
	1994	1995	1996
	(IN THOUSANDS)		
Deferred tax assets	$ 1,160	$ 1,994	$ 2,728
Deferred tax liabilities	(15)	(14)	(14)
Valuation allowance	(1,145)	(1,980)	(2,714)
Net deferred taxes	$ --	$ --	$ --

The Corporation has net operating losses from 1995 and prior years available to be carried forward in the amount of $5,782,105 expiring in the years 2007 through 2010.

CASH AND CASH EQUIVALENTS

The Partnership and the Corporation consider all cash balances and highly liquid investments with a maturity of three months or less to be cash equivalents.

CONCENTRATION OF CREDIT RISKS

The Partnership and the Corporation maintain their cash in bank deposit accounts which at times may exceed federally insured limits. Management does not believe that the Partnership or the Corporation is exposed to any significant credit risk on cash.

PRESENTATION OF PRIOR YEAR DATA

Certain reclassifications have been made to conform prior year data with the current presentation.

2. NOTES PAYABLE

	DECEMBER 31,		SEPTEMBER 30,
	1994	1995	1996
	(IN THOUSANDS, EXCEPT DESCRIPTIVE INFORMATION)		
Note payable - One Valley Bank -- secured by all real property, tangible and intangible property and all other assets of the Partnership and the Corporation. It is personally guaranteed by the Partners. All principal and interest payments have been suspended until 1/10/97, the maturity date. Accrued interest through 12/10/96 has been prepaid. Interest is at 9%. (See Note 6)	$ 5,631	$ 5,530	$ 5,501
Notes payable - One Valley Bank -- secured by a second deed of trust on all real property, tangible and intangible property and all other assets of the Partnership and Corporation. They are personally guaranteed by the Partners. All principal and interest payments have been suspended until 1/10/97, the maturity date. Accrued interest through 12/10/96 has been paid. Interest is at 9%. (See Note 6)	447	366	366
Note payable - One Valley Bank -- secured by a first deed of trust on an apartment building owned by the Partnership. Payments of $3,977 including interest at 8.5% are due monthly. The note matures 12/1/00. (See Note 6)	324	303	287
Notes payable - Partners -- unsecured notes with interest at 9% - 9.25%	1,423	1,631	1,779
PNGI Charles Town Gaming, Limited Liability Company ("PNGI") -- a line of credit up to $1,250,000. PNGI had an option to purchase substantially all of the assets of the Corporation and the Partnership. In addition to the obligation of the Corporation to repay the loan, the purchase price was to be reduced $1.60 for each dollar borrowed under the line. Interest was at prime plus 1 1/2%. The loan was secured by a second mortgage on the real estate owned by the Partnership (guarantor) as well as the stock of the Corporation. Principal and interest were payable in full on the earlier of the termination date or in the event of default, the default date. The termination date was January 15, 1997, the date PNGI purchased substantially all of the assets of the Corporation and the Partnership	--	--	936

2. NOTES PAYABLE -- CONTINUED

	DECEMBER 31,		SEPTEMBER 30,
	1994	1995	1996
	(IN THOUSANDS, EXCEPT DESCRIPTIVE INFORMATION)		
Note payable - AmTote -- to be repaid in 84 monthly principal payments of $4,166 plus interest at prime plus 1%. The loan matures March 3, 2002. Demand for immediate repayment may be made in the event of a dispute regarding certain exclusive supply rights granted to AmTote International, Inc. ("AmTote") or in the event of default as outlined in the loan agreement. Past due payments are due as of September 30, 1996; however, AmTote has not sent a notice regarding these payments (See Note 7)	750	708	712
Total	8,575	8,538	9,581
Less current maturities	1,322	73	6,877
Total long-term	$ 7,253	$ 8,465	$ 2,704

The maturities of debt as of September 30, 1996 are as follows:

SEPTEMBER 30	(IN THOUSANDS)
1997	$ 6,877
1998	76
1999	79
2000	81
2001	226
Thereafter	2,242
	$ 9,581

OTHER DEBT

As a result of a settlement agreement dated April 30, 1996, the Partnership and Corporation have been ordered to pay $120,000 over 60 months in equal payments of $2,000 per month to the Future Service Pension Plan and the plaintiffs' attorneys. The balance at September 30, 1996 was $108,000. If the Corporation is sold, the unpaid balance is due in full.

3. EMPLOYEE BENEFITS

DEFERRED COMPENSATION AGREEMENT

The Corporation has satisfied the deferred compensation agreements it had with two participants, Donald Hudson and William Dick (see Note 7 -- Employment Separation Agreement). The purpose of the agreement was to provide retirement benefits that would have been provided by the Defined Benefit pension plan for key employees, which was required to be terminated December 31, 1988. The plan was required to be terminated due to the minimum participation rules of Tax Reform Act of 1986. The normal retirement benefit at age 65 is equal to 60% of the highest five-year consecutive earnings, minus 83.33% of the primary insurance amount payable from Social Security, minus the December 31, 1998 accrued benefit from the terminated pension plan, minus the equivalent annual annuity which will be earned in the Future Service pension plan.

	FINAL VALUATION DATE NOVEMBER 15, 1994
	(THOUSANDS)
Service Cost -- Value of benefits earned during year....	$ 6
Interest cost on projected benefit obligation.....	6
Return on plan assets.....	--
Net amortization (deferral).....	2
Net pension expense.....	14
Actuarial present value of:	
Vested benefit obligation.....	118
Accumulated benefit obligation.....	118
Projected benefit obligation.....	118
Estimated assets at fair market value.....	--
Excess of assets over PBO.....	(118)
Unrecognized net (loss).....	(21)
Unrecognized net asset.....	--
Prior service costs not yet recognized.....	21
Prepaid (accrued) pension cost.....	$ (118)

The deferred compensation expense for the years ended December 31, 1993, 1994 and 1995 is $24,868, $14,423 and $3,108, respectively.

FUTURE SERVICE PLAN

The Corporation has a defined contribution plan covering substantially all of its employees. The Corporation makes monthly contributions equal to the amount accrued for retirement expense, which is calculated as .25% of the daily mutuel handle.

Total contributions for the years ended December 31, 1993, 1994 and 1995 are $157,883, $158,804 and $132,045, respectively. Total contributions for the nine months ended September 30, 1995 and 1996 are $99,038 and $94,454, respectively.

3. EMPLOYEE BENEFITS -- CONTINUED

VOLUNTARY EMPLOYEE BENEFICIARY ASSOCIATION (VEBA) TRUST

The VEBA is a trust created to provide for payment of certain employee benefits such as vacation and medical benefits and other insured and/or self-insured employee welfare benefits. The VEBA expense, net of salary reimbursements from the VEBA Trust, amounted to $274,591, $195,742 and $197,602 for the years ended December 31, 1993, 1994 and 1995, respectively, and $145,900 and $139,886 for the nine months ended September 30, 1995 and 1996, respectively.

4. LEASES

The Corporation rents totalisator equipment under the terms of an operating lease expiring December 31, 1996, which also provides for maintenance and operation of the equipment. The lease agreement provides for a basic amount computed by multiplying .005 by all wagers processed through the system (exclusive of refunds) at the racetrack (including intertrack wagers), provided that such payment shall not be less than $1,360 per live racing program and a range of $595 to $1,955 per intertrack wagering program, depending on the time of day, number of programs and the combination of live and intertrack wagering programs.

The Corporation leases from the Partnership all race track facilities, including all real and tangible personal property owned by the Partnership. The lease, effective January 1, 1996 and expiring on December 31, 1996, has an option to renew for one additional period of one year. The lease calls for a minimum rent of $1,200,000 per year plus a percentage rent equal to seven percent (7%) of the total amount of money wagered in all of the pari-mutuel pools during the lease terms in excess of $100 million. The minimum rent is payable in twelve equal installments and the percentage rent is payable on the 31st day of December of any renewal term.

In the event that video lottery terminals are licensed by the state of West Virginia and placed in operation on the premises, this lease will be subject to renegotiation for the unexpired portion of the lease.

5. OTHER INCOME

OPTION -- SEE NOTE 7 OPTION AGREEMENTS.

6. RETAINED EARNINGS AND PARTNERSHIP EQUITY RESTRICTIONS

The loan agreement with One Valley Bank requires that the Partnership and the Corporation maintain a net worth of not less than $2,000,000 on a consolidated basis, as of the end of each semi-annual period.

So long as the above minimum net worth requirement is satisfied, all debt service payments are current, no default of any loan would be caused thereby, and the entities both show a positive cash flow, the Partnership may pay and distribute to its partners, quarterly, an aggregate amount which does not exceed the equivalent of a 10% annual return on the Partners' equity in the Partnership and the Corporation. As of September 30, 1996, the net deficit of these entities was $(1,830,412).

As of August 30, 1995, the bank required that a $650,000 minimum be maintained in the One Valley Bank account. On March 4, 1996, One Valley Bank entered into an agreement amending the terms and extending the due dates of the debt; the minimum requirement has been reduced to zero.

7. COMMITMENTS AND CONTINGENCIES

LITIGATION

On December 11, 1996, GTECH Corporation ("GTECH") commenced an action in the United States District Court for the Northern District of West Virginia against the Corporation, the Partnership, Penn National Gaming, Inc., Penn National Gaming of West Virginia, Inc., a wholly owned subsidiary of Penn National Gaming, Inc., and Bryant Development Company. The complaint filed by GTECH alleges that the Corporation, the Partnership and AmTote were parties to an October 20, 1994 agreement (the "AmTote Agreement"), pursuant to which AmTote was allegedly granted an exclusive right to install and operate a "video lottery system" at Charles Town Races. When the AmTote Agreement was entered into, AmTote was a subsidiary of GTECH; GTECH has since divested itself of AmTote, but is purportedly the assignee of certain of AmTote's rights under the AmTote Agreement pursuant to an assignment and assumption agreement dated February 22, 1996. The complaint seeks (i) preliminary and permanent injunctive relief enjoining the Corporation, the Partnership, Bryant Development Company, Penn National Gaming, Inc., and its subsidiary from consummating the Charles Town Acquisition or any similar transaction unless the purchasing party explicitly accepts and assumes the AmTote Agreement, (ii) a declaratory judgment that the AmTote Agreement is valid and binding, that GTECH has the right to be the exclusive installer, operator, provider and servicer of a video lottery system at Charles Town Races and that any party buying the stock or assets of the Corporation and the Partnership must accept and assume the AmTote Agreement and recognize such rights of GTECH thereunder, (iii) compensatory damages, (iv) legal fees and costs and (v) such other further legal and equitable relief as the court deems just and appropriate. On December 23, 1996, the court denied GTECH's motion to preliminarily enjoin the Corporation and the Partnership from consummating the Charles Town Acquisition unless the purchaser in the Charles Town Acquisition accepts and assumes the AmTote Agreement. The court noted that GTECH may pursue its claim for damages and, if warranted, pursue other injunctive relief in the future. The Corporation and the Partnership consummated the Charles Town Acquisition on January 15, 1997. On January 13, 1997, the Corporation and the Partnership filed a motion to dismiss GTECH's complaint; the court has not yet ruled on this motion.

On December 16, 1996, Randall Conrad, James G. Cameron, Ben Kline, Charles E. Walker, Nelson W. Shaw, Joseph G. Farrie and all other present and former employees ("Plaintiffs") of Charles Town Races, Inc. commenced an action in the Circuit Court of Jefferson County, West Virginia against the Corporation. The complaint alleges violation of the Warren Act and that the Corporation failed to pay wages in a timely manner under the West Virginia Wage Payment and Collection Act when the Track closed in early 1995. The complaint seeks liquidated damages under the West Virginia Wage Payment and Collection Act in the amount of thirty days wages, plus prejudgment interest, the cost of the suit, reasonable attorney fees and such other relief as the court deems just.

The Corporation and Partnership settled a case wherein they are required to make a repair to a water pipe on a neighboring property by December 31, 1996, which in management's opinion could cost $250,000. This amount was revised from $50,000 previously estimated. This has been recorded as a liability. $200,000 is included in expense for the nine months ended September 30, 1996 and $50,000 is included in the year ended December 31, 1995.

Certain other claims, suits and complaints arising in the ordinary course of business have been filed or are pending against the Corporation and the Partnership. In the opinion of management, with the exception of the GTECH litigation described above, all such matters are adequately covered by insurance, or if not so covered, are without merit or are of such kind, or involve such amounts, as would not have a significant effect on the financial position or results of operations of the Corporation and the Partnership if disposed of unfavorably.

7. COMMITMENTS AND CONTINGENCIES -- CONTINUED

EMPLOYMENT SEPARATION AGREEMENT

An employment separation agreement was signed on August 29, 1995, between the Corporation and Donald E. Hudson. In the agreement, the Corporation agreed to pay Hudson's health insurance through April 1997, and to transfer the vehicle and house that Hudson was using while in his employ, and in exchange Hudson released all claims to his accrued deferred compensation and will provide ten hours of consulting per month through April 1997. The health insurance benefits have not been accrued and in the opinion of management would not have a material effect on the financial statements.

OPTION AGREEMENTS

An Option Agreement dated February 17, 1995 was signed with Showboat Operating Company ("Showboat") granting Showboat the right to purchase substantially all of the assets of the Corporation and the Partnership for a stated amount through April 30, 1995. The option price was $250,000. The option was then acquired by Bryant Development Company ("Bryant"); Bryant then transferred the option to PNGI. The option was extended until March 31, 1996 for an additional $250,000. The option was renewed again until December 31, 1996 for an additional $250,000. The option payments are non-refundable unless the Corporation and the Partnership fail to convey title to the property. The first two option payments in the amounts of $250,000 each are shown as income under the caption other income. As of September 30, 1996, the third option payment of $250,000 is included in accrued expenses and deposits. PNGI exercised the option and, on January 15, 1997, acquired substantially all of the assets of the Corporation and the Partnership.

During 1993, the Partnership collected a non-refundable deposit on an expired land option in the amount of $12,000. This is shown as other income.

CONTRACT

In August 1995, a contract was signed with Sheetz, Inc. granting it the right to purchase 100,000 square feet of track property located at Routes 340 and 17 for $500,000. This option is subject to a feasibility study, including environmental audit, zoning, permits, etc. A $10,000 refundable deposit is being held in escrow. The option under the contract was extended until February 1, 1997.

8. OPERATING DEFICITS AND ECONOMIC CONDITIONS

Adverse economic conditions in the racing industry have limited the ability of the Partnership and the Corporation to cover its operating and administrative costs. As a result, the Corporation and the Partnership incurred a combined loss for the years ended December 31, 1993, 1994 and 1995 of $654,452, $1,565,428 and $2,150,905, respectively, and for the nine months ended September 30, 1995 and 1996 incurred losses of $1,316,676 and $1,853,409, respectively. The Corporation temporarily ceased racing operations from December 31, 1994, until February 24, 1995 and has currently ceased racing operations as of November 11, 1996. While the Corporation and the Partnership are seeking additional sources of capital, including equity capital, there can be no assurance that they will be successful in accomplishing their objectives. See Note 2 (PNGI Charles Town Gaming, Limited Liability Company) and Note 7 for management's plans.

Because of the uncertainties surrounding the ability of the Corporation and the Partnership to continue their operations and to satisfy their creditors on a timely basis, there is doubt about their ability to continue as a going concern. The financial statements do not include any adjustments that might be necessary should the entities be unable to continue as a going concern.

[PICTURE]
(See Appendix A for Description)

Pocono Downs, the Company's harness racetrack outside of Wilkes-Barre, PA, was acquired iun November 1996.

[PICTURE]
(See Appendix A for Description)

Charles Town Races is conveniently located, only a 60-minute drive from Baltimore, Maryland, and a 70-minute drive from Washington, D.C.

[PICTURE]
(See Appendix A for Description)

Artists rendering of Charles Town Races entertainment complex, expected to re-open for live racing, dining, simulcast wagering and video gaming machines in mid-1997.

NO DEALER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS OTHER THAN THOSE CONTAINED IN THIS PROSPECTUS IN CONNECTION WITH THE OFFER MADE BY THIS PROSPECTUS AND, IF GIVEN OR MADE, SUCH INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY THE COMPANY OR THE UNDERWRITERS. NEITHER THE DELIVERY OF THIS PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE COMPANY SINCE THE DATES AS OF WHICH INFORMATION IS GIVEN IN THIS PROSPECTUS. THIS PROSPECTUS DOES NOT CONSTITUTE AN OFFER OR SOLICITATION BY ANYONE IN ANY JURISDICTION IN WHICH SUCH OFFER OR SOLICITATION IS NOT AUTHORIZED OR IN WHICH THE PERSON MAKING SUCH OFFER OR SOLICITATION IS NOT QUALIFIED TO DO SO OR TO ANY PERSON TO WHOM IT IS UNLAWFUL TO MAKE SUCH OFFER OR SOLICITATION.

TABLE OF CONTENTS

2,300,000 SHARES

PENN NATIONAL
GAMING, INC.

COMMON STOCK
($.01 PAR VALUE)

SALOMON BROTHERS INC

GERARD KLAUER MATTISON

& CO., INC.

JEFFERIES & COMPANY, INC.

PROSPECTUS

DATED , 1997

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

ITEM 14. OTHER EXPENSES OF ISSUANCE AND DISTRIBUTION.

The following table shows all expenses of the issuance and distribution of the securities offered hereby, other than underwriting discounts:

Securities and Exchange Commission registration fee.....	$ 11,725
National Association of Securities Dealers, Inc. filing fee.....	4,368
Nasdaq National Market listing fee.....	17,500
Transfer Agent and Registrar fees.....	5,000
Printing expenses.....	200,000
Legal fees and expenses.....	200,000
Accounting fees and expenses.....	170,000
Miscellaneous expenses.....	41,407
Total.....	$650,000

The Securities and Exchange Commission (the "Commission") registration fee, National Association of Securities Dealers, Inc. filing fee and Nasdaq National Market listing fee are exact. All other amounts are estimates. All the above expenses will be paid by the Company.

ITEM 15. INDEMNIFICATION OF DIRECTORS AND OFFICERS.

The Underwriting Agreement provides that each of the Underwriters will indemnify the directors and officers of the Company against certain liabilities, including liabilities under the Securities Act. Pursuant to the Company's By-Laws, no director, as such, is personally liable for monetary damages for any action taken, or any failure to take any action, unless the director breaches or fails to perform the duties of his or her office under Section 1721 of the BCL, and the breach or failure to perform constitutes self-dealing, willful misconduct or recklessness. These provisions of the Company's By-Laws, however, do not apply to the responsibility or liability of a director pursuant to any criminal statute, or to the liability of a director for the payment of taxes pursuant to local, Pennsylvania or federal law. These provisions offer persons who serve on the Board of Directors of the Company protection against awards of monetary damages for negligence in the performance of their duties. They do not affect the availability of equitable remedies such as an injunction or rescission based upon a director's breach of the duty of care.

ITEM 16. EXHIBITS

The following exhibits are filed as part of this registration statement.

EXHIBIT NUMBER	DESCRIPTION
1.1	Form of Underwriting Agreement.**
5.1	Opinion of Morgan, Lewis & Bockius LLP regarding legality of securities being registered.*
23.1	Consent of BDO Seidman, LLP.**
23.2	Consent of Robert Rossi & Co.**
23.3	Consent of Leonard J. Miller & Associates, Chartered.**
23.4	Consent of Morgan, Lewis & Bockius LLP (included in its opinion to be filed as Exhibit 5.1 hereto).*
24.1	Powers of Attorney.*
27.1	Financial Data Schedule.*

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* Previously filed.
** Filed herewith.

ITEM 17. UNDERTAKINGS.

The undersigned registrant hereby undertakes that, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 (and, where applicable, each filing of an employee benefit plan's annual report pursuant to section 15(d) of the Securities Exchange Act of 1934) that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the foregoing provisions, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

The undersigned registrant hereby undertakes that:

(1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, as amended, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in Wyomissing, Pennsylvania, on February 6, 1997.

PENN NATIONAL GAMING, INC.

By: /s/ PETER M. CARLINO

Peter M. Carlino
Chairman and Chief Executive Officer

Pursuant to the requirements of the Securities Act of 1933, this amendment to registration statement has been signed by the following persons in the capacities and on the dates indicated.

SIGNATURE	TITLE	DATE
/s/ PETER M. CARLINO Peter M. Carlino	Chairman and Chief Executive Officer and Director (Principal Executive Officer)	February 6, 1997
* William J. Bork	President, Chief Operating Officer and Director	February 6, 1997
* Robert S. Ippolito	Chief Financial Officer (Principal Financial and Accounting Officer)	February 6, 1997
* David A. Handler	Director	February 6, 1997
* Harold Cramer	Director	February 6, 1997
* John M. Jacquemin	Director	February 6, 1997
* Robert P. Levy	Director	February 6, 1997

*By /s/PETER M. CARLINO

Peter M. Carlino, Attorney-in-Fact, pursuant to powers of attorney, previously filed as part of this registration statement.

EXHIBIT INDEX

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23.4	Consent of Morgan, Lewis & Bockius LLP (included in its opinion to be filed as Exhibit 5.1 hereto).*	
24.1	Powers of Attorney.*	
27.1	Financial Data Schedule.*	

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* Previously filed.
** Filed herewith.

APPENDIX A -- DESCRIPTION OF GRAPHICS

INSIDE FRONT COVER--

There are four pictures on the inside front cover; each has a caption beneath it.

Above the caption, "Penn National, celebrating 25 years of thoroughbred racing in 1997." is a picture of the Penn National Race Course facility; the view is of the front entrance.

Above the caption, "Penn National's newest OTW facility in Lancaster, PA." is a picture of the inside of the Lancaster OTW. The restaurant seating area is pictured in the foreground; televisions are in the background.

Above the caption, "The recently renovated paddock area at Penn National." is a picture taken from above the new paddock area showing the paddock area in the foreground and the track in the background. In the picture there are people viewing the horses in the paddock area.

Above the caption, "Racing on-track at Penn National since 1972." is a picture of a live thoroughbred horse race at Penn National Race Course.

INSIDE BACK COVER--

The inside back cover includes:

A picture of the Pocono Downs Harness Track with a view of the racetrack and the grandstand. The picture shows people in the grandstand and a live harness race taking place on the track. The caption beneath the picture reads, "Pocono Downs, the Company's harness racetrack outside of Wilkes-Barre, PA was acquired in November 1996."

A map depicting the location of Baltimore, Maryland, Washington, D.C. and Charles Town, West Virginia. The map depicts the paths of Interstates 95, 83, 68, 66 and 81. The caption beneath the map reads, "Charles Town Races is conveniently located, only a 60-minute drive from Baltimore, Maryland and a 70-minute drive from Washington, D.C."

An artist's depiction of the Charles Town Facility; the view is the front of the facility. The caption beneath the artist's depiction reads, "Artist's rendering of Charles Town Races entertainment complex, expected to re-open for live racing, dining, simulcast wagering and video gaming machines in mid-1997."

Penn National Gaming, Inc.

2,300,000 Shares*
Common Stock
($.01 par value)

Underwriting Agreement

New York, New York
_____ , 1997

Salomon Brothers Inc
Gerard Klauer Mattison & Co., Inc.
Jefferies & Company, Inc.
As Representatives of the several Underwriters
c/o Salomon Brothers Inc
Seven World Trade Center
New York, New York 10048

Ladies and Gentlemen:

Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), proposes to sell to the underwriters named in Schedule I hereto (the "Underwriters"), for whom you (the "Representatives") are acting as representatives, 1,725,000 shares of Common Stock, $.01 par value, of the Company ("Common Stock"), and the persons and entities named in Schedule II hereto (the "Selling Stockholders") propose to sell to the Underwriters 575,000 shares of Common Stock (said shares to be issued and sold by the Company and shares to be sold by the Selling Stockholders collectively being hereinafter called the "Underwritten Securities"). The Company and the Selling Stockholders named in Schedule III hereto also propose to grant to the Underwriters an option to purchase up to 345,000 additional shares of Common Stock (the "Option Securities"; the Option Securities, together with the Underwritten Securities, being hereinafter called the "Securities").

1. Representations and Warranties.

(a) The Company represents and warrants to, and agrees with, each Underwriter as set forth below in this Section 1. Certain terms used in this Section 1 are defined in paragraph (iii) hereof.

(i) The Company meets the requirements for use of Form S-3 under the Securities Act of 1933, as amended (the "Act"), and has filed with the Securities and Exchange Commission (the "Commission") a registration statement (file number 333-18861) on such Form, including a related preliminary prospectus, for the registration under the Act of the offering and sale of the Securities. The Company may have filed one or more amendments thereto, including the related preliminary prospectus, each of which has previously been furnished to you. The Company will next file with the Commission one of the following: (A) prior to effectiveness of such registration statement, a further amendment to such registration statement, including the form of final prospectus, or (B) a final prospectus in accordance with Rules 430A and 424(b)(1) or (4). In the case of clause (B), the Company has included in such registration statement, as amended at the Effective Date, all information (other than Rule 430A Information) required by the Act and the rules thereunder to be included in the Prospectus with respect to the Securities and the offering thereof. As filed, such amendment and form of final prospectus, or such final prospectus, shall contain all Rule 430A Information, together with all other such required information, with respect to the Securities and the offering thereof and, except to the extent the Representatives shall agree in writing to a modification, shall be in all substantive respects in the form furnished to you prior to the Execution Time or, to the extent not completed at the Execution Time, shall contain only such specific additional information and other changes (beyond that contained in the latest Preliminary Prospectus) as the Company has advised you, prior to the Execution Time, will be included or made therein.

(ii) On the Effective Date, the Registration Statement did or will, and when the Prospectus is first filed (if required) in accordance with Rule 424(b) and on the Closing Date, the Prospectus (and any supplements thereto) will, comply in all material respects with the applicable requirements of the Act, the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the respective rules thereunder; on the Effective Date, the Registration Statement did not or will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary in order to make the statements therein not misleading; and, on the Effective Date, the Prospectus, if not filed

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* Plus an option to purchase from Penn National Gaming, Inc. and the other persons and entities named in Schedule III hereto up to 345,000 additional shares to cover over-allotments.

pursuant to Rule 424(b), did not or will not, and on the date of any filing pursuant to Rule 424(b) and on the Closing Date, the Prospectus (together with any supplement thereto) will not, include any untrue statement of a material fact or omit to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided, however, that the Company makes no representations or warranties as to the information contained in or omitted from the Registration Statement or the Prospectus (or any supplement thereto) in reliance upon and in conformity with information furnished in writing to the Company by or on behalf of any Underwriter through the Representatives specifically for inclusion in the Registration Statement or the Prospectus (or any supplement thereto).

(iii) The terms which follow, when used in this Agreement, shall have the meanings indicated. The term "Effective Date" shall mean each date that the Registration Statement and any post-effective amendment or amendments thereto became or become effective. "Execution Time" shall mean the date and time that this

Agreement is executed and delivered by the parties hereto. "Preliminary Prospectus" shall mean any preliminary prospectus referred to in paragraph (i) above and any preliminary prospectus included in the Registration Statement at the Effective Date that omits Rule 430A Information. "Prospectus" shall mean the prospectus relating to the Securities that is first filed pursuant to Rule 424(b) after the Execution Time or, if no filing pursuant to Rule 424(b) is required, shall mean the form of final prospectus relating to the Securities included in the Registration Statement at the Effective Date. "Registration Statement" shall mean the registration statement referred to in paragraph (i) above, including incorporated documents, exhibits and financial statements, as amended at the Execution Time (or, if not effective at the Execution Time, in the form in which it shall become effective) and, in the event any post-effective amendment thereto or a registration statement filed with respect to additional shares of Common Stock pursuant to Rule 462(b) (or post-effective amendment thereto) becomes effective prior to the Closing Date (as hereinafter defined), shall also mean such registration statement as so amended or such registration statement (or amendment thereto) filed pursuant to Rule 462(b), respectively. The term "Registration Statement" shall include any Rule 430A Information deemed to be included therein at the Effective Date as provided by Rule 430A. "Rule 424," "Rule 430A," "Regulation S-K" and "Regulation S-X" refer to such rules or regulation under the Act. "Rule 430A Information" shall mean information with respect to the Securities and the offering thereof permitted to be omitted from the Registration Statement when it becomes effective pursuant to Rule 430A. Any reference herein to the Registration Statement, a Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the documents incorporated by reference therein pursuant to Item 12 of Form S-3 which were filed under the Exchange Act on or before the Effective Date of the Registration Statement or the issue date of such Preliminary Prospectus or the Prospectus, as the case may be; and any reference herein to the terms "amend," "amendment" or "supplement" with respect to the Registration Statement, any Preliminary Prospectus or the Prospectus shall be deemed to refer to and include the filing of any document under the Exchange Act after the Effective Date of the Registration Statement, or the issue date of any Preliminary Prospectus or the Prospectus, as the case may be, deemed to be incorporated therein by reference.

(iv) The Company is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania with full corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus, 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 does not have a material adverse effect on the condition (financial or other), earnings, business or properties of the Company and the Subsidiaries (as hereinafter defined), taken as a whole (a "Material Adverse Effect"), and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority, qualification, license or eligibility.

(v) All the Company's subsidiaries (as defined in the Act) are set forth on Schedule IV hereto and are referred to herein individually as a "Subsidiary" and collectively as the "Subsidiaries." Each Subsidiary 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 Registration Statement and the Prospectus, 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, and no proceeding has been instituted in any such jurisdiction revoking, limiting or curtailing, or seeking to revoke, limit or curtail, such power and authority, qualification, license or eligibility.

(vi) All the outstanding shares of capital stock of or other equity interests in each of the Subsidiaries have been duly authorized and validly issued, are fully paid and nonassessable and, except with respect to PNGI Charles Town Limited Liability Company ("PNGI Charles Town"), in which the Company holds an 89% membership interest, are wholly owned by the Company directly or indirectly through one of the other Subsidiaries, free and clear of any lien, adverse claim, security interest, equity or other encumbrance, except as described in the Prospectus; and there are no (A) existing preemptive rights under any 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 or other equity interests in any Subsidiary. No Subsidiary is currently prohibited, directly or indirectly, from paying any dividends to the Company, from making any other distribution on such Subsidiary's capital stock, from repaying to the Company any loans or advances to such Subsidiary from the Company or from transferring any of such Subsidiary's property or assets to the Company or any other subsidiary of the Company.

(vii) The Company's authorized, issued and outstanding capital stock is as set forth under the caption "Capitalization" in the Prospectus; and the authorized capital stock of the Company conforms to the description thereof in the Registration Statement and the Prospectus. All the outstanding shares of capital stock of the Company (including the shares to be sold by the Selling Stockholders) have been duly authorized and validly issued, are fully paid and nonassessable and are free of any preemptive or similar rights and were issued and sold by the Company in compliance with all applicable Federal and state securities laws; and the Securities to be issued and sold to the Underwriters by the Company have been duly authorized and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and free of any preemptive or similar rights. No holders of securities of the Company have preemptive or similar rights to purchase Common Stock. Except as described in or contemplated by the Prospectus, there are no outstanding options, warrants or other rights calling for the issuance of, and there are no commitments, plans or arrangements to issue, any shares of capital

stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company. The Common Stock (including the Securities) has been approved for quotation on the Nasdaq National Market.

(viii) The Company has full corporate power and authority to execute, deliver and perform its obligations under this Agreement; the execution and delivery of, and the performance by the Company of its obligations under, this Agreement have been authorized by all necessary corporate action of the Company; and this Agreement has been duly executed and delivered by the Company.

(ix) None of the issuance, offer, sale or delivery of the Securities, the execution, delivery or performance of this Agreement by the Company or the consummation of the other transactions contemplated hereby (A) requires any consent, approval, authorization or order of, or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official, 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") (except as described in the Prospectus with respect to any person or entity that, following completion of the offering of the Securities, is a 5% beneficial owner of the Company's Common Stock), (B) 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 Company or any of the Subsidiaries, (C) conflicts or will conflict with or constitutes or will constitute a breach of, or a default under any material (from the perspective of the Company and the Subsidiaries, taken as a whole) agreement, indenture, lease or other instrument 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, (D) violates or will violate any statute, law, regulation, Permit (as hereinafter defined) or filing or judgment, injunction, order or decree applicable to the Company or any of the Subsidiaries or any of their respective properties or (E) will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the Subsidiaries pursuant to the terms of any agreement or instrument to which any of them is a party or by which any of them is bound or to which any of the property or assets of any of them is subject.

(x) To the knowledge of the Company, after due inquiry, BDO Seidman, LLP, which has certified certain financial statements of the Company and its consolidated subsidiaries and delivered its reports with respect to the audited consolidated financial statements and schedules included in the Registration Statement and the Prospectus (or any amendment or supplement thereto), are independent public accountants as required by the Act and the rules and regulations thereunder.

(xi) The financial statements of the Company, together with related notes, included or incorporated by reference in the Registration Statement and the Prospectus (and any amendment or supplement thereto), comply in all material respects with the requirements of the Act and present fairly in all material respects the consolidated financial position, results of operations and changes in shareholders' equity and cash flows of the Company and the Subsidiaries on the basis stated in the Registration Statement at the respective dates or for the respective periods to which they apply; such statements and related notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; and the other financial and statistical information and data set forth in the Registration Statement and the Prospectus (and any amendment or supplement thereto) is accurately presented and, to the extent such information and data is derived from the financial books and records of the Company, is prepared on a basis consistent with such financial statements and the books and records of the Company. The unaudited pro forma financial statements included in the Registration Statement and the Prospectus comply as to form in all material respects with the requirements of the Act; the pro forma adjustments have been properly applied to the historical amounts in the compilation of such pro forma statements; the assumptions described in the notes to such pro forma statements provide a reasonable basis for presenting the significant direct effects of the transactions contemplated therein; and such pro forma adjustments give appropriate effect to those adjustments, in each case, in accordance with Regulation S-X.

(xii) To the knowledge of the Company, after due inquiry, Robert Rossi & Co., which has certified certain financial statements of The Plains Company, a Pennsylvania corporation ("Plains Company"), and its consolidated subsidiaries and delivered its report with respect to the audited consolidated financial statements of Plains Company included in the Registration Statement and the Prospectus (or any amendment or supplement thereto), are independent public accountants as required by the Act and the rules and regulations thereunder.

(xiii) The financial statements of Plains Company, together with related notes, included in the Registration Statement and the Prospectus (and any amendment or supplement thereto), comply in all material respects with the requirements of the Act and present fairly in all material respects the consolidated financial position, results of operations and changes in shareholders' equity and cash flows of Plains Company and its consolidated subsidiaries on the basis stated in the Registration Statement at the respective dates or for the respective periods to which they apply; such statements and related notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; and the other financial and statistical information and data of Plains Company set forth in the Registration Statement and the Prospectus (and any amendment or supplement thereto) is accurately presented and, to the extent such information and data is derived from the financial books and records of Plains Company, is prepared on a basis consistent with such financial statements and the books and records of Plains Company.

(xiv) To the knowledge of the Company, after due inquiry, Leonard J. Miller & Associates, Chartered, which has certified certain financial statements of Charles Town Racing Limited Partnership and Charles Town Races, Inc., a West Virginia limited partnership and a West Virginia corporation, respectively (collectively, "Charles Town"), delivered its report with respect to the audited combined financial statements of Charles Town included in the Registration Statement and the Prospectus (or any amendment or supplement thereto), are independent public accountants as required by the Act and the rules and regulations thereunder.

(xv) The financial statements of Charles Town, together with related notes, included in the Registration Statement and the Prospectus (and any amendment or supplement thereto), comply in all material respects with the requirements of the Act and present fairly in all material respects the combined financial position, results of operations and changes in shareholders' equity and cash flows of Charles Town on the basis stated in the Registration Statement at the respective dates or for the respective periods to which they apply; such statements and related notes have been prepared in accordance with generally accepted accounting principles consistently applied throughout the periods involved, except as disclosed therein; and the other financial and statistical information and data of Charles Town set forth in the Registration Statement and the Prospectus (and any amendment or supplement thereto) is accurately presented and, to the extent such information and data is derived from the financial books and records of Charles Town, is prepared on a basis consistent with such financial statements and the books and records of Charles Town.

(xvi) Neither the Company nor any of the Subsidiaries is (i) in violation of its articles of incorporation or by-laws or other organizational documents, or of any law, ordinance, administrative or governmental rule or regulation applicable to the Company or any of the Subsidiaries or of any decree of any court or governmental agency or body (including without limitation any racing, wagering or gaming regulatory agency or body) having jurisdiction over the Company or any of the Subsidiaries, except where any such violation or violations in the aggregate would not have a Material Adverse Effect, or (ii) in default in any material respect in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any agreement, indenture, lease or other instrument to which the Company or any of the Subsidiaries is a party or by which any of them or any of their respective properties may be bound, except as may be disclosed in the Registration Statement and the Prospectus, and there does not exist with respect to any such bond, debenture, note, other evidence of indebtedness, agreement, indenture, lease or other instrument any state of facts which constitutes an event of default, as defined in such documents, or which, with notice or lapse of time or both, would constitute such an event of default.

(xvii) There are no legal or governmental proceedings pending or, to the knowledge of the Company, 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, that are required to be described in the Registration Statement or the Prospectus but are not described as required. There are no statutes, regulations, agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus or to be filed as an exhibit to the Registration Statement (or to be described in any of the documents filed by the Company with the Commission pursuant to the Exchange Act that are incorporated by reference in the Prospectus (the "Exchange Act Filings") or to be filed as an exhibit to any of the Exchange Act Filings) that are not described or filed as required by the Act or the Exchange Act.

(xviii) No order preventing or suspending the use of any Preliminary Prospectus has been issued and no proceedings for that purpose are pending or, to the best knowledge of the Company, threatened or contemplated by the Commission; no order suspending the offering of the Securities in any jurisdiction designated by the Representatives pursuant to paragraph (a)(v) of Section 5 of this Agreement has been issued and no proceedings for that purpose have been instituted or, to the best knowledge of the Company, are threatened or contemplated; and any request of the Commission for additional information (to be included in the Registration Statement or Prospectus or otherwise) has been complied with to the Commission's satisfaction.

(xix) Except as disclosed in the Registration Statement and the Prospectus (or any amendment or supplement thereto), subsequent to the respective dates as of which such information is given in the Registration Statement and the Prospectus (or any amendment or supplement thereto), (i) neither the Company nor any of the Subsidiaries has (A) incurred any liability or obligation, direct or contingent, or entered into any transaction not in the ordinary course of business, that is material to the Company and the Subsidiaries taken as a whole, (B) declared or paid any dividend or made any distribution on any shares of its capital stock or (C) redeemed, purchased or otherwise acquired or agreed to redeem, purchase or otherwise acquire any shares of its stock and (ii) there has not been any material change in the capital stock, or material increase in the short-term or long-term debt of the Company or any of the Subsidiaries, or any material adverse change, or any development involving or which could reasonably be expected to have a Material Adverse Effect.

(xx) The Company and its subsidiaries (A) are in compliance with any and all applicable foreign, federal, state and local laws and regulations relating to the protection of human health and safety, the environment or hazardous or toxic substances or wastes, pollutants or contaminants ("Environmental Laws"), (B) have received all permits, licenses or other approvals required of them under applicable Environmental Laws to conduct their respective businesses and (C) are in compliance with all terms and conditions of any such permit, license or approval, except where such noncompliance with Environmental Laws, failure to receive required permits, licenses or other approvals or failure to comply with the terms and conditions of such permits, licenses or approvals would not, singly or in the aggregate, have a material adverse effect on the Company and its subsidiaries, taken as a whole.

(xxi) On the basis of a review of the effect of Environmental Laws on the business, operations and properties of the Company and its subsidiaries, the Company has reasonably concluded that such associated costs and liabilities would not, singly or in the aggregate, have a Material Adverse Effect.

(xxii) Except as disclosed in the Prospectus, the Company and each Subsidiary and each officer and director of the Company and each Subsidiary have all permits, licenses, certificates, franchises and authorizations of governmental or regulatory authorities (including, without limitation, all permits, licenses, certificates, franchises and authorizations of all applicable insurance regulatory agencies or bodies and all licenses or certificates of authority 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) ("Permits") as are necessary to own and lease their respective properties and conduct their businesses in the manner described in the Prospectus, subject to such qualifications as may be set forth in the Prospectus, except where the failure to have such Permits would not have a Material Adverse Effect. No such Permit contains a materially burdensome restriction that is not adequately disclosed in the Prospectus. Except as disclosed in the Prospectus, the Company and each Subsidiary have conducted, and the Company and each Subsidiary are conducting, their business in compliance with such Permits and all applicable federal, state, local and foreign laws, rules and regulations, except where the failure to conduct such business in compliance with such Permits or such laws, rules and regulations would not have a Material Adverse Effect. The Company and each Subsidiary have fulfilled and performed in all material respects all their respective obligations with respect to the Permits, neither the Company nor any Subsidiary has received any notice of proceedings relating to the revocation, modification, termination or non-renewal of any Permit, and no event has occurred which allows, or after notice or lapse of time would allow, revocation, modification, termination or non-renewal thereof or results in any other material impairment of the rights of the holder of any such Permit, subject in each case to such qualification as may be set forth in the Prospectus and except to the extent any such revocation or termination would not have a Material Adverse Effect.

(xxiii) 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 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. Except as disclosed in the Prospectus, 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.

(xxiv) In the case of the Company, since January 1, 1991, and in the case of each Subsidiary, since the date of its acquisition, the Company and each of its Subsidiaries have filed all material reports, registrations and statements, together with any amendments required to be made with respect thereto, that they were required to file with any regulatory commission, agency or authority, except where the failure to file such report, registrations or statements would not have a Material Adverse Effect. As of their respective dates, such reports, registrations and statements complied in all material respects with all of the rules and regulations promulgated by the applicable commission, agency or authority. The Company and its Subsidiaries maintain their books and records in accordance in all material respects with all applicable laws, rules and regulations.

(xxv) The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that (i) transactions are executed in accordance with management's general or specific authorization; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles and to maintain accountability for assets; (iii) access to assets is permitted only in accordance with management's general or specific authorization; and (iv) the recorded accountability for assets is compared with existing assets at reasonable intervals and appropriate action is taken with respect to any differences.

(xxvi) None of the Company, any of the Subsidiaries or, to the Company's knowledge, any employee or agent of the Company or any Subsidiary has made any payment of funds of the Company or any Subsidiary or received or retained any funds in violation of any law, rule or regulation, which payment, receipt or retention of funds is of a character required to be disclosed in the Prospectus.

(xxvii) The Company has not distributed and, prior to the later to occur of the Closing Date and completion of the distribution of the Securities, will not distribute any offering material in connection with the offering and sale of the Securities other than the Registration Statement, any Preliminary Prospectus, the Prospectus or other materials, if any, permitted by the Act, it being understood that materials consistent with the Company's historical practices with respect to responses to investor relations inquiries that are transmitted pursuant to unsolicited requests do not constitute "offering materials." Neither the Company nor any of its Subsidiaries has taken, nor will it take, directly or indirectly, any action designed to or which reasonably might be expected to cause or result in, or which has constituted or which might reasonably be expected to constitute, the stabilization or manipulation of the price of the Common Stock to facilitate the sale or resale of any of the Securities.

(xxviii) No holder of any security of the Company has the right (other than a right which has been waived in writing) to have any security owned by such holder included in the Registration Statement or to demand registration of any security owned by such holder.

(b) Each Selling Stockholder represents and warrants to, and agrees with, each Underwriter that:

(i) Such Selling Stockholder is the lawful owner of the Securities to be sold by such Selling Stockholder hereunder, free and clear of all liens, encumbrances, equities and claims whatsoever. Upon sale and delivery of, and payment for, such Securities, as provided herein, such Selling Stockholder will convey good and marketable title to such Securities, free and clear of all liens, encumbrances, equities and claims whatsoever, including, without limitation, any restrictions on transfer.

(ii) Such Selling Stockholder has all requisite power and authority to execute, deliver and perform its obligations under this Agreement; the execution and delivery of, and the performance by such Selling Stockholder of its obligations under, this Agreement have been duly and validly authorized by such Selling Stockholder; and this Agreement has been duly executed and delivered by such Selling Stockholder.

(iii) Such Selling Stockholder has no reason to believe that the representations and warranties of the Company contained in this Section 1 are not true and correct, is familiar with the Registration Statement and has no knowledge of any material fact, condition or information not disclosed in the Prospectus or any supplement thereto which has adversely affected or may adversely affect the business of the Company or any of its subsidiaries; and the sale of Securities by such Selling Stockholder pursuant hereto is not prompted by any material information concerning the Company or any of its subsidiaries which is not set forth in the Prospectus or any supplement thereto.

(iv) Certificates in negotiable form for such Selling Stockholder's Securities have been placed in custody, for delivery pursuant to the terms of this Agreement, under a Custody Agreement duly authorized, executed and delivered by such Selling Stockholder, in the form heretofore furnished to you (the "Custody Agreement"), with Continental Stock Transfer & Trust Company of New York, New York, as Custodian (the "Custodian"); the Securities represented by the certificates so held in custody for each Selling Stockholder are subject to the interests hereunder of the Underwriters, the Company and the other Selling Stockholders; the arrangements for custody and delivery of such certificates, made by such Selling Stockholder hereunder and under the Custody Agreement, are not subject to termination by any acts of such Selling Stockholder, or by operation of law, whether by the death or incapacity of such Selling Stockholder or the occurrence of any other event; and if any such death, incapacity or any other such event shall occur before the delivery of such Securities hereunder, certificates for the Securities will be delivered by the Custodian in accordance with the terms and conditions of this Agreement and the Custody Agreement as if such death, incapacity or other event had not occurred, regardless of whether or not the Custodian shall have received notice of such death, incapacity or other event.

(v) None of the sale and delivery of the Securities to be sold by such Stockholder, the execution and delivery of this Agreement or the Custody Agreement by or on behalf of such Selling

Stockholder or the consummation of the transactions herein or therein contemplated by or on behalf of such Selling Stockholder (i) requires any consent, approval, authorization or order of, or registration or filing with, any court, regulatory body, administrative agency or other governmental body, agency or official (except such as may be required under the Act) or (ii) conflicts or will conflict with or constitutes or will constitute a breach of, or default under, or violates or will violate, any agreement, indenture or other instrument to which such Selling Stockholder is a party or by which such Selling Stockholder is or may be bound or to which any such Selling Stockholder's property or assets is subject, or any statute, law, rule regulation, ruling, judgment, injunction, order or decree applicable to such Selling Stockholder or to any property or assets of such Selling Stockholder.

(vi) Such Selling Stockholder has not taken and will not take, directly or indirectly, any action designed to or which has constituted or which might reasonably be expected to cause or result, under the Exchange Act or otherwise, in stabilization or manipulation of the price of any security of the Company to facilitate the sale or resale of the Securities and has not effected any sales of shares of Common Stock which, if effected by the issuer, would be required to be disclosed in response to Item 701 of Regulation S-K.

(vii) Such Selling Stockholder has not since the filing of the Registration Statement (i) sold, bid for, purchased, attempted to induce any person to purchase, or paid anyone any compensation for soliciting purchases of, the Common Stock or (ii) paid or agreed to pay to any person any compensation for soliciting another to purchase any other securities of the Company (except in each case for the sale of the Securities by such Selling Stockholder under this Agreement).

In respect of any statements in or omissions from the Registration Statement or the Prospectus or any supplement thereto made in reliance upon and in conformity with information furnished in writing to the Company by any Selling Stockholder specifically for use in connection with the preparation thereof, such Selling Stockholder hereby makes the same representations and warranties to each Underwriter as the Company makes to such Underwriter under paragraph (a)(ii) of this Section.

2. Purchase and Sale. (a) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company and the Selling Stockholders (collectively, the "Sellers" and individually a "Seller") agree, severally and not jointly, to sell to each Underwriter the amount of the Securities set forth opposite each Seller's name in Schedule II hereto, and each Underwriter agrees, severally and not jointly, to purchase from the Sellers, at a purchase price of $_____ per share, the amount of the Securities set forth opposite such Underwriter's name in Schedule I hereto. The amount of Securities to be purchased by each Underwriter from each Seller shall be as nearly as practicable in the same proportion to the total amount of Securities to be purchased by such Underwriter as the total amount of Securities to be sold by each Seller bears to the total amount of Securities to be sold pursuant hereto.

(b) Subject to the terms and conditions and in reliance upon the representations and warranties herein set forth, the Company and the Selling Stockholders named in Schedule III hereto hereby grant, severally and not jointly, an option to the several Underwriters to purchase, severally and not jointly, up to 345,000 shares of the Option Securities at the same purchase price per share as the Underwriters shall pay for the Underwritten Securities. Said option may be exercised only to cover over-allotments in the sale of the Underwritten Securities by the Underwriters. Said option may be exercised in whole or in part at any time (but not more than once) on or before the 30th day after the date of the Prospectus upon written or telegraphic notice by the Representatives to the Company and such Selling Stockholders setting forth the number of shares of the Option Securities as to which the several Underwriters are exercising the option and the settlement date. Delivery of certificates for the shares of Option Securities by the Company and such Selling Stockholders, and payment therefor to the Company and such Selling Stockholders, shall be made as provided in Section 3 hereof. The maximum number of shares of the Option Securities to be sold by the Company and each of such Selling Stockholders is set forth in Schedule III hereto. In the event that the Underwriters exercise less than their full over-allotment option, the number of shares of the Option Securities to be sold by each party listed on Schedule III shall be, as nearly as practicable, in the same proportion to each other as are the number of shares of the Option Securities listed opposite their respective names on said Schedule III. The number of shares of the Option Securities to be purchased by each Underwriter shall be the same percentage of the total number of shares of the Option Securities to be purchased by the several Underwriters as such Underwriter is purchasing of the Underwritten Securities, subject to such adjustments as the Representatives in their absolute discretion shall make to eliminate any fractional shares.

3. Delivery and Payment. Delivery of and payment for the Underwritten Securities (and the Option Securities (if the option provided for in Section 2(b) hereof shall have been exercised on or before the business day prior to the Closing Date)) shall be made at 10:00 AM, New York City time, on _____, 1997, or such later date (not later than _____, 1997) as the Representatives shall designate, which date and time may be postponed by agreement among the Representatives, the Company and the Selling Stockholders or as provided in Section 9 hereof (such date and time of delivery and payment for the Underwritten Securities being herein called the "Closing Date"). Delivery of the Securities shall be made to the Representatives for the respective accounts of the several Underwriters against payment by the several Underwriters through the Representatives of the respective aggregate purchase prices of the Securities being sold by the Company and each of the Selling Stockholders to or upon the order of the Company and the Selling Stockholders by wire transfer in immediately available funds. Delivery of the Securities shall be made through the facilities of the Depository Trust Company, and payment for the Securities shall be made at the office of Cleary, Gottlieb, Steen & Hamilton, New York, New York. Certificates for the Securities shall be registered in such names and in such denominations as the Representatives may request not less than one full business day in advance of the Closing Date.

Each Selling Stockholder will pay all applicable state transfer taxes, if any, involved in the transfer to the several Underwriters of

the Securities to be purchased by them from such Selling Stockholder, and the respective Underwriters will pay any additional stock transfer taxes involved in further transfers.

If the option provided for in Section 2(b) hereof is exercised after the first full business day prior to the Closing Date, the Company will deliver (at the expense of the Company) to the Representatives, at Seven World Trade Center, New York, New York, on the date specified by the Representatives (which shall be within three business days after exercise of said option), certificates for the Option Securities in such names and denominations as the Representatives shall have requested against payment of the purchase price thereof to or upon the order of the Company and the Selling Stockholders identified in Schedule III by wire transfer in immediately available funds. If settlement for the Option Securities occurs after the Closing Date, the Company and such Selling Stockholders will deliver to the Representatives on the settlement date for the Option Securities, and the obligation of the Underwriters to purchase the Option Securities shall be conditioned upon receipt of, supplemental opinions, certificates and letters confirming as of such date the opinions, certificates and letters delivered on the Closing Date pursuant to Section 6 hereof.

4. Offering by Underwriters. It is understood that the several Underwriters propose to offer the Securities for sale to the public as set forth in the Prospectus.

5. Agreements. (a) The Company agrees with the several Underwriters that:

(i) The Company will use its best efforts to cause the Registration Statement, if not effective at the Execution Time, and any amendment thereof, to become effective. Prior to the termination of the offering of the Securities, the Company will not file any amendment of the Registration Statement or supplement to the Prospectus unless the Company has furnished the Representatives a copy for their review prior to filing and will not file any such proposed amendment or supplement to which the Representatives reasonably object. Subject to the foregoing sentence, if the Registration Statement has become or becomes effective pursuant to Rule 430A, or filing of the Prospectus is otherwise required under Rule 424(b), the Company will cause the Prospectus, properly completed, and any supplement thereto to be filed with the Commission pursuant to the applicable paragraph of Rule 424(b) within the time period prescribed and will provide evidence satisfactory to the Representatives of such timely filing. The Company will promptly advise the Representatives (A) when the Registration Statement, if not effective at the Execution Time, and any amendment thereto, shall have become effective, (B) when the Prospectus, and any supplement thereto, shall have been filed (if required) with the Commission pursuant to Rule 424(b), (C) when, prior to termination of the offering of the Securities, any amendment to the Registration Statement shall have been filed or become effective, (D) of any request by the Commission for any amendment of the Registration Statement or supplement to the Prospectus or for any additional information, (E) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement or the institution or threatening of any proceeding for that purpose and (F) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Securities for sale in any jurisdiction or the initiation or threatening of any proceeding for such purpose. The Company will use its best efforts to prevent the issuance of any such stop order and, if issued, to obtain as soon as possible the withdrawal thereof.

(ii) If, at any time when a prospectus relating to the Securities is required to be delivered under the Act, any event occurs as a result of which the Prospectus as then supplemented would include any untrue statement of a material fact or omit to state any material fact necessary to make the statements therein in the light of the circumstances under which they were made not misleading, or if it shall be necessary to amend the Registration Statement or supplement the Prospectus to comply with the Act or the Exchange Act or the respective rules thereunder, the Company promptly will prepare and file with the Commission, subject to the second sentence of subparagraph (a)(i) of this Section 5, an amendment or supplement which will correct such statement or omission or an amendment which will effect such compliance.

(iii) As soon as practicable, the Company will make generally available to its security holders and to the Representatives an earnings statement or statements of the Company and its subsidiaries which will satisfy the provisions of Section 11(a) of the Act and Rule 158 under the Act.

(iv) The Company will furnish to the Representatives and counsel for the Underwriters, without charge, copies of the manually executed signature pages to the Registration Statement, it being understood that the originals of such pages will be retained in the Company's files as required by the rules of the Commission and copies of the Registration Statement (including exhibits thereto) and to each other Underwriter a copy of the Registration Statement (without exhibits thereto). The Company will furnish to the Underwriters not later than (A) 6:00 PM, New York City time, on the date of determination of the public offering price, if such determination occurred at or prior to 10:00 AM, New York City time, on such date or (B) 6:00 PM, New York City time, on the business day following the date on which the public offering price was determined, if such determination occurred after 10:00 AM, New York City time, on such date, as many copies of each Preliminary Prospectus and the Prospectus and any supplement thereto as the Representatives may reasonably request for purposes of confirming sales of Securities to be delivered on the Closing Date; further, so long as delivery of a prospectus by an Underwriter or dealer may be required by the Act, as many copies of each Preliminary Prospectus and the Prospectus and any supplement thereto as the Representatives may reasonably request. The Company will pay the expenses of printing or other production of all documents relating to the offering.

(v) The Company will cooperate with the Representatives in arranging the qualification of the Securities for sale under the laws of such jurisdictions as the Representatives may designate and in maintaining such qualifications in effect so long as required for the distribution of the Securities; provided, however,

that the Company shall not be required to file a general consent to service of process or be required to qualify as a foreign corporation in any jurisdiction. The Company will pay the fee of the National Association of Securities Dealers, Inc., in connection with its review of the offering.

(vi) The Company will not, for a period of 120 days following the Execution Time, without the prior written consent of the Representatives, (A) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, or announce the offering of, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock (whether such shares or any such securities are now owned by the Company or are hereafter acquired) or (B) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (A) or (B) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise; provided, however, that the Company may issue and sell Common Stock pursuant to any employee stock option plan, stock ownership plan or dividend reinvestment plan of the Company in effect at the Execution Time and the Company may issue Common Stock issuable upon the conversion of securities or the exercise of warrants outstanding at the Execution Time.

(b) Each Selling Stockholder agrees with the several Underwriters that such Selling Shareholder will not during the period of 120 days following the Execution Time, without the prior written consent of the Representatives, (A) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, or announce the offering of, any other shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock, (whether such shares or any such securities are now owned by such Selling Stockholder or are hereafter acquired) or (B) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (A) or (B) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise; provided, however, that such Selling Stockholder may dispose of shares of Common Stock as bona fide gifts. In addition, each Selling Stockholder agrees that, without the prior written consent of the Representatives, such Selling Stockholder will not, during the period of 120 days following the Execution Time, make any demand for, or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock.

6. Conditions to the Obligations of the Underwriters. The obligations of the Underwriters to purchase the Securities shall be subject to the accuracy of the representations and warranties on the part of the Company and the Selling Stockholders contained herein as of the Execution Time and the Closing Date, to the accuracy of the statements of the Company and the Selling Stockholders made in any certificates pursuant to the provisions hereof, to the performance by the Company and the Selling Stockholders of their respective obligations hereunder and to the following additional conditions:

(a) If the Registration Statement has not become effective prior to the Execution Time, unless the Representatives agree in writing to a later time, the Registration Statement will become effective not later than (i) 6:00 PM New York City time, on the date of determination of the public offering price, if such determination occurred at or prior to 3:00 PM New York City time on such date or (ii) 12:00 Noon on the business day following the day on which the public offering price was determined, if such determination occurred after 3:00 PM New York City time on such date; if filing of the Prospectus, or any supplement thereto, is required pursuant to the applicable paragraph of Rule 424(b), the Prospectus, and any such supplement, will be filed in the manner and within the time period required by Rule 424(b); and no stop order suspending the effectiveness of the Registration Statement shall have been issued and no proceedings for that purpose shall have been instituted or threatened.

(b) The Company shall have furnished to the Representatives the opinion of Morgan, Lewis & Bockius LLP, counsel for the Company, dated the Closing Date, to the effect that:

(i) the Company is a corporation validly existing and in good standing under the laws of the Commonwealth of Pennsylvania with corporate power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the Company has informed such counsel that 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 does not have a Material Adverse Effect;

(ii) each Subsidiary is a corporation, partnership or limited liability company, as the case may be, validly existing and in good standing in the jurisdiction of its organization, with the requisite power and authority to own, lease and operate its properties and to conduct its business as described in the Registration Statement and the Prospectus, and is duly registered and qualified to conduct its business and is in good standing in each jurisdiction or place where the Company has informed such counsel that 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;

(iii) all the outstanding shares of capital stock of or other equity interests in each of the Subsidiaries have been authorized by all necessary action of the Subsidiaries and validly issued, are fully paid and nonassessable and, except with respect to PNGI Charles Town, in which the Company holds an 89% membership interest, 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, free and clear of any other lien, adverse claim, security interest, equity or other encumbrance, except in each case as described in the Prospectus; and there are no (A) existing preemptive rights under any Subsidiary's articles of incorporation or code of regulations, or other organizational documents, or applicable law or (B) to the knowledge of

such counsel, other rights that entitle or will entitle any person to acquire any shares of or other equity interests in any Subsidiary;

(iv) the Company's authorized, issued and outstanding capital stock is as set forth under the caption "Capitalization" in the Prospectus; the authorized capital stock of the Company conforms in all material respects as to legal matters to the description thereof in the Registration Statement and the Prospectus; all the outstanding shares of capital stock of the Company (including the shares to be sold by the Selling Stockholders) have been authorized by all necessary corporate action of the Company and validly issued, are fully paid and nonassessable and are free of any (A) preemptive rights under the Company's Articles of Incorporation or applicable law or (B) to the knowledge of such counsel, other rights that entitle any person to acquire any Securities upon the issuance thereof by the Company; the Securities to be issued and sold to the Underwriters by the Company have been duly authorized and, when issued and delivered to the Underwriters against payment therefor in accordance with the terms hereof, will be validly issued, fully paid and nonassessable and free of any (1) preemptive rights under the Company's Articles of Incorporation or applicable law or (2) to the knowledge of such counsel, other rights that entitle any person to acquire any Securities upon the issuance thereof by the Company; no holders of securities of the Company have (x) preemptive rights under the Company's Articles of Incorporation or applicable law or (y) to the knowledge of such counsel, other rights to acquire any Securities upon the issuance thereof by the Company; to the knowledge of such counsel, except as described in or contemplated by the Prospectus, there are no outstanding options, warrants or other rights calling for the issuance of, and there are no commitments, plans or arrangements to issue, any shares of capital stock of the Company or any security convertible into or exchangeable or exercisable for capital stock of the Company; and the Common Stock (including the Securities) has been approved for quotation on the Nasdaq National Market;

(v) the form of certificates for the Securities complies as to form to the requirements of Pennsylvania law;

(vi) the Company has the corporate power and authority to execute, deliver and perform its obligations under this Agreement; the execution and delivery of, and the performance by the Company of its obligations under, this Agreement have been authorized by all necessary corporate action of the Company; and this Agreement has been duly executed and delivered by the Company;

(vii) to the knowledge of such counsel, there are no legal or governmental proceedings pending or, based solely on such counsel's inquiry of management of the Company, 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, that are required to be described in the Registration Statement or the Prospectus (or any Exchange Act Filing) but are not described as

required; to the knowledge of such counsel, there are no agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus (or any Exchange Act Filing) or to be filed as an exhibit to the Registration Statement (or any Exchange Act Filing) that are not described or filed as required by the Act;

(viii) based upon the inquiry by such counsel of the Commission's staff, the Registration Statement has become effective under the Act; any required filing of the Prospectus, and any supplements thereto, pursuant to Rule 424(b) has been made in the manner and within the time period required by Rule 424(b); to the best knowledge of such counsel, based upon the inquiry by such counsel of the Commission's staff, no stop order suspending the effectiveness of the Registration Statement has been issued, no proceedings for that purpose have been instituted or threatened and the Registration Statement and the Prospectus (other than the financial statements and other financial and statistical information contained therein as to which such counsel need express no opinion) comply as to form in all material respects with the applicable requirements of the Act and the Exchange Act and the respective rules thereunder;

(ix) 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 is required for the issuance, offer, sale or delivery of the Securities, the execution, delivery or performance of this Agreement by the Company or the consummation of the transactions contemplated hereby, except such as have been obtained under the Act, such as may be required under the gaming, racing, wagering and/or lottery laws of Pennsylvania, West Virginia or the United States, as to which such counsel need express no opinion, and such other approvals (specified in such opinion) as have been obtained;

(x) neither the issue and sale of the Securities 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 of the Company, (B) the terms of any agreement or instrument filed as an exhibit to the Registration Statement (or to any Exchange Act Filing) 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;

(xi) to the knowledge of such counsel, no holders of securities of the Company have rights to the registration of such securities under the Registration Statement.

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 General Corporation Law of the State of Delaware and the federal laws of the United States. References to the Prospectus in this paragraph (b) include any supplements thereto at the Closing Date.

In addition, such counsel shall indicate that it has participated in conferences with the Representatives, officers and representatives of the Company and representatives of the independent certified public accountants of the Company and certain of the Subsidiaries, at which conferences the contents of the Registration Statement and the Prospectus and related matters were discussed, and, although such counsel does not pass upon and does not assume any responsibility for the accuracy, completeness or fairness of the statements contained in the Registration Statement or the Prospectus, on the basis of the foregoing, no facts have come to such counsel's attention which cause such counsel to believe that the Registration Statement at the Effective Date and the Closing Date and any settlement date for the Option Securities contained or contains an untrue statement of a material fact or omitted or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus, as amended or supplemented, if applicable, on the Execution Date and on the Closing Date and any settlement date for the Option Securities, included or includes any untrue statement of a material fact or omitted or omits to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading; provided, however, that such counsel need not express any comment with respect to the financial statements, the notes thereto, the related schedules or any other financial or statistical information contained in the Registration Statement or the Prospectus or incorporated by reference therein.

(c) The Company shall have furnished to the Representatives the opinion of Mesirov Gelman Jaffe Cramer & Jamieson, counsel for the Company, dated the Closing Date, 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 Prospectus; 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 Prospectus; the Horse Racing Commission and the Harness Commission approved, respectively, four 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 Prospectus, and such 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; 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; and except as

disclosed in the Prospectus, 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 Underwriters 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, that are required to be described in the Registration Statement or the Prospectus (or any Exchange Act Filing) but are not described as required; to the knowledge of such counsel, there are no statutes, regulations, agreements, contracts, indentures, leases or other instruments that are required to be described in the Registration Statement or the Prospectus (or any Exchange Act Filing) or to be filed as an exhibit to the Registration Statement (or any Exchange Act Filing) that are not described or filed as required by the Act; the statements in the Prospectus under the headings "Risk Factors - Future Development of Charles Town Facility," "Risk Factors - Regulation and Taxation," "Business - Racing and Wagering Operations - Live Racing," "Business - Purses; Agreements with Horsemen," "Business - Regulation and Taxation" and "Business - Legal Proceedings," insofar as such statements purport to summarize certain provisions of the requirements under the Pennsylvania State Racing Act and any other laws or regulation 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 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 Prospectus under "Business - Regulation and Taxation";

(iv) such counsel has no knowledge that at the Effective Date the Registration Statement includes any untrue statement of a material fact or omitted to state any material fact required to be stated therein or necessary to make the statements therein not misleading or that the Prospectus includes any untrue statement of a material fact 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;

(v) 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 Securities, the execution, delivery or performance of this Agreement by

the Company or the consummation of the transactions contemplated hereby, except such as have been obtained under the Act and such other approvals (specified in such opinion) as have been obtained; and

(vi) neither the issue and sale of the Securities 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 of the Company, (B) the terms of any agreement or instrument filed as an exhibit to the Registration Statement (or to any Exchange Act Filing) 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 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 Prospectus in this paragraph (c) include any supplements thereto at the Closing Date.

(d) The Company shall have furnished to the Representatives the opinion of Hamb & Poffenbarger, West Virginia counsel for the Company, dated the Closing Date, to the effect that:

(i) each of Penn National Gaming of West Virginia, Inc. 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 Registration Statement and the Prospectus, 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 Prospectus; 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 Prospectus; PNGI Charles Town has applied for a license under the West Virginia Racetrack Video Lottery Act to operate video gaming machines in the manner described in the Prospectus; 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, 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; and except as disclosed in the Prospectus, 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) The Underwriters 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;

(v) 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 Registration Statement or the Prospectus (or any Exchange Act Filing) 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 Registration Statement or the Prospectus (or any Exchange Act Filing) or to be filed as an exhibit to the Registration Statement (or any Exchange Act Filing) that are not described or filed as required by the Act; the statements in the Prospectus under the headings "Risk Factors - Future Development of Charles Town Facility," "Risk Factors - Regulation and Taxation," "Business - Racing and Wagering Operations - Live Racing," "Business - Regulation and Taxation" and "Business - Legal Proceedings," 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 regulation of the State of West Virginia that is not described in the Prospectus under "Business Regulation and Taxation";

(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 of the State of West Virginia is required for the issuance, offer, sale or delivery of the Securities, the execution, delivery or performance of this Agreement by the Company or the consummation of the transactions contemplated hereby, except such approvals (specified in such opinion) as have been obtained;

(vii) none of the issuance, offer, sale or delivery of the Securities, 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, (B) conflicts or will conflict with or constitutes or will constitute a breach of, or a default under any agreement, indenture, lease or other instrument to which the Company or any of the West Virginia Subsidiaries is a party or by which any of them or any of their respective properties may be bound and that is an exhibit to the Registration Statement (or any Exchange Act Filing) or known to such counsel, (C) violates or will violate any existing statute, law, regulation, Permit or filing or judgment, injunction, order or decree in each case known to such counsel and applicable to the Company or any of the West Virginia Subsidiaries or any of their respective properties or (D) will result in the creation or imposition of any lien, charge or encumbrance upon any property or assets of the Company or any of the West Virginia Subsidiaries pursuant to the terms of any agreement or instrument to which any of them is a party or by which any of them may be bound or to which any of the property or assets of any of them is subject and that is an exhibit to the Registration Statement (or any Exchange Act Filing) or known to such counsel; and

(viii) neither the Company nor any of the West Virginia Subsidiaries is (i) in violation of its articles of incorporation or by-laws or other organizational documents or (ii) to the knowledge of such counsel, after due inquiry, in default in any material respect in the performance of any obligation, agreement or condition contained in any bond, debenture, note or any other evidence of indebtedness or in any agreement, indenture, lease or other instrument to which the Company or any of the West Virginia Subsidiaries is a party or by which any of them or any of their respective properties may be bound that is an exhibit to the Registration Statement (or any Exchange Act Filing) or known to such counsel, except in each case as may be disclosed in the Registration Statement and the Prospectus.

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 Prospectus in this paragraph (d) include any supplements thereto at the Closing Date.

(e) The Selling Stockholders shall have furnished to the Representatives the opinion of Mesirov Gelman Jaffe Cramer & Jamieson, counsel for the Selling Stockholders, dated the Closing Date, to the effect that:

(i) each of this Agreement, the Custody Agreement and the Power-of-Attorney has been duly authorized, executed and delivered by the Selling Stockholders, the Custody Agreement is valid and binding on the Selling Stockholders and each Selling Stockholder has full legal right and authority to sell, transfer and deliver in the manner provided in this Agreement and the Custody Agreement the Securities being sold by such Selling Stockholder hereunder;

(ii) the delivery by each Selling Stockholder to the several Underwriters of certificates for the Securities being sold hereunder by such Selling Stockholder against payment therefor as provided herein, will pass good and marketable title to such Securities to the several Underwriters, free and clear of all liens, encumbrances, equities and claims whatsoever;

(iii) 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 is required for the sale or delivery of the Securities to be sold by the Selling Stockholders, the execution, delivery or performance of this Agreement by the Selling Stockholders or the consummation by any Selling Stockholder of the transactions contemplated hereby, except such as have been obtained under the Act and such other approvals (specified in such opinion) as have been obtained; and

(iv) neither the sale of the Securities being sold by any Selling Stockholder nor the consummation of any other of the transactions herein contemplated by any Selling Stockholder or the fulfillment of the terms hereof by any Selling Stockholder will conflict with, result in a breach or violation of, or constitute a default under the charter, by-laws or trust agreement of the Selling Stockholder, if applicable, or any law, or the terms of any indenture or other agreement or instrument known to such counsel and to which any Selling Stockholder is a party or bound, or any judgment, order or decree known to such counsel to be applicable to any Selling Stockholder of any court, regulatory body, administrative agency, governmental body or arbitrator having jurisdiction over any Selling Stockholder.

In rendering such opinion, such counsel may rely (A) as to matters involving the application of laws of any jurisdiction other than the Commonwealth of Pennsylvania 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 the Selling Stockholders (and/or its responsible officers, if any) and public officials.

(f) The Representatives shall have received from Cleary, Gottlieb, Steen & Hamilton, counsel for the Underwriters, such opinion or opinions, dated the Closing Date, with respect to the issuance and sale of the Securities, the Registration Statement, the Prospectus (together with any supplement thereto) and other related matters as the Representatives may reasonably require, and the Company and each Selling Stockholder shall have furnished to such counsel such documents as they request for the purpose of enabling them to pass upon such matters.

(g) The Company shall have furnished to the Representatives a certificate of the Company, signed by the Chairman of the Board or the President and the principal financial or accounting officer of the Company in their capacities as such officers, dated the Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Prospectus, any supplement to the Prospectus and this Agreement and that:

(i) the representations and warranties of the Company in this Agreement are true and correct in all material respects on and as of the Closing Date with the same effect as if made on the Closing Date and the Company has complied with all the agreements and satisfied all the conditions on its part to be performed or satisfied at or prior to the Closing Date;

(ii) no stop order suspending the effectiveness of the Registration Statement has been issued and no proceedings for that purpose have been instituted or, to the Company's knowledge, threatened; and

(iii) since the date of the most recent financial statements included in the Prospectus (exclusive of any supplement thereto), there has been no material adverse change in the condition (financial or other), earnings, business or properties of the Company and its subsidiaries, whether or not arising from transactions in the ordinary course of business, except as set forth in or contemplated in the Prospectus (exclusive of any supplement thereto).

(h) Each Selling Stockholder shall have furnished to the Representatives a certificate, signed by such Selling Stockholder, dated the Closing Date, to the effect that the signers of such certificate have carefully examined the Registration Statement, the Prospectus, any supplement to the Prospectus and this Agreement and that the representations and warranties of such Selling Stockholder in this Agreement are true and correct in all material respects on and as of the Closing Date to the same effect as if made on the Closing Date.

(i) At the Execution Time and at the Closing Date, BDO Seidman, LLP shall have furnished to the Representatives a letter or letters, dated respectively as of the Execution Time and as of the Closing Date, in form and substance satisfactory to the Representatives, confirming that they are independent accountants within the meaning of the Act and the Exchange Act and the respective applicable published rules and regulations thereunder and stating in effect that:

(i) in their opinion the audited financial statements and financial statement schedules of the Company and its consolidated subsidiaries and pro forma financial statements included or incorporated in the Registration Statement and the Prospectus and reported on by them comply in form in all material respects with the applicable accounting requirements of the Act and the Exchange Act and the related published rules and regulations thereunder;

(ii) on the basis of a reading of the latest unaudited financial statements made available by the Company and its subsidiaries; their limited review in accordance with standards established by the American Institute of Certified Public Accountants of the unaudited interim financial information as indicated in their reports incorporated in the Registration Statement and the Prospectus; carrying out certain specified procedures (but not an examination in accordance with generally accepted auditing standards) which would not necessarily reveal matters of significance with respect to the comments set forth in such letter; a reading of the minutes of the meetings of the stockholders, directors and Audit and Compensation committees of the Company; and inquiries of certain officials of the Company who have responsibility for financial and accounting matters of the Company and its subsidiaries as to transactions and events subsequent to December 31, 1995, nothing came to their attention which caused them to believe that:

(1) any unaudited financial statements included or incorporated in the Registration Statement and the Prospectus do not comply in form in all material respects with applicable accounting requirements and with the published rules and regulations of the Commission with respect to financial statements included or incorporated in quarterly reports on Form 10-Q under the Exchange Act; and said unaudited financial statements are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included or incorporated in the Registration Statement and the Prospectus; or

(2) with respect to the period subsequent to September 30, 1996, there were any changes, at a specified date not more than three business days prior to the date of the letter, in the long-term debt and capital lease obligations, net of current maturities, of the Company and its subsidiaries or capital stock of the Company or decreases in the total shareholders' equity of the Company as compared with the amounts shown on the September 30, 1996 consolidated balance sheet included or incorporated in the Registration Statement and the Prospectus, or for the period from October 1, 1996 to such specified date there were any decreases, as compared with the corresponding period in the preceding year in pari-mutuel revenues, total revenues or income before income taxes and extraordinary items or in total or per share amounts of net income of the Company and its subsidiaries, except in all instances for changes or decreases set forth in such letter, in which case the letter shall be accompanied by an explanation by the Company as to the significance thereof unless said explanation is not deemed necessary by the Representatives;

(iii) they have performed certain other specified procedures as a result of which they determined that certain information of an accounting, financial or statistical nature (which is limited to accounting, financial or statistical information derived from the general accounting records of the Company and its subsidiaries) set forth in the Registration Statement and the Prospectus, including the information set forth under the captions "Prospectus Summary," "Risk Factors," "Capitalization," "Pro Forma Consolidated Financial Statements," "Selected Consolidated Financial Data," "Management's Discussion and Analysis of Financial Condition and Results of Operations," "Business" and "Description of Capital Stock" in the Prospectus, the information included or incorporated in Items 1, 2, 6, 7, 11 and 13 of the Company's Annual Report on Form 10-K, incorporated in the Registration Statement and the Prospectus, the information included in the "Management's Discussion and Analysis of Financial Condition and Results of Operations" included or incorporated in the Company's Quarterly Reports on Form 10-Q, incorporated in the Registration Statement and the Prospectus, and the information included or incorporated in the Company's Current Report on Form 8-K dated February __, 1997, incorporated in the Registration Statement and the Prospectus, agrees with the accounting records of the Company and its subsidiaries, excluding any questions of legal interpretation;

(iv) on the basis of a reading of the unaudited pro forma financial statements included or incorporated in the Registration Statement and the Prospectus (the "pro forma financial statements"); carrying out certain specified procedures; inquiries of certain officials of the Company, Plains Company, Charles Town Racing Limited Partnership and Charles Town Races, Inc. who have responsibility for financial and accounting matters; and proving the arithmetic accuracy of the application of the pro forma adjustments to the historical amounts in the pro forma financial statements, nothing came to their attention which caused them to believe that the pro forma financial statements do not comply in form in all material respects with the applicable accounting requirements of Rule 11-02 of Regulation S-X or that the pro forma adjustments have not been properly applied to the historical amounts in the compilation of such statements;

(v) on the basis of a reading of the unaudited financial statements of Plains Company and its subsidiaries as of November 27, 1996 reviewed by Rossi & Co. and the latest unaudited financial statements made available by Plains Company and its subsidiaries; carrying out certain specified procedures (but not an examination in accordance with generally accepted auditing standards) which would not necessarily reveal matters of significance with respect to the comments set forth in such letter; a reading of the minutes of the meetings of the stockholders and directors of Plains Company; and inquiries of certain officials of Plains Company who have responsibility for financial and accounting matters of Plains Company and its subsidiaries as to transactions and events subsequent to November 27, 1996, nothing came to their attention which caused them to believe that:

(1) with respect to the period subsequent to November 27, 1996, there were any changes, at a specified date

not more than three business days prior to the date of the letter, in the long-term liabilities, net of current portion, of Plains Company and its subsidiaries or capital stock of Plains Company or decreases in the total shareholders' equity of Plains Company as compared with the amounts shown on the November 27, 1996 consolidated balance sheet of Plains Company attached to such letter, or for the period from October 1, 1996 to such specified date there were any decreases, as compared with the corresponding period in the preceding year in pari-mutuel commissions and brokerage, net, total operating income or income before provision for income taxes or in net income of Plains Company and its subsidiaries, except in all instances for changes or decreases set forth in such letter, in which case the letter shall be accompanied by an explanation by the Company as to the significance thereof unless said explanation is not deemed necessary by the Representatives;

(vii) they have performed certain other specified procedures with respect to the audited and unaudited financial statements and financial statement schedules of Plains Company included or incorporated in the Registration Statement and the Prospectus, the unaudited financial statements of Pocono Downs, Inc. and its subsidiaries and the audited and unaudited financial statements and financial statement schedules of Charles Town Racing Limited Partnership and Charles Town Races, Inc. included or incorporated in the Registration Statement and the Prospectus for the purpose of (A) determining whether such financial statements have been prepared in accordance with generally accepted accounting principles and the applicable accounting requirements of the Act and the Exchange Act and the related published rules and regulations thereunder and, if audited, audited in accordance with generally accepted auditing standards and (B) identifying any assets or liabilities not recorded or disclosed on certain of such financial statements.

References to the Prospectus in this paragraph (i) include any supplement thereto at the date of the letter.

(j) At the Execution Time and at the Closing Date, Robert Rossi & Co. shall have furnished to the Representatives a letter or letters, dated respectively as of the Execution Time and as of the Closing Date, in form and substance satisfactory to the Representatives, confirming that they are independent accountants with respect to Plains Company and its subsidiaries under Rule 101 of the AICPA's Code of Professional Conduct and its interpretations and rulings thereunder and stating in effect that:

(i) in their opinion the audited financial statements of Plains Company and its consolidated subsidiaries included in the Registration Statement and the Prospectus and reported on by them comply in form in all material respects with the applicable accounting requirements of generally accepted accounting principles;

(ii) on the basis of a reading of the latest unaudited financial statements made available by Plains Company and its subsidiaries; carrying out certain specified procedures (but not an

examination in accordance with generally accepted auditing standards) which would not necessarily reveal matters of significance with respect to the comments set forth in such letter; a reading of the minutes of the meetings of the stockholders and directors of Plains Company; and inquiries of certain officials of Plains Company who have responsibility for financial and accounting matters of Plains Company and its subsidiaries as to transactions and events subsequent to December 31, 1995, nothing came to their attention which caused them to believe that:

(1) any unaudited financial statements included in the Registration Statement and the Prospectus are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included in the Registration Statement and the Prospectus;

(2) the unaudited financial statements of Plains Company and its consolidated subsidiaries as of the period ended November 27, 1996 attached to such letter are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included in the Registration Statement and the Prospectus; or

(3) with respect to the period from September 30, 1996 to November 27, 1996, there were any changes in the long-term liabilities, net of current portion, of Plains Company and its subsidiaries or capital stock of Plains Company or decreases in the total shareholders' equity of Plains Company as compared with the amounts shown on the September 30, 1996 consolidated balance sheet included in the Registration Statement and the Prospectus, or for the period from October 1, 1996 to October 31, 1996 there were any decreases, as compared with the corresponding period in the preceding year in pari-mutuel commissions and brokerage, net, total operating income or income before provision for income taxes or in net income of Plains Company and its subsidiaries, except in all instances for changes or decreases set forth in such letter, in which case the letter shall be accompanied by an explanation by the Company as to the significance thereof unless said explanation is not deemed necessary by the Representatives; and

(iii) they have performed certain other specified procedures as a result of which they determined that certain information of an accounting, financial or statistical nature (which is limited to accounting, financial or statistical information derived from the general accounting records of Plains Company and its subsidiaries) set forth in the Registration Statement and the Prospectus, including the information set forth under the captions "Prospectus Summary," "Risk Factors," "Capitalization," "Pro Forma Consolidated Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" in the Prospectus, and the information included or incorporated in the Company's Current Report on Form 8-K dated February __, 1997, incorporated in the Registration Statement and the

Prospectus, agrees with the accounting records of Plains Company and its subsidiaries, excluding any questions of legal interpretation.

References to the Prospectus in this paragraph (j) include any supplement thereto at the date of the letter.

(k) At the Execution Time and at the Closing Date, Leonard Miller & Associates shall have furnished to the Representatives a letter or letters, dated respectively as of the Execution Time and as of the Closing Date, in form and substance satisfactory to the Representatives, confirming that they are independent accountants within the meaning of the Act and the Exchange Act and the respective applicable published rules and regulations thereunder and stating in effect that:

(i) in their opinion the audited combined financial statements of Charles Town included in the Registration Statement and the Prospectus and reported on by them comply in form in all material respects with the applicable accounting requirements of the Act and the Exchange Act and the related published rules and regulations thereunder;

(ii) on the basis of a reading of the latest unaudited financial statements made available by Charles Town; carrying out certain specified procedures (but not an examination in accordance with generally accepted auditing standards) which would not necessarily reveal matters of significance with respect to the comments set forth in such letter; a reading of the minutes of the meetings of the stockholders and directors committees of Charles Town; and inquiries of certain officials of Charles Town who have responsibility for financial and accounting matters of Charles Town as to transactions and events subsequent to December 31, 1995, nothing came to their attention which caused them to believe that:

(1) any unaudited financial statements included in the Registration Statement and the Prospectus do not comply in form in all material respects with applicable accounting requirements and with the published rules and regulations of the Commission with respect to financial statements included or incorporated in quarterly reports on Form 10-Q under the Exchange Act; and said unaudited financial statements are not in conformity with generally accepted accounting principles applied on a basis substantially consistent with that of the audited financial statements included in the Registration Statement and the Prospectus; or

(2) with respect to the period subsequent to September 30, 1996, there were any changes, at a specified date not more than three business days prior to the date of the letter, in notes payable - partners and long-term debt, less current portion, of Charles Town or capital stock of Charles Town or decreases in the total equity of Charles Town as compared with the amounts shown on the September 30, 1996 consolidated balance sheet included in the Registration Statement and the Prospectus, or for the period from October 1, 1996 to such specified date there were any decreases, as compared with the corresponding period in the preceding year in pari-mutuel revenues, total revenues or income before

income taxes and extraordinary items or in net income of Charles Town and its subsidiaries, except in all instances for changes or decreases set forth in such letter, in which case the letter shall be accompanied by an explanation by the Company as to the significance thereof unless said explanation is not deemed necessary by the Representatives; and

(iii) they have performed certain other specified procedures as a result of which they determined that certain information of an accounting, financial or statistical nature (which is limited to accounting, financial or statistical information derived from the general accounting records of Charles Town and its subsidiaries) set forth in the Registration Statement and the Prospectus, including the information set forth under the captions "Prospectus Summary," "Risk Factors," "Capitalization," "Pro Forma Consolidated Financial Statements," "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Business" in the Prospectus, and the information included or incorporated in the Company's Current Report on Form 8-K dated February __, 1997, incorporated in the Registration Statement and the Prospectus, agrees with the accounting records of Charles Town and its subsidiaries, excluding any questions of legal interpretation.

References to the Prospectus in this paragraph (k) include any supplement thereto at the date of the letter.

(l) Subsequent to the Execution Time or, if earlier, the dates as of which information is given in the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto), there shall not have been (i) any change or decrease specified in the letter or letters referred to in paragraphs (i), (j) or (k) of this Section 6 or (ii) any change, or any development involving a prospective change, in or affecting the business or properties of the Company and its subsidiaries the effect of which, in any case referred to in clause (i) or (ii) above, is, in the judgment of the Representatives, so material and adverse as to make it impractical or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Registration Statement (exclusive of any amendment thereof) and the Prospectus (exclusive of any supplement thereto).

(m) At the Execution Time, the Company shall have furnished to the Representatives a letter substantially in the form of Exhibit A hereto from each officer and director of the Company and the other persons listed in Schedule V addressed to the Representatives, in which each such person agrees not to (A) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, or announce the offering of, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock (whether such shares or any such securities are now owned by such person or are hereafter acquired) or (B) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (A) or (B) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise, for a period of 120 days following the Execution Time without

the prior written consent of the Representatives, other than shares of Common Stock disposed of as bona fide gifts.

(n) Prior to the Closing Date, the Company and each Selling Stockholder shall have furnished to the Representatives such further information, certificates and documents as the Representatives may reasonably request.

If any of the conditions specified in this Section 6 shall not have been fulfilled in all material respects when and as provided in this Agreement, or if any of the opinions and certificates mentioned above or elsewhere in this Agreement shall not be in all material respects reasonably satisfactory in form and substance to the Representatives and counsel for the Underwriters, this Agreement and all obligations of the Underwriters hereunder may be canceled at, or at any time prior to, the Closing Date by the Representatives. Notice of such cancellation shall be given to the Company and each Selling Stockholder in writing or by telephone or telegraph confirmed in writing.

7. Reimbursement of Underwriters' Expenses. If the sale of the Securities provided for herein is not consummated because any condition to the obligations of the Underwriters set forth in Section 6 hereof is not satisfied, because of any termination pursuant to Section 10 hereof or because of any refusal, inability or failure on the part of the Company or any Selling Stockholder to perform any agreement herein or comply with any provision hereof other than by reason of a default by any of the Underwriters, the Company will reimburse the Underwriters severally upon demand for all out-of-pocket expenses (including reasonable fees and disbursements of counsel) that shall have been incurred by them in connection with the proposed purchase and sale of the Securities. If the Company is required to make any payments to the Underwriters under this Section 7 because of any Selling Stockholder's refusal, inability or failure to satisfy any condition to the obligations of the Underwriters set forth in Section 6, the Selling Stockholder shall reimburse the Company on demand for all amounts so paid.

8. Indemnification and Contribution. (a) The Company agrees to indemnify and hold harmless each Underwriter and each person who controls any Underwriter within the meaning of either the Act or the Exchange Act against any and all losses, claims, damages or liabilities, joint or several, to which they or any of them may become subject under the Act, the Exchange Act or other federal or state statutory law or regulation, at common law or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any untrue statement or alleged untrue statement of a material fact contained in the Registration Statement for the registration of the Securities as originally filed or in any amendment thereof, or in any Preliminary Prospectus or the Prospectus, or in any amendment thereof or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and agrees to reimburse each such indemnified party, as incurred, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the Company will not be liable in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon any such untrue statement or alleged untrue statement or omission or alleged omission made

therein in reliance upon and in conformity with written information furnished to the Company by or on behalf of any Underwriter through the Representatives specifically for inclusion therein. This indemnity agreement will be in addition to any liability which the Company may otherwise have.

(b) Each Selling Stockholder severally agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, each Underwriter, the directors, officers, employees and agents of each Underwriter and each person who controls the Company or any Underwriter within the meaning of either the Act or the Exchange Act and each other Selling Stockholder to the same extent as the foregoing indemnity from the Company to each Underwriter, but only with reference to written information furnished to the Company by or on behalf of such Selling Stockholder specifically for use in the preparation of the documents referred to in the foregoing indemnity. In no event, however, shall the liability of a Selling Stockholder for indemnification under this Section 8(b) exceed the proceeds (net of underwriting discounts and commissions) from the Securities sold by such Selling Stockholder in this offering. This indemnity agreement will be in addition to any liability which any Selling Stockholder may otherwise have.

(c) Each Underwriter severally agrees to indemnify and hold harmless the Company, each of its directors, each of its officers who signs the Registration Statement, and each person who controls the Company within the meaning of either the Act or the Exchange Act and each Selling Stockholder, to the same extent as the foregoing indemnity from the Company to each Underwriter, but only with reference to written information relating to such Underwriter furnished to the Company by or on behalf of such Underwriter through the Representatives specifically for inclusion in the documents referred to in the foregoing indemnity. This indemnity agreement will be in addition to any liability which any Underwriter may otherwise have. The Company and each Selling Stockholder acknowledge that the statements set forth in the last paragraph of the cover page and the third paragraph under the heading "Underwriting" in any Preliminary Prospectus and the Prospectus constitute the only information furnished in writing by or on behalf of the several Underwriters for inclusion in any Preliminary Prospectus or the Prospectus, and the Representatives, in their capacities as such, confirm that such statements are correct.

(d) Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action, such indemnified party will, if a claim in respect thereof is to be made against the indemnifying party under this Section 8, notify the indemnifying party in writing of the commencement thereof; but the failure so to notify the indemnifying party (i) will not relieve it from liability under paragraph (a), (b) or (c) above unless and to the extent it did not otherwise learn of such action and 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 paragraph (a), (b) or (c) above. The indemnifying party shall be entitled to appoint counsel of the indemnifying party's choice at the indemnifying party's expense to represent the indemnified party in any action

for which indemnification is sought (in which case the indemnifying party shall not thereafter be responsible for the fees and expenses of any separate counsel retained by the indemnified party or parties except as set forth below); provided, however, that such counsel shall be satisfactory to the indemnified party. Notwithstanding the indemnifying party's election to appoint counsel to represent the indemnified party in an action, the indemnified party shall have the right to employ separate counsel (including local counsel), and the indemnifying party shall bear the reasonable fees, costs and expenses of such separate counsel 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 actual or potential defendants in, or targets of, any such action include both the indemnified party and the indemnifying party and the indemnified party shall have reasonably concluded that there may be legal defenses available to it and/or other indemnified parties which are different from or additional to those available to the indemnifying party, (iii) the indemnifying party shall not have employed counsel satisfactory to the indemnified party to represent the indemnified party within a reasonable time after notice of the institution of such action or (iv) the indemnifying party shall authorize the indemnified party to employ separate counsel at the expense of the indemnifying party. An indemnifying party will not, without the prior written consent of the indemnified parties, settle or compromise or consent to the entry of any judgment with respect to any pending or threatened claim, action, suit or proceeding in respect of which indemnification or contribution may be sought hereunder (whether or not the indemnified parties are actual or potential parties to such claim or action) unless such settlement, compromise or consent includes an unconditional release of each indemnified party from all liability arising out of such claim, action, suit or proceeding.

(e) In the event that the indemnity provided in paragraph (a), (b) or (c) of this Section 8 is unavailable to or insufficient to hold harmless an indemnified party for any reason, the Company, the Selling Stockholders and the Underwriters agree to contribute to the aggregate losses, claims, damages and liabilities (including legal or other expenses reasonably incurred in connection with investigating or defending same) (collectively "Losses") to which the Company, one or more of the Selling Stockholders and one or more of the Underwriters may be subject in such proportion as is appropriate to reflect the relative benefits received by the Company, by the Selling Stockholders and by the Underwriters from the offering of the Securities; provided, however, that in no case shall any Underwriter (except as may be provided in any agreement among underwriters relating to the offering of the Securities) be responsible for any amount in excess of the underwriting discount or commission applicable to the Securities purchased by such Underwriter hereunder; provided, further, that no Selling Stockholder shall be required to contribute any amount in excess of the proceeds (net of underwriting discounts and commissions) from the Securities sold by such Selling Stockholder in this offering. If the allocation provided by the immediately preceding sentence is unavailable for any reason, the Company, the Selling Stockholders and the Underwriters shall contribute in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the Company, of the Selling Stockholders and of the Underwriters in connection with the statements or omissions which resulted in such Losses as well as any other relevant equitable considerations. Benefits received by the Company and by the Selling Stockholders shall be deemed to be equal to the total net proceeds from the offering (before deducting expenses) received by each of them, and benefits received by the Underwriters shall be deemed to be equal to the total underwriting discounts and commissions, in each case as set forth on the cover page of the Prospectus. Relative fault shall be

determined by reference to whether any alleged untrue statement or omission relates to information provided by the Company, the Selling Stockholders or the Underwriters. The Company, the Selling Stockholders and the Underwriters agree that it would not be just and equitable if contribution were determined by pro rata allocation or any other method of allocation which does not take account of the equitable considerations referred to above. Notwithstanding the provisions of this paragraph (e), 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 Section 8, each person who controls an Underwriter within the meaning of either the Act or the Exchange Act and each director, officer, employee and agent of an Underwriter shall have the same rights to contribution as such Underwriter, and each person who controls the Company within the meaning of either the Act or the Exchange Act, each officer of the Company who shall have signed the Registration Statement and each director of the Company shall have the same rights to contribution as the Company, subject in each case to the applicable terms and provisions of this paragraph (e).

9. Default by an Underwriter. If any one or more Underwriters shall fail to purchase and pay for any of the Securities agreed to be purchased by such Underwriter or Underwriters hereunder and such failure to purchase shall constitute a default in the performance of its or their obligations under this Agreement, the remaining Underwriters shall be obligated severally to take up and pay for (in the respective proportions which the amount of Securities set forth opposite their names in Schedule I hereto bears to the aggregate amount of Securities set forth opposite the names of all the remaining Underwriters) the Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase; provided, however, that in the event that the aggregate amount of Securities which the defaulting Underwriter or Underwriters agreed but failed to purchase shall exceed 10% of the aggregate amount of Securities set forth in Schedule I hereto, the remaining Underwriters shall have the right to purchase all, but shall not be under any obligation to purchase any, of the Securities, and if such nondefaulting Underwriters do not purchase all the Securities, this Agreement will terminate without liability to any nondefaulting Underwriter, the Selling Stockholders or the Company. In the event of a default by any Underwriter as set forth in this Section 9, the Closing Date shall be postponed for such period, not exceeding seven days, as the Representatives shall determine in order that the required changes in the Registration Statement and the Prospectus or in any other documents or arrangements may be effected. Nothing contained in this Agreement shall relieve any defaulting Underwriter of its liability, if any, to the Company, the Selling Stockholders and any nondefaulting Underwriter for damages occasioned by its default hereunder.

10. Termination. This Agreement shall be subject to termination in the absolute discretion of the Representatives, by notice given to the Company prior to delivery of and payment for the Securities, if prior to such time (i) trading in the Company's Common Stock shall have been suspended by the Commission or the National Association of Securities Dealers Automated Quotation National Market System or trading in securities generally on the New York Stock Exchange or the National Association of Securities Dealers Automated Quotation National Market System shall have been suspended or limited or minimum prices shall have been established on such Exchange or Market System, (ii) a banking moratorium shall have been declared either by federal or New York State

authorities or (iii) there shall have occurred any outbreak or escalation of hostilities, declaration by the United States of a national emergency or war or other calamity or crisis the effect of which on financial markets is such as to make it, in the judgment of the Representatives, impracticable or inadvisable to proceed with the offering or delivery of the Securities as contemplated by the Prospectus (exclusive of any supplement thereto).

11. Representations and Indemnities to Survive. The respective agreements, representations, warranties, indemnities and other statements of the Company or its officers, of each Selling Stockholder and of the Underwriters set forth in or made pursuant to this Agreement will remain in full force and effect, regardless of any investigation made by or on behalf of any Underwriter, any Selling Stockholder or the Company or any of the officers, directors or controlling persons referred to in Section 8 hereof, and will survive delivery of and payment for the Securities. The provisions of Sections 7 and 8 hereof shall survive the termination or cancellation of this Agreement.

12. Notices. All communications hereunder will be in writing and effective only on receipt, and, if sent to the Representatives, will be mailed, delivered or telegraphed and confirmed to them, care of Salomon Brothers Inc, at Seven World Trade Center, New York, New York, 10048; or, if sent to the Company, will be mailed, delivered or telegraphed and confirmed to it at 825 Berkshire Boulevard, Suite 203, Wyomissing, Pennsylvania, 19610, attention of its Chairman; or if sent to the Selling Stockholders, will be mailed, delivered or telegraphed and confirmed to them at the addresses set forth in Schedule II hereto.

13. Successors. This Agreement will inure to the benefit of and be binding upon the parties hereto and their respective successors and the officers and directors and controlling persons referred to in Section 8 hereof, and no other person will have any right or obligation hereunder.

14. Applicable Law. This Agreement will be governed by and construed in accordance with the laws of the State of New York.

If the foregoing is in accordance with your understanding of our agreement, please sign and return to us the enclosed duplicate hereof, whereupon this letter and your acceptance shall represent a binding agreement among the Company, the Selling Stockholders and the several Underwriters.

Very truly yours,

Penn National Gaming, Inc.

By:

Name:
Title:

Carlino Family Trust

By:

Name:
Title:

Peter M. Carlino

Carlino Financial Corporation

By:

Name:
Title:

David A. Handler

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

Salomon Brothers Inc
Gerard Klauer Mattison & Co., Inc.
Jefferies & Company, Inc.

By: Salomon Brothers Inc

By:

Name:
Title:

For themselves and the other
several Underwriters named in
Schedule I to the foregoing
Agreement.

SCHEDULE I

Underwriters	Number of Shares of Securities to be Purchased
Salomon Brothers Inc	
Gerard Klauer Mattison & Co., Inc.	
Jefferies & Company, Inc.	
Total	2,300,000

SCHEDULE II

Selling Stockholders	Number of Shares of Securities to be Sold
Carlino Family Trust c/o Penn National Gaming, Inc. 825 Berkshire Boulevard, Suite 203 Wyomissing, Pennsylvania 19610	255,000
Peter M. Carlino c/o Penn National Gaming, Inc. 825 Berkshire Boulevard, Suite 203 Wyomissing, Pennsylvania 19610	200,000
Carlino Financial Corporation c/o Penn National Gaming, Inc. 825 Berkshire Boulevard, Suite 203 Wyomissing, Pennsylvania 19610	95,000
David A. Handler c/o Penn National Gaming, Inc. 825 Berkshire Boulevard, Suite 203 Wyomissing, Pennsylvania 19610	25,000
Total	575,000

SCHEDULE III

Name	Maximum Number of Shares of Option Securities to be Sold
Penn National Gaming, Inc.	258,750
Carlino Family Trust	40,000
Peter M. Carlino	31,350
Carlino Financial Corporation	14,900
Total	345,000

SCHEDULE IV

Mountainview Thoroughbred Racing Association
Pennsylvania National Turf Club, Inc.
Penn National Speedway, Inc.
Sterling Aviation, Inc.
Penn National Holding Company

Penn National Gaming of Indiana, Inc.
PNGI Pocono, Inc.
Plains Company
Pocono Downs, Inc.
The Downs Off-Track Wagering, Inc.
Northeast Concessions, Inc.
Audio Video Concepts, Inc.
Mill Creek Land, Inc.
Backside, Inc.
Peach Street Ltd. Partnership
Lehigh Off-Track Wagering, L.P.

Penn National Gaming of West Virginia, Inc.
PNGI Charles Town Gaming Limited Liability Company

SCHEDULE V

Peter M. Carlino
William J. Bork
Robert S. Ippolito
Philip T. O'Hara, Jr.

Harold Cramer
Robert P. Levy
John M. Jacquemin

Peter D. Carlino
David E. Carlino
Richard J. Carlino
Susan F. Harrington
Anne Irwin
Robert Carlino
Stephen Carlino
Rosina Gilbert

EXHIBIT A

[Letterhead of officer, director or shareholder of
Penn National Gaming, Inc.]

Penn National Gaming, Inc.
Public Offering of Common Stock

, 1997

Salomon Brothers Inc
Gerard Klauer Mattison & Co., Inc.
Jefferies & Company, Inc.
As Representatives of the several Underwriters
c/o Salomon Brothers Inc
Seven World Trade Center
New York, New York 10048

Ladies and Gentlemen:

This letter is being delivered to you in connection with the proposed Underwriting Agreement (the "Underwriting Agreement"), among Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), certain Selling Stockholders named therein and each of you as representatives of a group of Underwriters named therein, relating to an underwritten public offering of Common Stock, $.01 par value (the "Common Stock"), of the Company.

In order to induce you and the other Underwriters to enter into the Underwriting Agreement, the undersigned agrees not to (A) offer, pledge, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase or otherwise transfer or dispose of, directly or indirectly, or announce the offering of, any shares of Common Stock or any securities convertible into or exercisable or exchangeable for Common Stock (whether such shares or any such securities are now owned by the undersigned or are hereafter acquired) or (B) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of the Common Stock, whether any such transaction described in clause (A) or (B) above is to be settled by delivery of Common Stock or such other securities, in cash or otherwise, for a period of 120 days following the day on which the Underwriting Agreement is executed without your prior written consent, other than shares of Common Stock disposed of as bona fide gifts. In addition, the undersigned agrees that, without the prior written consent of the Representatives, the undersigned will not, during the period of 120 days following the Execution Time, make any demand for, or exercise any right with respect to, the registration of any shares of Common Stock or any security convertible into or exercisable or exchangeable for Common Stock.

If for any reason the Underwriting Agreement shall be terminated prior to the Closing Date (as defined in the Underwriting Agreement), the agreement set forth above shall likewise be terminated.

Yours very truly,

[Signature of officer, director or shareholder]

[Name and address of officer, director or shareholder]

CONSENT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Penn National Gaming, Inc.
and Subsidiaries
425 Berkshire Boulevard
Wyomissing, Pennsylvania

We hereby consent to the incorporation by reference and inclusion in the Prospectus constituting a part of Amendment No. 2 to the Registration Statement on Form S-3 of our report dated February 2, 1996, relating to the consolidated financial statements of Penn National Gaming, Inc. and Subsidiaries as of December 31, 1994 and 1995, and for each of the years in the three-year period ended December 31, 1995.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ BDO Seidman, LLP

BDO SEIDMAN, LLP

Philadelphia, Pennsylvania
February 6, 1997

CONSENT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Penn National Gaming, Inc.
425 Berkshire Boulevard
Wyomissing, Pennsylvania

We hereby consent to the inclusion in the Prospectus constituting a part of Amendment No. 2 to the Registration Statement on Form S-3 of our report dated December 6, 1996, relating to the consolidated financial statements of The Plains Company as of December 31, 1994 and 1995, and for each of the years in the three-year period ended December 31, 1995.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ Robert Rossi & Co.

ROBERT ROSSI & CO.

Olyphant, Pennsylvania
February 6, 1997

CONSENT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS

Penn National Gaming, Inc.
425 Berkshire Boulevard
Wyomissing, Pennsylvania

We hereby consent to the inclusion in the Prospectus constituting a part of Amendment No. 2 to the Registration Statement on Form S-3 of our report dated April 8, 1996, relating to the combined financial statements of Charles Town Racing Limited Partnership and Charles Town Races, Inc. as of December 31, 1994 and 1995, and for each of the years in the three-year period ended December 31, 1995.

We also consent to the reference to us under the caption "Experts" in the Prospectus.

/s/ Leonard J. Miller & Associates, Chartered

LEONARD J. MILLER & ASSOCIATES, CHARTERED

Baltimore, Maryland
February 6, 1997