SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

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

X: ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 1999

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 0-24206

PENN NATIONAL GAMING, INC.

(Exact name of registrant as specified in its charter)

Wyomissing Professional Center
825 Berkshire Blvd., Suite 200

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

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

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

None

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

Title of Each Class

Common stock par value .01 per share

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

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

Aggregate market value of the voting common stock held by nonaffiliates of the Registrant as of March 14, 2000 was approximately $111,809,813.

Number of Shares of Common Stock outstanding as of March 14, 2000 - 14,907,975

Documents Incorporated by Reference

Registrants Definitive Proxy Statement with respect to annual meeting of Shareholders to be held on May 17, 2000.

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

EXCHANGE COMMISSION. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO THE COMPANY OR PERSONS ACTING ON ITS BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY THE CAUTIONARY STATEMENTS.

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

PART 1

ITEM 1 BUSINESS

GENERAL

The Company, which began operations in 1972, is a diversified gaming and pari-mutuel wagering company that owns an 89% interest in the Charles Town entertainment complex which includes 1,500 gaming machines and a thoroughbred racetrack in Charles Town, West Virginia. The Company also owns and operates two racetracks and ten off-track wagering facilities ("OTWs") in Pennsylvania, and a 50% owned joint venture, Pennwood Racing Group, which owns and operates Freehold Raceway and under a long-term lease operates Garden State Park in New Jersey. The Company's Pennsylvania racetracks include Penn National Race Course, located outside Harrisburg, one of two thoroughbred racetracks in Pennsylvania, and Pocono Downs, located outside Wilkes-Barre, one of two harness racetracks in Pennsylvania. The Company intends to develop one additional OTW that has been allocated to it under Pennsylvania law, after which it will operate 11 of the 23 OTWs currently authorized in Pennsylvania. Between 1994 and 1999, the Company increased total wagers at a compound annual growth rate of 8.4% by expanding its simulcast and OTW operations.

STRATEGY

The Company has been a leading operator in the pari-mutuel wagering industry through its horse racing expertise and its numerous wagering locations. In developing its existing locations, the Company will, when possible, expand them to include gaming machines, entertainment facilities and other amenities to increase customer satisfaction and broaden market penetration of these facilities. The Company plans to increase revenue significantly by focusing on the following strategic objectives:

Focus on Gaming Machine Operations. The Company continues to seek legislation to permit it to operate gaming machines at its racetracks where they are not now permitted and to expand legislation in West Virginia to create additional gaming opportunities. Legislation has been passed in West Virginia which allows for coin out and reel slot machines at race tracks. In December 1999 the Company installed an additional 565 coin out, reel slot machines at the Charles Town Entertainment Complex. The Company intends to convert some or all of its current machines to coin out and, as demand dictates, increase the maximum number of machines with reel slot machines.

Continue Development of Existing Facilities. Based on increasing demand at the Company's Charles Town Entertainment Complex, the Company intends to implement a master planned development of this facility in an effort to further penetrate the primary market for this facility and to broaden its appeal as a destination based entertainment facility serving the Baltimore/Washington DC metropolitan area.

Acquisitions. The Company intends to grow it's gaming and entertainment industry presence through select acquisitions of regional properties in emerging gaming markets. In evaluating acquisition candidates, the Company intends to focus its resources on under-developed properties which, with management's focus, can generate improved operating performance by encouraging customer loyalty among value conscious regional customers and by upgrading the amenities offered at these facilities. In expanding the Company's gaming and destination based entertainment offerings, the Company expects to diversify its revenue base and to broaden its geographical presence. In implementing this strategy, the Company intends to complete the recently announced acquisitions of the Casino Magic Bay St. Louis and the Boomtown Biloxi properties in Mississippi. (See pending Mississippi acquisition below.)

Expand Pari-mutuel Operations. The Company plans (subject to the receipt of remaining regulatory approvals, including site approvals) to open and operate an additional OTW in East Stroudsburg, Pennsylvania. We also intend to seek legislation in other jurisdictions, principally New Jersey through the Company's investment in Pennwood Group to operate additional OTWs. Additionally, during the past five years, the Company has expanded its simulcasting operations and taken advantage of favorable changes in pari-mutuel wagering and simulcasting laws in various states and the expanded use of simulcasting

technology. In order to promote wagering, the Company has increased and expects to continue to increase full-card import simulcasts from premier racetracks. The Company also intends to increase export simulcasting of races from Company-owned tracks to out-of-state racetracks, OTWs, casinos and other gaming facilities.

PENDING MISSISSIPPI ACQUISITION

On December 10, 1999, the Company entered into two definitive agreements to purchase all of the assets of the Casino Magic hotel, casino, golf resort, recreational vehicle (RV) park and marina in Bay St. Louis, Mississippi and the Boomtown Biloxi casino in Biloxi, Mississippi, from Pinnacle Entertainment, Inc., formerly known as Hollywood Park, Inc. (NYSE:PNK) for $195 million. The agreements are contingent upon each other. In addition to acquiring all of the operating assets and related operations of the Casino Magic Bay St. Louis and Boomtown Biloxi properties, the Company will enter into a licensing agreement to use the Boomtown and Casino Magic names and marks at the properties being acquired. The transaction is subject to certain closing conditions including the approval of the Mississippi Gaming Commission, financing and expiration of the applicable Hart-Scott-Rodino waiting period. As part of the agreement, the Company paid a deposit of $5 million to an escrow account, which is refundable if certain conditions are not met. In connection with financing the Mississippi acquisition, the Company will explore a number of financing alternatives, which may include repaying or redeeming its existing debt.

Casino Magic Bay St. Louis started operations in September 1992 on a permanently moored barge in a 17 acre marina with the adjoining land based facilities situated on 591 acres. The facility in Bay St. Louis offers approximately 39,500 square feet of gaming space, with 1,132 slot machines and 42 table games. The land based building is three stories with a restaurant, buffet, snack bar, gift shop, and a live entertainment lounge. In December 1994, Casino Magic Bay St. Louis also opened the Casino Magic Inn; a 201 room hotel, including four deluxe and 20 junior suites. The property also contains an 1,800 seat arena, which hosts approximately 50 events annually, including televised boxing matches, concerts and other special events. With the late 1997 addition of the 18 hole Bridges Golf Resort, Casino Magic Bay St. Louis is positioned as a full vacation resort destination.

Boomtown Biloxi, which occupies nine acres on Biloxi, Mississippi's back bay, is located one-half mile from Interstate 110, the main highway connecting Interstate 10 (the main thoroughfare connecting New Orleans, Louisiana and Mobile, Alabama) and the Gulf of Mexico. Boomtown Biloxi, began operations in July 1994, and consists of a land-based facility that houses non-gaming operations and 33,000 square foot casino constructed on a 400 x 100 foot barge permanently moored to the land-based building. The casino offers 1,030 slot machines, 37 table games and other gaming amenities including restaurants, a western dance hall/cabaret and a 20,000 square foot family entertainment center.

TRACKPOWER

In July 1999, the Company entered into an agreement with Trackpower, Inc. (OTC BB: TPWR) ("Trackpower") to serve as the exclusive pari-mutuel wagering hub operator for Trackpower. Trackpower provides direct-to-home digital satellite transmissions of horse racing to its subscriber base. The initial term of the contract is for five years with an additional five-year option available. The Company pays Trackpower a commission on all new revenues earned from their subscriber base. As an additional incentive to enter into the contract, the Company received warrants to purchase 5,000,000 shares of common stock of Trackpower at prices ranging from $1.58 per share to $2.58 per share. The warrants vest at 20% per year and expire on April 30, 2004. The fair value of the warrants issued will be amortized over the vesting period or one year from the anniversary date of the agreement. As a result of the transition of operations in 1999, the amount to be amortized as a reduction of commissions earned in 1999 by Trackpower was not material.

In March 2000, the Company entered into a letter of intent with Trackpower and eBet Limited ("eBet") which that, if a definitive agreement is executed, will replace and restate the above agreement. Under the terms of the letter of intent, the Company and eBet will contribute various assets, equipment, management agreements relating to our telephone account wagering systems and business operations to Trackpower. Under the proposed agreement, the Company will continue to receive the same level of income as in 1999. The Company and eBet will each receive 18,000,000 shares of Trackpower common stock as well as warrants to purchase additional shares exercisable at $1.00 per share. Upon completion of the proposed transaction the Company and eBet will each own 26.5% of Trackpower prior to considering the exercises of options or warrants. The agreement is subject to due diligence, regulatory and other approvals.

ACQUISITIONS

New Jersey Joint Venture

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

The purchase price for the Acquisition was approximately $46 million (subject to reduction of certain disputed items, for which amounts have been placed in escrow). On July 29, 1999, after receiving the necessary approvals from the New Jersey Racing Commission and the necessary consents from the holders of its 10.625% Senior Notes due 2004, Series B, the Company completed its investment in the Joint Venture, pursuant to which Pennwood Inc. was formed with Greenwood New Jersey, Inc. (a wholly-owned subsidiary of Greenwood Racing, Inc. the owner of Philadelphia Park Race Track). Pursuant to the Joint Venture Agreement, the Company agreed to guarantee severally: (i) up to 50% of the obligation of the Joint Venture under its Put Option Agreement ($17.5 million) with Credit Suisse First Boston Mortgage Capital LLC ("CSFB"); (ii) up to 50% of the Joint Venture obligation for the seven year lease at Garden State Park; (iii) up to 50% of the Joint Venture obligation to International Thoroughbred Breeders, Inc. for the contingent purchase price notes ($10.0 million) relating to the operation, subject to passage by the New Jersey legislature, by the Joint Venture of OTWs and telephone wagering accounts in New Jersey. The Owner of Garden State Park, International Thoroughbred Breeders, Inc., announced on January 25, 2000 that it had entered into an agreement for the sale of the Garden State Park property, excluding a 10-acre parcel owned by our joint venture, to Turnbury/Cherry Hill, LLC. The closing of this agreement of sale is scheduled to occur on or before April 15, 2000. If the sale of Garden State Park is completed, our lease at Garden State Park will be terminated 180 days following the closing of the sale. In conjunction with the closing, the Company entered into a Debt Service Maintenance Agreement with Commerce Bank, N.A. for the funding of a $23.0 million credit facility to the Joint Venture. The Joint Venture Agreement provides for a limited obligation of the Company of $11.5 million subject to limitations provided for in the Company's 10.625% Senior Notes Indenture. The Company's investment in the Joint Venture is accounted for under the equity method, original investments are recorded at cost and adjusted by the Company's share of income or losses of the Joint Venture. The income or loss of the Joint Venture is included in earnings of unconsolidated affiliates in the accompanying Consolidated Statements of Income for the year ended December 31, 1999.

GAMING MACHINE OPERATIONS AT CHARLES TOWN ENTERTAINMENT COMPLEX

On November 5, 1996, Jefferson County, West Virginia approved a referendum authorizing the installation and operation of gaming machines at the Charles Town Entertainment Complex. As a result, the Company consummated the Charles Town Acquisition on January 15, 1997. In April 1997, the Company reopened the Charles Town Entertainment Complex, featuring live racing, dining and simulcast wagering. In September 1997, the Company expanded wagering opportunities by installing gaming machines at the Charles Town Entertainment Complex. Since that time, we have increased the number of slot machines from 400 machines to 1,500 machines as of March 14, 2000. We intend to increase the number of slot machines if demand warrants and if approved by the West Virginia Lottery Commission. Presently, there is no statutory cap on the number of slot machines that may be installed at a location. Of the 1,500 machines, 565 machines are coin out, reel slot machines that we installed following the passage of legislation in West Virginia in April 1999 permitting this type of gaming machine. The remaining 935 slot machines are dollar bill-fed video slot machines that replicate traditional spinning reel slot machines and also feature video card games, such as blackjack and poker. We intend to convert some or all of the 935 video slot machines to coin out to increase the number of machines with reel slot machines.

RACING AND PARI-MUTUEL OPERATIONS

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

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

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

Pari-Mutuel Revenues

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

Simulcasting

The Company has been transmitting simulcasts of its races to other wagering locations and receiving simulcasts of races from other locations for wagering by its customers at Company facilities year-round for more than five years. When customers place wagers on import simulcast races, the Company receives revenue

and incurs expense in substantially the same manner as it would if the race had been run at one of the Company's own tracks: of the amount not returned to bettors as winning wagers, a portion is paid to the state in which the Company wagering facility is located, a portion is paid to the purse fund for the horse owners or trainers (thoroughbred or harness) of the Company's racetrack with which the wagering facility is associated, a portion is paid to the racetrack from which the race is simulcast and the balance is retained by the Company. The Company believes that full-card import simulcasting, in which all of the races at a non-Company track are import simulcast to a Company wagering facility, has improved the wagering opportunities for its customers and thereby increased the amount wagered at Company facilities. When the Company export simulcasts Company races for wagering at non-Company locations, it receives a fixed percentage of the amounts wagered on that race from the location to which the simulcast is exported, while incurring minimal additional expense. During the years ended December 31, 1998 and 1999, respectively, the Company received import simulcasts from approximately 77 and 89 racetracks, respectively, including premier racetracks such as Belmont Park, Church Hill Downs, Gulfstream Park, Hollywood Park, Santa Anita and Saratoga and transmitted export simulcasts of Company races to 126 and 108 locations, respectively.

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

Telephone Wagering

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

OTWs

The Company operates ten of the 20 OTWs now open in Pennsylvania and has the right to operate one of the three remaining OTWs that have been authorized in Pennsylvania. The Company's OTWs are located in Allentown, Carbondale, Chambersburg, Erie, Hazleton, Johnstown, Lancaster, Reading, Williamsport and York, Pennsylvania. At OTWs, customers can place wagers on thoroughbred and harness races simulcast from the Company's racetracks and on import simulcast races from other tracks around the country. Under the Pennsylvania Racing Act, only licensed thoroughbred and harness racing associations, such as the Company, can operate OTWs or accept customer wagers on simulcast races at Pennsylvania racetracks.

Operating Data of the Company

The following table summarizes certain key operating statistics for the Company's pari-mutuel operations and their respective OTWs, including the pro forma presentation of data assuming the acquisition of Pocono Downs occurred on January 1, 1995:

	YEAR ENDED DECEMBER 31				
	1995	1996	1997	1998	1999
	(DOLLARS IN THOUSANDS, EXCEPT AVERAGE DAILY PURSES)				
NUMBER OF LIVE RACING DAYS:					
Penn National Race Course	204	206	212	206	153
Pocono Downs	135	134	134	135	130
Charles Town Races	-	-	159	206	213
TOTAL ATTENDANCE: (4)					
Penn National Race Course (1)	430,128	370,898	339,487	304,220	209,364
Pocono Downs (1)	242,870	377,830	370,090	263,591	200,368
Reading OTW	246,012	214,314	178,237	159,818	123,126
Chambersburg OTW	143,554	132,447	125,448	105,384	86,894
York OTW	232,109	238,610	225,672	213,929	170,677
Lancaster OTW	-	92,641	158,003	142,027	115,519
Williamsport OTW	-	-	81,797	66,378	54,257
Johnstown OTW	-	-	-	25,411	68,794
Erie OTW	116,367	113,169	94,429	99,726	96,543
Allentown OTW	272,491	271,706	252,909	258,237	228,933
Carbondale OTW	-	-	-	62,757	77,580
Hazleton OTW	-	-	-	60,706	66,328
Total paid attendance (1)	1,683,531	1,811,615	1,826,072	1,762,184	1,498,383
TOTAL WAGERING: (1) (2)					
Penn National Race Course	$ 85,661	$ 75,708	$ 69,687	$ 70,155	$ 60,018
Pocono Downs	57,784	53,190	47,217	38,867	33,134
Charles Town Races	-	-	40,195	69,659	79,847
Reading OTW	42,810	41,320	30,811	29,178	25,312
Chambersburg OTW	24,365	25,024	24,899	22,336	21,083
York OTW	42,140	49,864	45,245	43,873	38,470
Lancaster OTW	-	13,079	29,292	29,131	24,964
Williamsport OTW	-	-	9,684	10,461	8,865
Johnstown OTW	-	-	-	3,977	10,931
Erie OTW	29,379	27,200	21,767	20,737	19,795
Allentown OTW	56,440	56,216	58,681	56,719	53,397
Carbondale OTW	-	-	-	10,284	16,430
Hazleton OTW	-	-	-	9,926	13,474
Penn National Telebet	8,281	8,423	9,473	10,333	11,839
Pocono Downs Dial-A-Bet	75	5,510	8,179	9,088	12,145
Export simulcasting:					
Penn National Race Course	113,639	148,702	181,281	194,939	130,719
Pocono Downs	30,121	32,493	26,426	23,986	17,764
Charles Town Races	-	-	-	-	22,876
Total wagering	$ 490,695	$ 536,729	$ 602,836	$ 653,649	$ 601,063

	YEAR ENDED DECEMBER 31				
	1995	1996	1997	1998	1999
	(DOLLARS IN THOUSANDS, EXCEPT AVERAGE DAILY PURSES)				
AVERAGE DAILY PURSES:					
Penn National Race Course	$ 57,897	$ 62,328	$ 60,623	$ 63,374	$ 74,523
Pocono Downs	42,314	42,313	40,149	41,363	42,677
Charles Town Races	-	-	25,805	50,985	67,329
Total average daily purse	$ 100,211	$ 104,641	$ 126,577	$ 155,722	$ 184,529
GROSS MARGIN FROM WAGERING: (3)					
Penn National Race Course	$ 24,915	$ 27,955	$ 28,669	$ 29,068	$ 24,761
Pocono Downs	17,838	17,805	16,920	18,820	19,151
Charles Town Races	-	-	3,099	5,878	6,995
Total gross margin from wagering	$ 42,753	$ 45,760	$ 48,688	$ 53,766	$ 50,907

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

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

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

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

Live Racing

The following table summarizes the Company and its affiliates live racing facilities:

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

AFFILIATE FACILITY	LOCATION	DATE OPENED/STATUS	OPERATIONS CONDUCTED
Freehold Raceway	Freehold, NJ	Freehold Raceway was constructed in 1986; acquired by Pennwood Racing, our 50% owned Joint Venture	Live harness racing; simulcast wagering; dining
Garden State Park	Cherry Hill, NJ	Constructed in 1985; Leased by Pennwood Racing, our 50% owned Joint Venture	Live thoroughbred and harness racing; simulcast wagering; dining

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

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

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

The Company has conducted live racing at Penn National Race Course since 1972, and has held at least 204 days of live racing at the facility in each of the last five years except 1999, in which only 153 days of live racing were held as a result of a Horsemen action. The Horsemen action was settled on March 23, 1999. Penn National Race Course is one of only two thoroughbred racetracks in Pennsylvania. Post time at Penn National Race Course is 7:30 p.m. on Wednesdays, Fridays and Saturdays and 5:00 p.m. on Sundays and holidays.

On November 27, 1996, the Company acquired Pocono Downs for an aggregate purchase price of $48.2 million plus approximately $730,000 in acquisition-related fees and expenses. In addition, pursuant to the terms of the purchase agreement, the Company will be required to pay the sellers of Pocono Downs an additional $10.0 million if, within five years after the consummation of the acquisition of Pocono Downs, Pennsylvania authorizes any additional form of gaming in which the Company may participate. The $10.0 million payment is payable in annual installments of $2.0 million a year for five years, beginning on the date that the Company first offers such additional form of gaming. As of March 7, 2000, no such additional form of gaming in Pennsylvania has been adopted, therefore no such payment is due at this time.

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

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

The acquisition of Pocono Downs was consummated following the last day of racing at Pocono Downs for the 1996 season. The Company resumed live racing at Pocono Downs in April 1997. The Company conducted 135 and 130 days of live harness racing at the facility during 1998 and 1999 racing seasons, respectively. Post time at Pocono Downs is 7:15 p.m.

On January 15, 1997, the Charles Town Joint Venture acquired substantially all of the assets of Charles Town Races for an aggregate net purchase price of approximately $16.0 million plus approximately $2.2 million in acquisition-related fees and expenses. Prior to its acquisition by the Charles Town Joint Venture, Charles Town Races conducted live thoroughbred horse racing,

on-site pari-mutuel wagering on live races run at Charles Town Races and wagering on import simulcast races. The Company has refurbished and reopened the facility as the Charles Town Entertainment Complex, which features live racing, dining, simulcast wagering and, effective September 1997, gaming machines. The cost of the refurbishment, exclusive of the cost of the gaming machines, was approximately $27.8 million.

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

The Charles Town Races reopened in April 1997. The Company conducted 206 and 213 days of thoroughbred racing at the facility during 1998 and 1999 racing seasons, respectively. Post time at the Charles Town Races is 7:15 p.m. on Thursdays, Fridays and Saturdays and 1:00 p.m. on Sundays. Although other regional racetracks offer nighttime thoroughbred racing, Penn National Race Course and Charles Town Races are the only racetracks in the Eastern time zone conducting year-round nighttime thoroughbred horse racing, which the Company believes increases its opportunities to export simulcast its races during periods in which other racetracks are not conducting live racing.

The Freehold Raceway was constructed in 1986 and the grandstand is an approximately 150,000 square foot, five level, steel frame, enclosed, fully heated and air conditioned facility. The grandstand can accommodate up to 10,000 spectators, including seating for approximately 2,500 spectators, and has a sit-down restaurant as well as seven food concession stands. Additional facilities include receiving barns with an adjacent paddock area, parking lots to accommodate 2,500 vehicles and a two story administration building.

The Garden State Park was constructed in 1985 and the reconstructed grandstand and clubhouse is an approximately 500,000 square foot, seven level, steel frame, glass enclosed, fully heated and air-conditioned facility with an adjacent multi-level glass thoroughbred paddock area. The clubhouse can accommodate up to 24,000 spectators, including seating for approximately 9,500 spectators, and contains three sit-down restaurants as well as 17 food concession stands. The Company is not currently using a portion of the clubhouse due to a decrease in business levels at Garden State Park over the last few years as a result of year-round simulcasting and less live racing at Garden State Park. The backstretch area includes 27 barns and stables capable of accommodating approximately 1,500 horses, a harness paddock, a training track, dormitories, cafeteria and recreation buildings for backstretch personnel, an administration building and other service buildings. Reconstruction also included restoration of the main dirt and turf tracks, installation of lighting for nighttime racing, paving of parking facilities to accommodate approximately 4,000 automobiles, landscaping, fencing and other amenities. The approximately 56,000 square foot, 1-1/2 story pavilion is used by the Company for closed circuit television events (racing as well as other sporting events and non-sporting events), wagering, concerts, special events, concessions and other conveniences. The pavilion has seating capacity for approximately 1,500 spectators.

OTWs

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

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

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

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

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

MARKETING AND ADVERTISING

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

Charles Town Gaming Machine Marketing and Player Tracking Programs

Our marketing efforts, at the Charles Town Entertainment Complex include print and radio advertising and are focused on the Washington, D.C., Baltimore, Maryland, Northern Virginia, Eastern West Virginia and Southern Pennsylvania markets. In 1999, we installed a computerized player tracking system, called Player's Choice, at the Charles Town Entertainment Complex, which has helped to further refine our marketing efforts. This system is the first player tracking system installed in West Virginia. Our database consists of approximately 70,000 players as of March 3 2000. Our marketing efforts also include a bus program and numerous cash and merchandise give-aways.

Pari-mutuel Player Tracking Program

In 1999, we installed a computerized player tracking for all of the Company's pari-mutuel locations. This system, called Player's Choice, allows customer to accumulate points, at any of our facilities which are redeemable for admission, programs, food and beverage etc. Our database consists of approximately 15,000 players as of March 3, 2000.

Televised Racing Program

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

Automated Wagering Systems

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

Modern Facilities

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

PURSES; AGREEMENTS WITH HORSEMEN

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

The Penn National Race Course Thoroughbred Horsemen Agreement was entered into in February 1996, and expired on February 15, 1999. After failing to reach an agreement, the Pennsylvania Thoroughbred Horsemen stopped racing at Penn National Race Course on February 16, 1999 and withdrew their permission for the Company to import simulcast races from other racetracks. This resulted in the closure of Penn National Race Course and its six OTW facilities at Reading, Chambersburg, York, Lancaster, Williamsport and Johnstown. The Company continued its efforts to negotiate a new agreement with the Pennsylvania Thoroughbred Horsemen and on March 23, 1999 the Company signed a new Horsemen agreement with the Pennsylvania Thoroughbred Horsemen with an initial term that expires on January 1, 2004. As a result of the action the Company incurred a non-recurring $1,250,000 expense, primarily related to costs incurred to maintain the closed facilities inclusive of employee salaries and rents, for Horsemen's Action Expense. Live racing at the Penn National Race Course resumed on April 23, 1999. We believe that this new agreement will not have a material impact on our operating expenses at the Penn National Race Course and its OTWs. The Pennsylvania Harness Horsemen Agreement was entered into in November 1994, became effective in January 1995 and expired in January 2000. On December 17, 1999 the Company signed a new Horsemen Agreement with the Pennsylvania Harness Horsemen which became effective January 16, 2000 and expires on January 16, 2003. The Company has an agreement with the Charles Town Horsemen which expires on December 31, 2000. On February 24, 2000 the Charles Town Horsemen agreed to extend the contract to December 31, 2002. See Management's Discussion and Analysis of Financial Condition and Results of Operations - "Liquidity and Capital Resources."

COMPETITION

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

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

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

The Company's gaming machine operations face competition from other gaming machine venues in West Virginia and in neighboring states (including Dover Downs in Dover, Delaware, Delaware Park in northern Delaware, Harrington Raceway in southern Delaware and the casinos in Atlantic City, New Jersey). Venues in Delaware and New Jersey, in addition to video gaming machines, currently offer mechanical slot machines that feature physical spinning reels, pull-handles and the ability to both accept and pay out coins. Legislation has been passed in West Virginia, which allows for coin out and reel slot machines at race tracks. In December 1999, the Company installed 565 coin out, reel slot machines. The Company intends to convert some or all of its current machines to coin out and increase the maximum number of machines with reel slot machines. The failure to attract or retain gaming machine customers at the Charles Town Entertainment Complex, whether arising from such competition or from other factors, could have a material adverse effect upon the Company's business, financial condition and results of operations.

EFFECT OF INCLEMENT WEATHER AND SEASONALITY

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

For the year ended December 31, 1999, the Company canceled a total of 15 racing days because of inclement weather. The severe winter weather in 1996

resulted in the closure of the Company's OTW facilities for two days in January 1996. Because of the Company's growing dependence upon OTW operations, severe weather that causes the Company's OTWs to close could have an adverse effect upon the Company's business, financial condition and results of operations.

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

REGULATION AND TAXATION

General

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

Pennsylvania Racing Regulations

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

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

The Company may not be able to obtain all necessary approvals for the continued operation or expansion of its business. Even if all such approvals are obtained, the regulatory process could delay implementation of the Company's plans to open additional OTWs. The Company has had continued permission from the Pennsylvania State Horse Racing Commission to conduct live racing at the Penn National Race Course since it commenced operations in 1972, and has obtained permission from the Pennsylvania State Harness Racing Commission to conduct live racing at Pocono Downs. Currently, the Company has approval from the Pennsylvania Racing Commissions to operate the ten OTWs that are currently open and the one additional OTW the Company proposes to open. A Commission may refuse to grant permission to open additional OTWs or to continue to operate existing facilities. The failure to obtain required regulatory approvals would have a material adverse effect upon the Company's business, financial condition and results of operations.

West Virginia Racing and Gaming Regulation

The Company's operations at the Charles Town Entertainment Complex are subject to regulation by the West Virginia Racing Commission under the West Virginia Racing Act, and by the West Virginia Lottery Commission under the West Virginia Video Lottery Act. The powers and responsibilities of the West Virginia Racing Commission under the West Virginia Racing Act are substantially similar in scope and effect to those of the Pennsylvania Racing Commissions and extend to the approval and/or oversight of all aspects of racing and pari-mutuel wagering operations. The Charles Town Joint Venture has obtained from the West Virginia Racing Commission a license to conduct racing and pari-mutuel wagering at the Charles Town Entertainment Complex. Pursuant to the West Virginia Video Lottery Act, the Company has obtained approval for the installation and operation of a total of 1,500 gaming machines at the Charles Town Entertainment Complex. The Company purchased and installed 565 reel spinning, coin-out machines, which were open to the public on December 16, 1999 bringing the Company's total gaming machines at the Charles Town Entertainment Complex to 1,500. Installing and operating additional machines would require approval pursuant to the West Virginia Lottery act.

State and Federal Simulcast Regulation

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

Taxation and Fees

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

Compliance with Other Laws

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

Restrictions on Share Ownership and Transfer

The Pennsylvania Racing Act requires that any shareholder proposing to transfer beneficial ownership of 5% or more of the Company's shares file an affidavit with the Company setting forth certain information about the proposed transfer and transferee, a copy of which the Company is required to furnish to the Pennsylvania Racing Commissions. The certificates representing the Company

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

Internal Revenue Service Regulations

The Internal Revenue Service, or IRS, requires operators of casinos located in the United States to file information returns for U.S. citizens, including names and addresses of winners, for keno and slot machine winnings in excess of certain amounts. The IRS also requires operators to withhold taxes on certain keno, bingo and slot machine winnings of nonresident aliens. We are unable to predict the extent, if any, to which such requirements, if extended, might impede or otherwise adversely affect operations of, and/or income from, such other games.

Regulations adopted by the Financial Crimes Enforcement Network of the United States Treasury Department and the gaming regulatory authorities in certain domestic jurisdictions in which we operate casinos, or in which we have applied for licensing to operate a casino, require the reporting of currency transactions in excess of $10,000 occurring within a gaming day, including identification of the patron by name and social security number. This reporting obligation commenced in May 1985 and may have resulted in the loss of casino revenues to jurisdictions outside the United States which are exempt from such regulations.

ITEM 2 PROPERTIES

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

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

Other Property and Equipment

The Company currently leases 5,974 square feet of office space in an office building in Wyomissing, Pennsylvania for the Company's executive offices. The lease expires in April 2000 and provides for an annual minimum rental of $97,968. The office building is owned by an affiliate of Peter M. Carlino, the Chairman and Chief Executive Officer of the Company. The Company believes that the lease terms are not less favorable than lease terms that could have been obtained from an unaffiliated third party.

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

EMPLOYEES AND LABOR RELATIONS

At March 1, 2000, the Company had 1,870 permanent employees, of whom 1,252 were full-time and 618 part-time. Employees of the Company who work in the admissions department and pari-mutuels department at the Penn National Race Course, Pocono Downs and the OTWs are represented under collective bargaining agreements between the Company and Sports Arena Employees' Union Local 137. The agreements extend until September 30, 2002 for track employees and September 30, 2001 for OTW employees. The pari-mutuel clerks at Pocono Downs voted to unionize in June 1997. The Company has held negotiations with this union, but does not have a contract to date. Failure to reach agreement with this union would not result in the suspension or termination of the Company's license to operate live racing at Pocono Downs or to conduct simulcast or OTW operations. The pari-mutuel clerks and racing valets at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks, which expires on December 31, 2000. The West Virginia Video Lottery Act also requires that the operator of the Charles Town Entertainment Complex be subject to a written agreement with the pari-mutuel clerks in order to operate gaming machines, this agreement expires on December 31, 2000. The Company believes that its relations with its employees are satisfactory.

ITEM 3 LEGAL PROCEEDINGS

In December 1997, Amtote international, Inc. ("Amtote"), filed an action against the Company and the Charles Town Joint Venture in the United States District Court for the Northern District of West Virginia. In its complaint, Amtote (i) states that the Company and the Charles Town Joint Venture allegedly breached certain contracts with Amtote and its affiliates when it entered into a wagering services contract with a third party (the "Third Party Wagering Services Contract"), and not with Amtote, effective January 1, 1998, (ii) sought preliminary and injunctive relief through a temporary restraining order seeking to prevent Charles Town Joint Venture from (a) entering into a wagering services contract with a party other than Amtote and (b) having a third party provide such wagering services, (iii) sought declaratory relief through September 2004 and (iv) sought unspecified compensatory damages, legal fees and costs associated with the action and other legal and equitable relief as the Court deemed just and appropriate. On December 24, 1997, a temporary restraining order was issued, which prescribed performance under the Third Party Wagering Contract. On January 14, 1998, a hearing was held to rule on whether a preliminary injunction should have been issued or whether the temporary restraining order should have been lifted. On February 20, 1998, the temporary restraining order was lifted by the court. The Company then pursued legal remedies in order to terminate Amtote and proceed under the Third Party Wagering Services Contract. This matter was tried before the State Court of West Virginia on June 17, 1999. On September 30, 1999 the United States District Court for the Northern District of West Virginia rendered a decision in favor of Amtote. The Court awarded liquidated damages to Amtote in connection with the Company's cancellation of the Amtote contract, which cancellation enabled the Company to enter into a computerized pari-mutuel wagering service contract with another company to provide such services to three of its racetracks and its ten off-track wagering facilities. On February 11, 2000, the Company and Amtote entered into a settlement agreement in which the Company paid Amtote in full satisfaction of the judgment the sum of $1.5 million.

The Company submitted an application to the Tennessee State Racing Commission (the "Tennessee Commission") in October 1997 for an initial license for the development and operation of a harness track and an OTW at a site in the city of Memphis (the "Tennessee Development Project"). A land use plan for the construction of a 5/8-mile harness track, clubhouse and grandstand area was approved in October 1997 by the Land Use Hearing Board for the City of Memphis and County of Shelby. Tennessee Downs, Inc. ("Tennessee Downs"), a subsidiary of the Company, was determined to be financially suitable by the Tennessee Commission and a public comment hearing before the Tennessee Commission was held in November 1997. In December 1997, the Company received the necessary zoning and land development approvals from the Memphis City Council. In April 1998, the Tennessee Commission granted a license to Tennessee Downs, which would expire on the earlier of: (i) December 31, 2000 or (ii) the expiration of Tennessee Commission's term on June 30, 1998, if such term was not extended by the Tennessee State Legislature. The Tennessee State Legislature voted against extending the life of the Tennessee Commission, allowing the Tennessee Commission's term to expire on June 30, 1998. The Tennessee Commission held a meeting on May 29, 1998 at which it rejected the Company's request: (i) to grant Tennessee Downs an extended timeframe for the effectiveness of its racing license; and (ii) to operate a temporary simulcast facility. On July 28, 1998,

Tennessee Downs filed for a preliminary injunction and a declaratory ruling on the legal status of racing in Memphis. On November 23, 1998, the court ruled that the Tennessee Racing Control Act had not been repealed and cannot be repealed by implication by dissolving the Tennessee Commission. It was the opinion of the court that because the Tennessee Racing Control Act is still in force, horse-racing and pari-mutuel betting is a legal unregulated activity in Tennessee. This decision was appealed by the Tennessee Attorney General and a hearing was held before the Court of Appeals on June 21, 1999. On July 30, 1999, the Court of Appeals in Tennessee dissolved the injunction. The appellate court reversed the lower court ruling on the basis of jurisdiction. On September 28, 1999, Tennessee Downs filed its application for Permission to Appeal and brief to the Supreme Court of Tennessee. Tennessee Downs took a direct appeal to the Supreme Court of the State of Tennessee so that it may continue its efforts to develop and operate a harness track in Tennessee. In the appeal, Tennessee Downs asked the Supreme Court to take the jurisdictional question from the appellate court and to review the substantive issue of whether pari-mutuel wagering on horse racing is lawful in Tennessee under the existing statute without the Tennessee Commission. Costs incurred as of December 31, 1999 regarding the Tennessee license amounted to $534,135. On February 11, 2000, the Tennessee Supreme Court denied Tennessee Down's application for permission to appeal the decision of the Court of Appeals. As a result of this decision, Tennessee Downs has taken a charge against earnings in 1999 of $535,000 for costs incurred for its Tennessee racing license and does not anticipate future involvement in Tennessee.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None

PART II

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

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

	HIGH	LOW
1997		
First Quarter	$ 18.250	$ 14.000
Second Quarter	19.625	13.750
Third Quarter	20.125	14.625
Fourth Quarter	19.250	8.750
1998		
First Quarter	$ 13.125	$ 8.875
Second Quarter	12.000	6.813
Third Quarter	9.125	5.125
Fourth Quarter	10.313	5.500
1999		
First Quarter	$ 10.000	$ 5.813
Second Quarter	9.938	7.250
Third Quarter	10.375	8.250
Fourth Quarter	9.563	7.500

The closing sale price per share of Common Stock on The Nasdaq National Market on March 14, 2000, was $7.50. As of March 14, 2000, there were 692 holders of record of Common Stock.

DIVIDEND POLICY

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

ITEM 6 SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data of the Company for the years ended December 31, 1995, 1996, 1997, 1998 and 1999, except for Operating Data, are derived from financial statements that have been audited by BDO Seidman, LLP independent certified public accountants, adjusted as described in the notes below. The selected consolidated financial data should be read in conjunction with the consolidated financial statements of the Company and Notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included herein.

	YEAR ENDED DECEMBER 31				
	1995	1996	1997 (1)	1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
INCOME STATEMENT DATA					
Revenue					
Pari-mutuel revenues					
Live races	$ 21,376	$ 18,727	$ 27,653	$ 26,893	$ 20,760
Import simulcasting	27,254	27,653	59,810	68,136	71,369
Export simulcasting	2,142	3,347	5,279	5,810	4,733
Gaming revenue	-	-	5,712	37,396	55,125
Admissions, programs and other racing revenue	3,704	4,379	5,678	6,280	6,256
Concessions revenues	3,200	3,389	7,404	9,550	12,117
Earnings from unconsolidated affiliates	-	-	-	-	1,098
Total revenues	57,676	62,834	111,536	154,065	171,458
OPERATING EXPENSES					
Purses, stakes, and trophies	12,091	12,874	22,335	29,141	31,290
Direct salaries, payroll taxes and employee benefits	7,699	8,669	16,200	19,134	19,519
Simulcast expenses	9,084	9,215	12,982	13,809	13,422
Pari-mutuel taxes	4,963	5,356	9,506	9,281	8,895
Lottery taxes and administration	-	-	1,874	14,749	21,545
Other direct meeting expenses	7,576	8,536	18,087	24,029	22,916
Concessions expenses	2,125	2,349	5,605	7,929	11,030
Other operating expenses	5,002	4,942	8,735	10,787	13,060
Horsemen's action expenses	-	-	-	-	1,250
Depreciation and amortization	881	1,433	4,040	5,748	8,679
Litigation expense	-	-	-	-	1,500
Site development and restructuring changes	-	-	2,437	-	535
Total operating expenses	49,421	53,374	101,801	134,607	153,641
Income from operations	8,255	9,460	9,735	19,458	17,817
Other income (expenses)					
Interest income (expense), net	198	(156)	(3,656)	(7,549)	(7,299)
Other	10	-	(2)	113	(8)
Total other income (expenses)	208	(156)	(3,658)	(7,436)	(7,307)
Income before income taxes and extraordinary item	8,463	9,304	6,077	12,022	10,510
Taxes on income	3,467	3,794	2,308	4,519	3,777
Income before extraordinary item	4,996	5,510	3,769	7,503	6,733
Extraordinary item - loss on early extinguishment of debt, net of income taxes of $1,001.	-	-	-	1,482	-

	YEAR ENDED DECEMBER 31				
	1995	1996	1997 (1)	1998	1999
	(IN THOUSANDS, EXCEPT PER SHARE DATA)				
Net income	$ 4,996	$ 5,510	$ 2,287	$ 7,503	$ 6,733
PER SHARE DATA:					
Basic income per share before extraordinary item	$ 0.39	$ 0.41	$ 0.25	$ 0.50	$ .45
Basic net income per share	$ 0.39	$ 0.41	$ 0.15	$ 0.50	$ .45
Diluted income per share before extraordinary item	$ 0.38	$ 0.40	$ 0.24	$ 0.49	$ .44
Diluted net income per share	$ 0.38	$ 0.40	$ 0.15	$ 0.49	$ .44
WEIGHTED SHARES OUTSTANDING:					
Basic	12,906	13,302	14,925	15,015	14,889
Diluted	13,017	13,822	15,458	15,374	15,223
OPERATING DATA: (Unaudited)					
Pari-mutuel wagering					
Live races	$ 102,145	$ 89,327	$ 128,090	$ 122,686	$ 96,238
Import simulcasting	142,499	170,814	298,459	336,191	345,650
Export simulcasting	72,252	112,871	176,287	194,772	159,175
Total pari-mutuel wagering	$ 316,896	$ 373,012	$ 602,836	$ 653,649	$ 601,063
Gross profit from wagering (2)	$ 24,915	$ 27,955	$ 48,688	$ 53,766	$ 50,907
BALANCE SHEET DATA as of DECEMBER 31:					
Cash and cash equivalents	$ 7,514	$ 5,634	$ 21,854	$ 6,826	$ 9,434
Working capital (deficiency)	4,134	(509)	15,226	1,911	(7,369)
Total assets	27,532	96,723	158,878	160,798	190,600
Total debt	390	47,517	80,336	78,256	91,213
Shareholders' equity	20,802	27,881	53,856	59,036	66,272

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Management believes that the following calculation of Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA") and adjusted EBITDA are relevant to shareholders:

Income from operations	$ 8,255	$ 9,460	$ 9,735	$ 19,458	$ 17,817
add back depreciation and amortization	881	1,433	4,040	5,748	8,679
EBITDA	9,136	10,893	13,775	25,206	26,496
add back Horsemens action expense	--	--	--	--	1,250
Litigation expense	--	--	--	--	1,500
Site development and restructuring charges	--	--	2,437	--	535
Adjusted EBITDA	$ 9,136	$ 10,893	$ 16,212	$ 25,206	$ 29,781

EBITDA is not a measure of financial performance under Generally Accepted Accounting Principles ("GAAP"), but is used by some investors to determine a company's ability to service or incur indebtedness. EBITDA and Adjusted EBITDA are not calculated by all entities in the same fashion and accordingly, may not be an appropriate measure of performance. Neither EBITDA nor Adjusted EBITDA should be considered in isolation from, or as a substitute for, net income (loss), cash flows from operations, or cash flow data prepared in accordance with GAAP.

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

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

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

RESULTS OF OPERATIONS

The percentage of the Company's revenue derived from gaming operations has increased over the last few years as a result of the gaming operations at the Charles Town Entertainment Complex. The Company expects that the Mississippi Acquisition and the continued expansion of the Charles Town Entertainment Complex will cause this trend to continue. In the future the Company expects to alter the presentation of certain of its financial information to better capture this trend. An example of a type of presentation that the Company is likely to use is presented below.

The results of operations by property level are summarized as follows:

	Charles Town Racing and Gaming			Penn National and OTWs			Pocono Downs and OTWs		
	1997	1998	1999	1997	1998	1999	1997	1998	1999
Revenues									
Gaming	$ 5,739	$37,716	$55,564	$ -	$ -	$ -	$ -	$ -	$ -
Racing	9,211	15,382	18,954	60,261	60,281	51,302	31,203	33,121	33,767
Other	1,533	3,785	5,254	3,302	3,339	4,308	2,255	2,455	2,555
Total revenues	16,483	56,883	79,772	63,563	63,620	55,610	33,458	35,576	36,322
Expenses									
Gaming	5,446	28,958	38,672	-	-	-	-	-	-
Racing	9,566	15,585	18,766	45,815	45,276	41,441	22,203	22,748	23,169
Other*	2,111	5,237	6,554	5,329	5,305	6,334	3,784	4,109	4,199
Total expenses	17,123	49,780	63,992	51,144	50,581	47,775	25,987	26,857	27,368
EBITDA									
Gaming	293	8,758	16,892	-	-	-	-	-	-
Racing	(355)	(203)	188	14,446	15,005	9,861	9,000	10,373	10,598
Other	(578)	(1,452)	(1,300)	(2,027)	(1,966)	(2,026)	(1,529)	(1,654)	(1,644)
Total EBITDA	$ (640)	$ 7,103	$15,780	$ 12,419	$13,039	$ 7,835	$ 7,471	$ 8,719	$ 8,954

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*Other expenses includes property level general and administrative expenses and excludes corporate overhead and non-recurring expenses.

YEAR ENDED DECEMBER 31, 1999 COMPARED TO YEAR ENDED DECEMBER 31, 1998

Revenues in 1999 increased by approximately $17.4 million or 11.3% to $171.5 million from $154.1 million in 1998. Operating expenses in 1999 increased by approximately $19.0 million or 14.1% to $153.6 million from $134.6 million in 1998. Included in operating expenses were non-recurring expenses in 1999 for the Horsemen's strike ($1.3 million) at Penn National Race Course, Tennessee development and licensing expenses ($.5 million) and litigation expenses ($1.5 million) to settle a lawsuit with a totalisator company. Income from operations decreased by $1.6 million or 8.4% to $17.8 million in 1999 from $19.4 million in 1998 due to the Horsemen's strike and non-recurring expenses. Other expenses for the year ended December 31, 1999 and 1998 consisted of approximately $7.3 million and $7.4 million, respectively, of net interest primarily due to the 10.625% Senior Notes and the Revolving Credit Facility. Taxes on income decreased by $.7 million to $3.8 million in 1999 from $4.5 million in 1998 and net income decreased by $.8 million or 10.3% to $6.7 million in 1999 from $7.5 million in 1998 due substantially to the factors described.

Charles Town Entertainment Complex

Revenues increased at Charles Town by approximately $22.9 million or 40.2% to $79.8 million in 1999 from $56.9 million in 1998. Gaming revenue increased by $17.8 million or 47.3% to $55.6 million in 1999 from $37.7 million in 1998 due to the addition of 136 new video lottery machines and 565 new reel spinning, coin-out slot machines during the year. At year-end there were 1,500 gaming machines in operation compared to 799 machines in 1998. The average number of machines increased to 923 in 1999 from 704 in 1998 and the average win per machine increased to $163 in 1999 from $145 in 1998. Racing revenue increased by $3.5 million or 23.0% to $18.9 million in 1999 from $15.4 million in 1998. The live meet consisted of 213 race days in 1999 compared to 206 race days in 1998 and a change in the schedule from a Wednesday afternoon race program to a Thursday evening race program to accommodate export simulcasting. Charles Town began exporting its live race program to tracks across the country on June 5, 1999 and generated export simulcasting revenues of $.9 million for the year. Concession revenues increased by approximately $1.5 million or 40.0% to $5.3 million in 1999 from $3.8 million in 1998 due to increased attendance for gaming, racing, and the expansion of the concession areas, dining room and buffet area. Operating expenses increased by $14.2 million or 28.6% to $64.0 million in 1999 from $49.8 million in 1998 due to the increase in direct costs associated with additional wagering on horse racing and gaming machine play, the addition of gaming machines and floor space (new temporary gaming facility), export simulcast expenses and expanded concession and dining capability and capacity. In addition to the operating expenses, Charles Town had a non-recurring expense of $1.5 million in litigation settlement expenses for the settlement of a lawsuit involving a former totalisator company vendor.

Penn National Race Course and its OTW Facilities (Penn National Race Course)

Penn National Race Course had a decrease in revenue of approximately $8.0 million or 12.6% to $55.6 million in 1999 from $63.6 million in 1998. The decrease was due primarily to the expiration of the Horsemen's Agreement that resulted in the closure of the facilities from February 16 to March 24, 1999. Penn National re-opened for simulcast wagering on March 25, live racing on a limited basis on April 23 and resumed a full live racing schedule the week of June 26, 1999. For the year 1999, Penn National ran 153 live race days compared to 206 live race days in 1998 and has run nine-race cards instead of ten-race cards since the April reopening. Of the scheduled 210 live races for 1999, 46 race days were lost due to the strike and 11 days were cancelled due to weather compared to 4 days cancelled due to weather in 1998. Expenses decreased by approximately $2.8 million or 5.6% to $47.8 million in 1999 from $50.6 million in 1998. Included in the 1999 expenses is $1.3 million for the Horsemen's strike. The results of operations also includes the operation of the Johnstown OTW facility for 12 months in 1999 compared to 3 months in 1998.

Pocono Downs and its OTW Facilities (Pocono Downs)

Pocono Downs live race meet, which runs from April to November, consisted of 130 race days in 1999 compared to 135 races days in 1998. Revenues at Pocono Downs increased by $.7 million or 2.1% to $36.3 million in 1999 from $35.6 million in 1998. The increase resulted from a full year of operations at the Carbondale ($1.4 million) and Hazleton ($.8 million) OTWs that was offset by a decrease in revenue at the Pocono Downs Racetrack ($1.0 million). The decrease was due to the close proximity of the two new OTWs to the track. Revenue also decreased at the racetrack due to a 7.1% decrease in export simulcast wagering on Pocono live races due to the temporary closing of the barn area last winter due to the Company making improvements to the track that resulted in starting the racing season with a shortage of horses. Expenses increased by approximately $.5 million or 1.9% to $27.4 million in 1999 from $26.9 million in 1998.

New Jersey Joint Venture

On July 29, 1999, after receiving the necessary approvals from the New Jersey Racing Commission and the necessary consents from the holders of its 10.625% Senior Notes due 2004, Series B, the Company completed its investment in the Joint Venture. The Joint Venture operates Freehold Raceway and Garden State Race Track. Summarized results of operations of the unconsolidated Joint Venture (commencing on July 30, 1999) for the period ended December 31, 1999 include $28.0 million in revenue, $23.0 million in operating expenses $5.0 million in EBITDA and net income of $2.2 million. The Company's 50% share of the net income or $1.1 million is recorded as "Earnings from unconsolidated affiliates" on the income statement.

Capital Expenditures

The Company had capital expenditures of $13.2 million in 1999 compared to $22.3 million in 1998. Capital expenditures at Charles Town were approximately $12.1 million for the construction of a new outdoor paddock, the purchase and construction of a new temporary gaming facility, and the purchase of additional gaming machines and player tracking system and other projects. Capital expenditures at Penn National and its OTW facilities ($.6 million) and Pocono Downs and its OTW facilities ($.5 million) were for normal equipment replacement and leasehold improvements. As a result, depreciation and amortization increased $2.9 million or 51.0% to $8.7 million in 1999 from $5.8 million in 1998.

YEAR ENDED DECEMBER 31, 1998 COMPARED TO YEAR ENDED DECEMBER 31, 1997

Revenue in 1998 increased by approximately $42.5 million or 38.1% to $154.0 million in 1998 from $111.5 million in 1997. Operating expenses in 1998 increased by approximately $32.8 million or 32.2% to $134.6 million from $101.8 million in 1997. Included in operating expenses were non-recurring charges for site development and restructuring expenses of $2.4 million in 1997. Income from operations increased by approximately $9.7 million or 100.0 % to $19.4 million in 1998 from $9.7 million in 1997. Other expenses increased by approximately $3.8 million of 106.4 % to $7.4 million in 1998 from $3.6 million in 1997. Net interest expense increased by $3.9 million (primarily due to the 10 5/8% Senior Notes issued December 1997). Other income in 1998 of $113,000 consisted of a gain on the sale of Casino Magic Corporation stock of $148,000 offset by a loss on the repurchase of the Company's Senior Notes in the amount of $35,000. Taxes on income increased by approximately $2.2 million to $4.5 million in 1998 from $$2.3 million in 1997. The extraordinary item in 1997 consisted of a loss on the early extinquishment of debt in the amount of $1,482,000, net of income taxes. The loss consists primarily of write-offs of deferred finance costs associated with the retired bank notes and legal and bank fees relating to the early extinquishment of the debt. Net income increased by approximately $5.2 million to $7.5 million in 1998 from $2.3 million in 1997 due to the factors described above.

Charles Town Races

Charles Town Races was purchased in January of 1997 and began racing operations on April 30, 1997 and video lottery machine operations on September 10, 1997. Revenues at Charles Town increased by $40.4 million or 276.3% to $56.9 million in 1998 from $15.1 million in 1997. Video lottery machines increased by $32.0 million as a result of a full year of operations in 1998 compared to three and one-half months of operations in 1997. Racing revenues increased by $6.2 million due to a racing season of 206 live race days at the Charles Town Races in 1998 compared to 159 live races days in 1997 and the opening of the new simulcast-racing center in January 1998. Concession and other revenues increased by $2.2 million due to the increased attendance and the opening of the new buffet area during the year. Operating expenses increased at Charles Town Races by $32.6 million or 190.7% to $49.8 million in 1998 from $17.1 million in 1997. The increase was due primarily to the video lottery operations ($23.5 million), racing operations ($6.0 million) and concession and other operating expenses ($3.1 million).

Penn National Race Course and its OTW Facilities (Penn National Race Course)

Penn National Race Course had a small increase in revenue of approximately $57,000 or .1% to $63.6 million in 1998 from $63.5 million in 1997. Revenues increased at the track ($.3 million) due to an increase in on-track wagering and export simulcast wagering and the purchase and opening of the Johnstown OTW ($.9 million) on September 1, 1998. The increases were offset by a decrease in revenues at Chambersburg OTW ($.6 million) due to the opening of the Charles Town Facility, Reading ($.3 million) and York ($.3 million). Penn National Race Course had a net decrease in operating expenses of $.6 million or 1.1% to $50.6 million in 1998 from $51.1 million in 1997. The net decrease in operating expenses was due to an increase in expenses at the new Johnstown OTW ($.8 million) offset by a decrease in operating expenses at the racetrack and other OTW facilities ($1.4 million).

Pocono Downs and its OTW Facilities (Pocono Downs)

Revenues at Pocono Downs resulted in a net increase of $2.1 million or 6.3% to $35.6 million in 1998 from $33.5 million in 1997. The increase in revenue was primarily due to the opening of new facilities in Hazleton ($2.2

million) and Carbondale ($2.4 million). This was offset by a decrease at the Wilkes-Barre racetrack ($2.1 million) due to the proximity of the two new OTW facilities and decreases at Allentown OTW ($.3 million) and Erie OTW ($.2 million). Pocono Downs had a net increase in operating expenses of $.9 million or 3.3% to $26.9 million in 1998 from $26.0 million in 1997. The net increase in operating expenses was due to the opening of the Hazleton OTW ($1.9 million) and the Carbondale OTW ($1.8 million). The increase was offset by a decrease in operating expenses at the Wilkes-Barre racetrack ($1.8 million), Allentown OTW ($.6 million) and Erie OTW ($.4 million).

Capital Expenditures

The Company had capital expenditures of $22.3 million in 1998 compared to $29.4 million in 1997. Capital expenditures in 1998 consisted of renovation and refurbishment of the Charles Town facility and racetrack ($1.1 million), completion of the Hazleton and Carbondale OTW facilities ($3.2 million), the purchase of the Johnstown facility ($1.3 million), the purchase of the GTech video lottery machines and central monitoring system ($13.0 million), and $3.7 million in capital expenditures at other facilities. Depreciation and amortization increased by $1.7 million or 42.3% to $5.7 million in 1998 from $4.0 million in 1997. The increase was due primarily to depreciation associated with new facilities for Charles Town Gaming (September 1997), Charles Town Simulcast Center (January 1998), Hazleton and Carbondale OTW facilities (March 1998) and Johnstown OTW (September 1998).

LIQUIDITY AND CAPITAL RESOURCES

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

Net cash provided from operating activities was $22.5 million for the year ended December 31, 1999. This consisted of net income and non-cash expenses ($14.3 million), an increase in accounts receivable ($1.0 million) due from other tracks, an increase in accounts payable and accrued expenses due to construction at Charles Town ($5.6 million), an increase in purses due horsemen ($1.2 million) an increase in taxes, other than income taxes ($1.0 million) due to a change in payment schedules for Pennsylvania pari-mutuel taxes and other changes in certain assets and liabilities (-$.6 million).

Cash flows used in investing activities for the year ended December 31, 1999 ($29.8 million) consisted of the Company's investment in and advance to the New Jersey Joint Venture ($11.7 million), a cash escrow deposit for the purchase of the Mississippi casinos ($5.0 million), capital expenditures at Charles Town for the outdoors paddock and jockey quarters ($.9 million), new temporary structure for slot machines ($1.8 million) additional gaming machines ($4.9 million) player tracking system ($1.3 million) and other projects ($3.1 million) and equipment replacement and building improvements at Penn National ($.6 million) and Pocono Downs ($.5 million) facilities.

Cash flows provided by financing activities ($9.9 million) consisted of borrowings under the credit facility ($24.3 million) for the New Jersey Joint Venture ($11.5 million), Charles Town expansion ($9.7 million), and to fund part of the escrow deposit ($3.1 million) for the purchase of the Mississippi assets, proceeds from the exercise of stock options and warrants ($.5 million). This was offset by principal payments on long-term debt ($11.4 million), and an increase in financing costs ($3.5 million) for amending the credit facility and bondholder agreement.

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

In 2000, the Company anticipates spending approximately $21.5 million on capital expenditures at its racetrack and OTW facilities. The Company anticipates expending approximately $18.2 million at the Charles Town Entertainment Complex for player tracking ($.7 million), new slot machines and conversion kits ($2.1 million), paddock casino and interior renovations ($7.4 million), machinery and equipment ($2.0 million) and other projects including structured parking facility, design and planning for a new hotel ($6.0 million). The Company also plans to spend approximately $261,000 at Pocono Downs, $550,000 at Penn National, $400,000 at the OTW facilities for building improvements and equipment and $2.0 million on building improvements and equipment for its new OTW facility in East Stroudsburg, Pennsylvania.

The Company entered into its Credit Facility with Bankers Trust Company, as Agent in 1996. This credit facility was amended and restated on January 29, 1999 with First Union National Bank replacing Bankers Trust Company, as Agent. The Credit Facility, as amended, provides for a $20 million revolving Credit Facility, including a $3 million sub-limit for standby letters of credit and a $5 million term loan. Under the terms of the credit facility, as amended, the Company borrowed an additional $11.5 million which was used to finance its share of the New Jersey Joint Venture (see Note 4). The revolving credit facility is secured by substantially all of the assets of the Company, except for the assets of the Charles Town Entertainment Complex. The revolving Credit Facility provides for certain covenants, including those of a financial nature. The $5.0 million term loan was repaid on December 16, 1999. At the Company's option, the revolving facility may bear interest at the highest of: (1) 1/2 of 1% in excess of the federal reserve reported certificate of deposit rate, (2) the rate that the bank group announces from time to time as its prime lending rate and (3) 1/2 of 1% in excess of the federal funds rate plus an applicable margin of up to 2% or the revolving facility may also bear interest at a rate tied to a eurodollar rate plus an applicable margin of up to 3%. The outstanding amount under this Credit Facility as of December 31, 1999 was $12.9 million at an interest rate of 8.93%. Mandatory repayments of the revolving facility are required in an amount equal to a percentage of the net cash proceeds from any issuance or incurrence of equity or funded debt by the Company, that percentage to be dependent upon the then outstanding balance of the revolving facility and the Company's leverage ratio. Mandatory repayments of varying percentages are also required in the event of either asset sales in excess of stipulated amounts or defined excess cash flow.

On December 13, 1999, the Company entered into a $20.0 million Senior Secured Multiple Draw Term Loan with Bank of America, as an Agent for a bank group. The term loan is payable in quarterly installments of $1.3 million principle plus interest. The loan is secured by gaming equipment and improvements at the Charles Town facility. The term loan is being used to repay the $5.0 million First Union term loan and finance gaming equipment and improvements at the Charles Town facility. At the Company's option the term loan may bear interest at the highest of: (1) 1/2 of 1% in excess of the federal reserve reported certificate of deposit rate, (2) the rate that the bank group announces from time to time as its prime lending rate and (3) 1/2 of 1% in excess of the federal funds rate plus an applicable margin of up to 1.75% or the facility may also bear interest at a rate tied to a eurodollar rate plus an applicable margin of up to 2.75%. The outstanding amount under this credit facility as of December 31, 1999 was $ 9.1 million at an interest rate of 8.91%.

On March 23, 1999, the Company signed a new agreement with the Pennsylvania Thoroughbred Horsemen, replacing the previous agreement that expired on February 16, 1999. This new contract will result in an increase in future operating expenses, which expenses may be offset in whole or in part by changes in revenue mix or revenue increases going forward. These developments, therefore, may decrease earnings before interest, taxes, depreciation and amortization ("EBITDA") in future periods; however, management believes that such decreases, if any, will not result in any material decrease in EBITDA.

In connection with the Company's agreement to acquire all of the assets of Casino Magic Bay St. Louis and Boomtown Biloxi, the Company will explore a number of financing alternatives, which may involve repaying or redeeming its existing debt. The Company would expect to use part of the proceeds from the refinancing to make certain improvements to the Mississippi properties.

The Company currently estimates that the cash generated from operations and available borrowings under the credit facilities will be sufficient to finance its current operations and planned capital expenditure requirements. There can be no assurance, however, that the Company will not be required to seek additional capital, in addition to that available from the foregoing sources. The Company may, from time to time, seek additional funding through public or private financing, including equity financing. There can be no assurance that adequate funding will be available as needed or, if available, on terms acceptable to the Company.

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

All of the Company's debt obligations at December 31, 1999 were fixed rate obligations, and Management, therefore, does not believe that the Company has any material market risk from its debt obligations.

ITEM 8 FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

Report of Independent Certified Public Accountants

Penn National Gaming, Inc.
and Subsidiaries

Wyomissing, Pennsylvania

We have audited the accompanying consolidated balance sheets of Penn National Gaming, Inc. and Subsidiaries as of December 31, 1998 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1999. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Penn National Gaming, Inc. and Subsidiaries at December 31, 1998 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 1999 in conformity with generally accepted accounting principles.

Philadelphia, Pennsylvania

\s\ BDO Seidman, LLP

BDO Seidman, LLP

February 29, 2000 except
for Note 11 which is as of
March 7, 2000

Penn National Gaming, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share data)

December 31,	1998	1999
Assets		
Current assets		
Cash and cash equivalents	$ 6,826	$ 9,434
Accounts receivable	3,840	4,779
Prepaid expenses and other current assets	2,131	1,793
Deferred income taxes	458	888
Prepaid income taxes	859	1,088
Total current assets	14,114	17,982
Property, plant and equipment, at cost		
Land and improvements	26,969	27,988
Building and improvements	66,918	70,870
Furniture, fixtures and equipment	29,772	36,195
Transportation equipment	527	860
Leasehold improvements	9,579	9,802
Leased equipment under capitalized lease	824	-
Construction in progress	1,847	1,980
	136,436	147,695
Less accumulated depreciation and amortization	15,684	20,824
Net property, plant and equipment	120,752	126,871
Other assets		
Investment in and advances to unconsolidated affiliate	-	12,862
Cash in escrow	-	5,000
Excess of cost over fair market value of net assets acquired (net of accumulated amortization of $2,002 and $2,611, respectively)	22,442	21,582
Deferred financing costs	2,403	5,014
Miscellaneous	1,087	1,289
Total other assets	25,932	45,747
	$ 160,798	$ 190,600

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

Penn National Gaming, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share data)

December 31,	1998	1999
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	$ 168	$ 5,160
Accounts payable	6,217	10,210
Purses due horsemen	887	2,114
Uncashed pari-mutuel tickets	1,597	1,351
Accrued expenses	1,063	2,694
Accrued interest	468	433
Accrued salaries and wages	752	1,098
Customer deposits	548	800
Taxes, other than income taxes	503	1,491
Total current liabilities	12,203	25,351
Long-term liabilities		
Long-term debt and capital lease obligations, net of current maturities	78,088	86,053
Deferred income taxes	11,471	12,924
Total long-term liabilities	89,559	98,977
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 15,164,080 and 15,314,175, respectively	152	153
Treasury stock, 424,700 shares at cost	(2,379)	(2,379)
Additional paid-in capital	38,025	38,527
Retained earnings	23,238	29,971
Total shareholders' equity	59,036	66,272
	$ 160,798	$ 190,600

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

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

Year ended December 31,	1997	1998	1999
Revenues			
Pari-mutuel revenues			
Live races	$ 27,653	$ 26,893	$ 20,760
Import simulcasting	59,810	68,136	71,369
Export simulcasting	5,279	5,810	4,733
Gaming revenue	5,712	37,396	55,125
Admissions, programs and other racing revenues	5,678	6,280	6,256
Concessions revenues	7,404	9,550	12,117
Earnings from unconsolidated affiliates	-	-	1,098
Total revenues	111,536	154,065	171,458
Operating expenses			
Purses, stakes and trophies	22,335	29,141	31,290
Direct salaries, payroll taxes and employee benefits	16,200	19,134	19,519
Simulcast expenses	12,982	13,809	13,422
Pari-mutuel taxes	9,506	9,281	8,895
Lottery taxes and administration	1,874	14,749	21,545
Other direct meet expenses	18,087	24,029	22,916
Concessions expenses	5,605	7,929	11,030
Other operating expenses	8,735	10,787	13,060
Horsemen's action expenses	-	-	1,250
Depreciation and amortization	4,040	5,748	8,679
Litigation settlement	-	-	1,500
Site development and restructuring charges	2,437	-	535
Total operating expenses	101,801	134,607	153,641
Income from operations	9,735	19,458	17,817
Other income (expenses)			
Interest (expense)	(4,591)	(8,374)	(8,667)
Interest income	935	825	1,368
Other	(2)	113	(8)
Total other (expenses)	(3,658)	(7,436)	(7,307)

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

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

Year ended December 31,	1997	1998	1999
Income before income taxes and extraordinary item	$ 6,077	$ 12,022	$ 10,510
Taxes on income	2,308	4,519	3,777
Income before extraordinary item	3,769	7,503	6,733
Extraordinary item			
Loss on early extinguishment of debt, net of income taxes of $1,001	1,482	-	-
Net income	$ 2,287	$ 7,503	$ 6,733
Per share data			
Basic			
Income before extraordinary item	$ .25	$ .50	$ .45
Extraordinary item	.10	-	-
Net income	$ .15	$ .50	$ .45
Diluted			
Income before extraordinary item	$ .24	$ .49	$ .44
Extraordinary item	.09	-	-
Net income	$ .15	$ .49	$ .44
Weighted shares outstanding			
Basic	14,925	15,015	14,837
Diluted	15,458	15,374	15,196

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		Treasury	Additional Paid-In	Retained	
	Shares	Amount	Stock	Capital	Earnings	Total
Balance, January 1, 1997	13,355,290	$ 134	$ -	$ 14,299	$ 13,448	$ 27,881
Issuance of common stock	1,725,000	17	-	22,914	-	22,931
Exercise of stock options and warrants	72,290	1	-	154	-	155
Tax benefit related to stock options exercised	-	-	-	602	-	602
Net income for the year	-	-	-	-	2,287	2,287
Balance, December 31, 1997	15,152,580	152	-	37,969	15,735	53,856
Exercise of stock options and warrants	11,500	-	-	56	-	56
Acquisition of treasury stock	-	-	(2,379)	-	-	(2,379)
Net income for the year	-	-	-	-	7,503	7,503
Balance, December 31, 1998	15,164,080	152	(2,379)	38,025	23,238	59,036
Exercise of stock options and warrants	150,095	1	-	502	-	503
Net income for the year	-	-	-	-	6,733	6,733
Balance, December 31, 1999	15,314,175	$ 153	$ (2,379)	$ 38,527	$ 29,971	$ 66,272

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,	1997	1998	1999
Cash flows from operating activities			
Net income	$ 2,287	$ 7,503	$ 6,733
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	4,040	5,748	8,679
Write-off of deferred financing costs	-	376	-
Income from unconsolidated affiliates	-	-	(1,098)
Extraordinary loss relating to early extinguishment of debt, before income tax benefit	2,483	-	-
Deferred income taxes (benefit)	(97)	390	1,023
Decrease (increase) in			
Accounts receivable	2,036	(1,583)	(939)
Prepaid expenses and other current assets	111	(690)	338
Prepaid income taxes	(3,003)	2,144	(229)
Miscellaneous other assets	(258)	(463)	(202)
Increase (decrease) in			
Accounts payable	2,339	(1,188)	3,993
Purses due horsemen	(1,421)	887	1,227
Uncashed pari-mutuel tickets	168	93	(246)
Accrued expenses	1,155	(1,364)	1,631
Accrued interest	225	142	(35)
Accrued salaries and wages	306	(61)	346
Customer deposits	50	78	252
Taxes, other than income taxes	257	(146)	988
Net cash provided by operating activities	10,678	11,866	22,461
Cash flows from investing activities			
Expenditures for property, plant and equipment	(29,196)	(22,333)	(13,243)
Acquisition of business, net of cash acquired	(18,248)	-	-
(Increase) in prepaid acquisition costs	(176)	-	-
Investment in and advances to unconsolidated affiliate	-	-	(11,764)
Cash in escrow	-	-	(5,000)
Other	-	-	251
Net cash (used in) investing activities	(47,620)	(22,333)	(29,756)

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,	1997	1998	1999
Cash flows from financing activities			
Proceeds from sale of common stock	$ 23,086	$ 56	$ 503
Acquisition of treasury stock	-	(2,379)	-
Tax benefit related to stock options exercised	602	-	-
Proceeds from long-term debt	111,167	9,000	24,350
Principal payments on long-term debt and capital lease obligations	(78,348)	(11,080)	(11,393)
(Increase) in unamortized financing costs	(3,345)	(158)	(3,557)
Net cash provided by (used in) financing activities	53,162	(4,561)	9,903
Net (decrease) increase in cash and cash equivalents	16,220	(15,028)	2,608
Cash and cash equivalents at beginning of period	5,634	21,854	6,826
Cash and cash equivalents at end of period	$ 21,854	$ 6,826	$ 9,434

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

1. Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of Penn National Gaming, Inc. and its subsidiaries (collectively the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. Certain prior years' amounts have been reclassified to conform to the 1999 presentation.

Description of Business

The Company provides pari-mutuel wagering opportunities on live and simulcast thoroughbred and harness horse races at two racetracks and ten off-track wagering facilities ("OTWs") located in Pennsylvania and pari-mutuel wagering opportunities and video gaming machines at Charles Town Races, the Company's Charles Town, West Virginia thoroughbred racetrack. The Company's sole operating segment is gaming activities.

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

Glossary of Terminology

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

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

Gaming machines - Video lottery terminal and coin operated gaming machines.

OTW - Off-track wagering location.

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

Telebet - Telephone account wagering.

Totalisator services - Computer services provided to the Company by various totalisator companies for processing pari-mutuel betting odds and wagering proceeds. 37

Pari-mutuel revenues -

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

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

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

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

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

Year ended December 31,	1997	1998	1999
		(in thousands)	
Pari-mutuel wagering on the Company's live races	$ 128,090	$ 122,686	$ 96,238
Pari-mutuel wagering on simulcasting			
Import simulcasting from other racetracks	298,459	336,191	345,650
Export simulcasting to out of Pennsylvania wagering facilities	176,287	194,772	159,175
Total pari-mutuel wagering	$ 602,836	$ 653,649	$ 601,063

Racing Meet

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

Year ended December 31,	1997	1998	1999
Penn National Race Course	212	206	153
Pocono Downs	134	135	130
Charles Town Races	159	206	213

Depreciation and Amortization

Depreciation of property, plant and equipment and amortization of leasehold improvements are computed by the straight-line method at rates adequate to allocate the cost of applicable assets over their estimated useful lives. Depreciation and amortization for the years ended 1997, 1998 and 1999, amounted to $3,193,000, $4,705,000, and $7,124,000, 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 1997, 1998 and 1999, amounted to $578,000, $613,000, and $609,000, respectively. The Company evaluates the recoverability of the goodwill quarterly, or more frequently whenever events and circumstances warrant revised estimates and considers whether the goodwill should be completely or partially written off or the amortization period accelerated.

The Company reviews the carrying values of its long-lived and identifiable intangible assets for possible impairment whenever events or changes in circumstances indicates that the carrying amount of the assets may not be recoverable based on undiscounted estimated future operating cash flows. As of December 31, 1999, the Company has determined that no impairment has occurred.

Income Taxes

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

Customer Deposits

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

Cash and Cash Equivalents

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

Net Income Per Common Share

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

Deferred Financing Costs

Deferred financing costs which are incurred by the Company in connection with debt are charged to operations over the life of the underlying indebtedness using the interest

method adjusted to give effect to any early repayments. In 1999, the Company paid a consent fee to the holders of its 10.625% Senior Notes in the amount of $2,243,000 for approval of its investment in the New Jersey Joint Venture (see Note 3). Amortization of deferred financing costs for 1997, 1998 and 1999, amounted to $269,000, $430,000, and $946,000, respectively.

Concentration of Credit Risk

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

The Company's policy is to limit the amount of credit exposure to any one financial institution and place investments with financial institutions evaluated as being creditworthy, or in short-term money market and tax-free bond funds which are exposed to minimal interest rate and credit risk. At December 31, 1999, the Company had bank deposits which exceeded federally insured limits by approximately $5,235,000 and money market and tax-free bond funds of approximately $400,000. Concentration of credit risk, with respect to accounts receivable, is limited due to the Company's credit evaluation process. The Company does not require collateral from its customers. The Company's receivables consist principally of amounts due from other racetracks and their OTWs. Historically, the Company has not incurred any significant credit-related losses.

Fair Value of Financial Instruments

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

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

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

Use of Estimates

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

Recent Accounting Pronouncements

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments" ("SFAS 133 as amended by SFAS 137"). SFAS 137 delays the effective date of implementation of SFAS 133 by one year. SFAS 133 establishes accounting and

reporting standards for derivative instruments and for hedging activities. SFAS 133 requires that an entity recognize all derivatives as either assets or liabilities and measure those instruments at fair market value. Presently, the Company does not use derivative instruments either in hedging activities or as investments. Accordingly, the Company believes that adoption of SFAS 133 will have no impact on its financial position or results of operations.

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

2. Long-Term Debt and Capital Lease Obligations

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

December 31,	1998	1999
	(In thousands)	
Long-term debt		
$80 million Senior Notes, due December 15, 2004 with interest at 10.625% per annum payable semi-annually. The notes are unsecured and are unconditionally guaranteed by certain subsidiaries of the Company.	$ 69,000	$ 69,000
Revolving credit facility payable to a bank group (see additional information below under Credit Facilities).	9,000	12,900
Term loan payable to a bank group due on December 31, 2002 with interest at various rates. This note is secured by certain assets of the Company (see additional information below under Term Loan).	-	9,100
Other notes payable	246	213
Capital lease obligations	10	-
	78,256	91,213
Less current maturities	168	5,160
	$ 78,088	$ 86,053

Credit Facilities

On January 28, 1999, the Company entered into a second amendment and restatement of the Credit Facility. The Credit Facility, as amended, provides for a $20 million revolving credit facility, including a $3 million sublimit for standby letters of credit, which matures in December 2002 and a $5 million term loan. Under the terms of the Credit Facility, as amended, the Company borrowed an additional $11.5 million, of which $11.2 million of the proceeds was used to finance its share of the New Jersey Joint Venture (see Note 3). The revolving credit facility is secured by substantially all of the assets of the Company, except for the assets of the Charles Town facility. The revolving credit facility provides for certain covenants, including those of a financial nature. The $5.0 million term loan was repaid on December 16, 1999. 41

At the Company's option, the revolving facility may bear interest at the highest of: (1) 1/2 of 1% in excess of the federal reserve reported certificate of deposit rate, (2) the rate that the bank group announces from time to time as its prime lending rate and (3) 1/2 of 1% in excess of the federal funds rate plus an applicable margin of up to 2% or the revolving facility may also bear interest at a rate tied to a eurodollar rate plus an applicable margin of up to 3%. The outstanding amount under this credit facility as of December 31, 1999 was $12.9 million at an interest rate of 8.93%.

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

At December 31, 1999, the Company was contingently obligated under letters of credit with face amounts aggregating $2,015,000. This amount includes $1,786,000 relating to the horsemens' account balances, and $100,000 for Pennsylvania pari-mutuel taxes.

Term Loan

On December 13, 1999 the Company entered into a $20.0 million Senior Secured Multiple Draw Term Loan with Bank of America as Agent for a bank group. The term loan is payable in quarterly installments of $1.3 million principal plus interest. The loan is secured by gaming equipment and improvements at the Charles Town Entertainment Complex. At the Company's option the term loan may bear interest at the highest of (1)1/2of 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)1/2of 1% in excess of the federal funds rate plus an applicable margin of up to 1.75% or the facility may also bear interest at a rate tied to a eurodollar rate plus an applicable margin of up to 2.75%. The outstanding amount under this credit facility as of December 31, 1999 was $ 9.1 million at an interest rate of 8.91%.

Debt Offering

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

The notes are general unsecured senior obligations of the Company and rank equally in right of payment to any existing and future unsubordinated indebtedness of the Company and senior in right of payment with

all existing and future subordinated indebtedness of the Company. The notes are unconditionally guaranteed (the "Guarantees") on a senior basis by certain of the Company's existing subsidiaries (the "Subsidiary Guarantors"). The Guarantees are general unsecured obligations of the Subsidiary Guarantors and rank equally in right of payment to any unsubordinated indebtedness of the Subsidiary Guarantors and rank senior in right of payment to all other subordinated obligations of the Subsidiary Guarantors. The notes are effectively subordinated in right of payment to all secured indebtedness of the Company, including indebtedness incurred under the amended $20 million revolving credit facility.

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

The following is a schedule of future minimum repayments of long-term debt as of December 31, 1999:

December 31,

	(In thousands)
2000	$ 5,160
2001	4,138
2002	12,915
2003	-
2004	69,000
Total minimum payments	91,213
Current maturities	5,160
Total noncurrent maturities	$ 86,053

3. Commitments and Contingencies

Operating Agreements

In November 1997, the Company signed a new Totalisator services and equipment agreement for all of its subsidiaries. Effective November 1, 1999 the terms of the contract were amended and the contract was extended through May 31, 2005. The amended agreement provides for annual payments based on a specified percentage of the total amount wagered at the Company's facilities with no minimum annual payment.

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 $807,000, $1,169,000, and $1,296,000 for the years ended December 31, 1997, 1998, and 1999, respectively.

The future lease commitments relating to noncancelable operating leases as of December 31, 1999 are as follows:

	(In thousands)
2000	$ 1,468
2001	1,387
2002	1,218
2003	1,124
2004	1,069
Thereafter	1,794
	$ 8,060

On February 26, 1996, the Company entered into a joint venture agreement (the "Charles Town Joint Venture") with Bryant Development Company and its affiliates ("Bryant"), the holder of an option to purchase substantially all of the assets of Charles Town Racing Limited Partnership and Charles Town Races, Inc. (together, "Charles Town") relating to the Charles Town Race Track and Shenandoah Downs (together, the "Charles Town Entertainment Complex") in Jefferson County, West Virginia. Bryant had acquired its option from Showboat Operating Company ("Showboat"). Showboat has retained an option (the "Showboat Option") to operate any casino at the Charles Town Entertainment Complex in return for a management fee (to be negotiated at the time, based on rates payable for similar properties) and a right of first refusal to purchase or lease the site of any casino at the Charles Town Entertainment Complex proposed to be leased or sold and to purchase any interest proposed to be sold in any such casino on the same terms offered by a third party or otherwise negotiated with the Charles Town Joint Venture. The rights retained by Showboat under the Showboat Option extend for a period of five years from November 6, 1996, the date that the Charles Town Joint Venture exercised its option to purchase the Charles Town Races, and expires thereafter unless legislation to permit casino gaming at the Charles Town Entertainment Complex has been adopted prior to the end of the five-year period. If such legislation has been adopted prior to such time, then the rights of Showboat continue for a reasonable time (not less than 24 months) to permit completion of negotiations.

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

Pursuant to the terms of the Pocono Downs purchase agreement dated November 27, 1996, the Company will be required to pay the sellers of Pocono Downs an additional $10 million if, within five years after the consummation of the Pocono Downs acquisition, Pennsylvania authorizes any additional form of gaming in which the Company may participate. The $10 million payment would be payable in annual installments of $2 million for five years, beginning on the date that the Company first offers such additional form of gaming.

Profit Sharing Plans

The Company has a profit sharing plan under the provisions of Section 401(k) of the Internal Revenue Code, called The Penn National Gaming, Inc. Profit Sharing Plan (the "Penn National 401(k) Plan") that cover all eligible employees who are not members of a bargaining unit. The plan enables employees choosing to participate to defer a portion of their salary in a retirement fund to be administered by the Company. The Company's contributions to the Penn National 401(k) Plan are set at 50% of employees elective salary deferrals which may be made up to a maximum of 6% of employee compensation for employees of Penn National Race Course and Pocono Downs. Charles Town employees receive an annual employer contribution based on an allocation formula that is derived from a total retirement expense calculated as .25% of the daily mutual handle and .5% of the net

video lottery revenues. The Company made contributions to the plan of approximately $145,000, $172,000 and $169,000, for the years ended December 31, 1997, 1998 and 1999, respectively.

The Company also has a defined contribution plan called the Charles Town Races Future Service Retirement Plan covering substantially all of its union employees. Charles Town makes monthly contributions equal to the amount accrued for retirement expense, which is calculated as .25% of the daily mutual handle and .5% of the net video lottery revenues. Total contributions for the years ended December 31, 1997, 1998 and 1999 were $114,000, $185,000 and $239,000, respectively.

OTW and Operating Facilities

On July On July 14, 1998, the Company entered into a lease agreement for an OTW facility in East Stroudsburg. The lease is for approximately 14,000 square feet at the Eagle's Glen Shopping Plaza located in East Stroudsburg, Pennsylvania. The initial term of the lease is for ten years with two additional five-year renewal options available. On November 6, 1998, the Company submitted its application for approval by the Pennsylvania Harness Racing Commission. The Pennsylvania Harness Racing Commission approved the application on February 23, 1999. The Company was denied building and zoning permits by the zoning office of the Borough of East Stroudsburg and filed suit on November 13, 1998 to obtain the permits. On May 17, 1999, the Court of Common Pleas of Monroe County granted a peremptory judgment in favor of the Company that directed the Borough of East Stroudsburg and its zoning officer to issue the required building and zoning permits to construct the OTW facility. The Company started construction on the $2 million facility in February 2000 with a projected opening date in the second quarter of 2000.

On March 23, 1999, the Company entered into a new four-year, nine-month purse agreement with the Horsemen's Benevolent and Protection Association, which represents the horsemen at the Company's Penn National Race Course facility in Grantville, Pennsylvania. The agreement ended an action by the horsemen which began on February 16, and caused the Company to close Penn National Race Course and its six affiliated OTWs. As a result of the action the Company incurred a non-recurring $1,250,000 expense, primarily related to costs incurred to maintain the closed facilities inclusive of employee salaries and rents, for Horsemen's Action Expense. The initial term of the agreement ends on January 1, 2004 and automatically renews for another two year period, without change, unless notice is given by either party at least ninety days prior to the end of the initial term. 45

On June 30, 1999, all the race tracks in West Virginia (the "Tracks"), entered into a hardware and software purchase agreement (the "Agreement") with International Game Technology ("IGT"), for the purchase of a new video lottery central control computer system. The aggregate cost of the new system is $5.5 million of which PNGI Charles Town Gaming LLC is obligated to pay $1.4 million. On July 22, 1999, the Company submitted a check in the amount of $257,000 as the initial deposit and issued a letter of credit in the amount of $1,156,000 to secure the remaining payments due. In addition, the Tracks agreed to collectively acquire from IGT at least one thousand video lottery terminals by September 30, 1999. (Charles Town is to acquire 400 new terminals). The Agreement also requires each track to pay to IGT the sum of $7.50 per terminal, per day for each video lottery terminal offering progressive games operated through the IGT central system. Installation of the new central system was substantially complete on December 31, 1999.

On December 17, 1999, the Company entered into a new three-year purse agreement with the Pennsylvania Harness Horsemen's Association, Inc. which represents the owners, trainers, and drivers at the Company's The Downs Racing, Inc. facility in Wilkes-Barre, Pennsylvania. The contract term begins on January 16, 2000 and ends on January 15, 2003.

Mississippi Agreement

On December 10, 1999, the Company entered into two definitive agreements to purchase all of the assets of the Casino Magic hotel, casino, golf resort, recreational vehicle (RV) park and marina in Bay St. Louis, Mississippi and the Boomtown Biloxi casino in Biloxi, Mississippi, from Pinnacle Entertainment, Inc. formerly Hollywood Park, Inc. (NYSE:PNK) for $195 million which are contingent upon each other. In addition to acquiring all of the operating assets and related operations of the Casino Magic Bay St. Louis and Boomtown Biloxi properties, the Company will enter into a licensing agreement to use the Boomtown and Casino Magic names and marks at the properties being acquired. The transaction is subject to certain closing conditions including the approval of the Mississippi Gaming Commission, financing and expiration of the applicable Hart-Scott-Rodino waiting period. As part of the agreement, the Company paid a deposit of $5 million to an escrow account, which is refundable if certain conditions are not met. In connection with financing the Mississippi acquisition, the Company will explore a number of financing alternatives, which may include repaying or redeeming its existing debt.

New Jersey Joint Venture

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

The purchase price for the Acquisition was approximately $46 million (subject to reduction of certain disputed items, for which amounts have been placed in escrow). The purchase price consisted of $23 million in cash and $23 million pursuant to two deferred purchase price promissory notes in the amount of $22 million and $1 million each. On July 29, 1999, after receiving the necessary approvals from the New Jersey Racing Commission and the necessary consents from the holders of its 10.625% Senior Notes due 2004, Series B, the Company completed its investment in the Joint Venture, pursuant to which Pennwood, Inc. was formed with Greenwood New Jersey, Inc. (a wholly-owned subsidiary of Greenwood Racing, Inc. the owner of Philadelphia Park Race Track). Pursuant to the Joint Venture Agreement, the Company agreed to guarantee severally: (i) up to 50% of the obligation of the Joint Venture under its Put Option Agreement ($17.5 million) with Credit Suisse First Boston Mortgage Capital LLC ("CSFB"); (ii) up to 50% of the Joint Venture obligation for the seven year lease at Garden State Park; (iii) up to 50% of the Joint Venture obligation to International Thoroughbred Breeders, Inc. for the contingent purchase price notes ($10.0 million) relating to the operation, subject to passage by the New Jersey legislature, by the Joint Venture of OTWs and telephone wagering accounts in New Jersey. In conjunction with the closing, the Company entered into a Debt Service Maintenance Agreement with Commerce Bank, N.A. for the funding of a $23.0 million credit facility to the Joint Venture. The Joint Venture Agreement provides for a limited obligation of the Company of $11.5 million subject to limitations provided for in the Company's 10.625% Senior Notes Indenture. The Company's investment in the Joint Venture is accounted for under the equity method, original investments are recorded at cost and adjusted by the Company's share of income or losses of the Joint Venture. The income from July 30, 1999 through December 31, 1999 of the Joint Venture is included in earnings of unconsolidated affiliates in the accompanying Consolidated Statements of Income for the year ended December 31, 1999.

Summarized balance sheet information for the Joint Venture as of December 31, 1999 is as follows (in thousands):

Current assets	$ 7,324
Property, plant and equipment, net	30,786
Other	18,158
Total assets	$ 56,268
Current liabilities	$ 7,453
Long-term liabilities	46,221
Members' equity	2,594
Total liabilities and members' equity	$ 56,268

Summarized results of operations of the unconsolidated Joint Venture (commencing on July 30, 1999) for the year ended December 31, 1999 is as follows (in thousands):

Revenues	$ 27,982
Operating expenses	23,005
EBITDA*	4,977
Net Income	2,196

* Earnings before interest, depreciation, taxes, and amortization.

4. Income Taxes

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

Year ended December 31,	1997	1998	1999
			(in thousands)
Current tax expense			
Federal	$ 2,006	$ 3,374	$ 2,759
State	399	755	108
Total current	2,405	4,129	2,867
Deferred tax expense (benefit)			
Federal	(56)	378	(317)
State	(41)	12	1,227
Total deferred	(97)	390	910
Total provision	$ 2,308	$ 4,519	$ 3,777

Deferred tax assets and liabilities are comprised of the following:

December 31,	1998	1999
Deferred tax assets		
Reserve for debit balances of horsemens' accounts, bad debts restructuring charges and litigation	$ 458	$ 888
Deferred tax liabilities		
Property, plant and equipment	$ 11,471	$ 12,924

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

Year ended December 31,	1997	1998	1999
Percent of pretax income			
Federal tax rate	34.0 %	34.0 %	34.0 %
Increase in taxes resulting from state and local income taxes, net of federal tax benefit	3.9	4.2	2.0
Permanent difference relating to amortization of goodwill	.9	.4	.2
Other miscellaneous items	(.8)	(1.0)	(.3)
	38.0 %	37.6 %	35.9 %

5. Supplemental Disclosures of Cash Flow Information

Cash paid during the year for interest was $4,346,000, $8,192,000 and $8,742,000 in 1997, 1998 and 1999, respectively.

Cash paid during the year for income taxes was $3,649,000, $4,207,000, and $2,970,000 in 1997, 1998 and 1999, respectively.

6. Common Stock

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

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

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

Stock options that expire between August 20, 2000 and January 4, 2009 have been granted to officers and directors to purchase Common Stock at prices ranging from $3.33 to $17.63 per share. All options and warrants were granted at market prices at date of grant. The following table contains information on stock options issued under the Plan for the three-year period ended December 31, 1999:

	Option Shares	Exercise Price Range Per Share	Average Price
Outstanding at January 1, 1997	979,750	$ 3.33 to 17.63	$ 9.10
Granted	100,000	11.50 to 16.63	15.59
Exercised	(39,250)	3.33 to 5.63	4.01
Outstanding at December 31, 1997	1,040,500	3.33 to 17.63	7.31
Granted	195,000	6.44 to 15.50	9.06
Exercised	(11,500)	3.33 to 5.63	4.88
Canceled	(39,500)	5.63 to 15.50	13.36
Outstanding at December 31, 1998	1,184,500	3.33 to 17.63	9.50
Granted	144,500	6.88 to 9.13	6.98
Exercised	(27,000)	5.63	5.63
Canceled	(31,750)	5.63 to 15.50	13.40
Outstanding at December 31, 1999	1,270,250	$ 3.33 to 17.63	$ 7.27

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

Exercisable at year-end:

	Option Shares	Exercise Price Range Per Share	Weighted Average Price
1997	653,833	$ 3.33 to 17.63	$ 7.08
1998	1,034,666	3.33 to 17.63	8.36
1999	1,242,625	3.33 to 17.63	9.49

Options available for future grant:	1994 Plan
1999	541,750

The following table summarizes information about stock options outstanding at December 31, 1999

	Ranges		Total
Range of exercise prices	$3.33 to $5.50	$5.58 to $17.63	$3.33 to $17.63
Outstanding options			
Number outstanding at December 31, 1999	637,250	933,000	1,570,250
Weighted average remaining contractual life (years)	3.84	5.94	5.09
Weighted average exercise price	$ 3.84	$ 12.94	$ 9.25
Exercisable options			
Number outstanding at December 31, 1999	637,250	605,375	1,242,625
Weighted average exercise price	$ 3.84	$ 15.44	$ 9.49

Warrants were granted to the underwriters of the Company's initial public offering at a price of $4.00 per share and were all exercised prior to their expiration on June 2, 1999.

A summary of the warrant transactions follows:

	Warrant Shares	Exercise Price Range Per Share	Weighted Average Price
Warrants outstanding at January 1, 1997	195,000	$ 4.00	$ 4.00
Warrants exercised	(43,000)	4.00	4.00
Warrants outstanding at December 31, 1997	152,000	4.00	4.00
Warrants exercised	(3,000)	4.00	4.00
Warrants outstanding at December 31, 1998	149,000	4.00	4.00
Warrants exercised	(149,000)	4.00	4.00
Warrants outstanding at December 31, 1999	-		

During 1995, the Financial Accounting Standards Board adopted Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), which has recognition provisions that establish a fair value based method of accounting for stock-based employee compensation plans and established fair value as the measurement basis for transactions in which an entity

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

Year ended December 31,	1997	1998	1999
Net income			
As reported	$ 2,287,000	$ 7,503,000	$ 6,733,000
Pro forma	1,660,000	6,827,000	6,143,000
Basic net income per share			
As reported	$ .15	$ .50	$ .45
Pro forma	.11	.45	.41
Diluted net income per share			
As reported	$ .15	$ .49	$ .44
Pro forma	.11	.44	.40

The fair value of each option and warrant grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 1997, 1998 and 1999: dividend yield of 0%; expected volatility of 20%; risk-free interest rate of 6%; and expected lives of five years. The effects of applying SFAS 123 in this pro forma disclosure are not indicative of future amounts. SFAS 123 does not apply to awards prior to 1995. Additional awards in future years are anticipated.

7. Shareholder Rights Plan

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

The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock (the "Stock Acquisition Date"), announces a tender or exchange offer that will result in such person or group acquiring 20%

or more of the outstanding common stock or is a beneficial owner of a substantial amount of Common Shares (at least 10%) whose ownership may have a material adverse impact ("Adverse Person") on the business or prospects of the Company. The Company will be entitled to redeem the Rights at a price of $.01 per Right (payable in cash or stock) at anytime until 10 days following the Stock Acquisition Date or the date on which a person has been determined to be an Adverse Person. If the Company is involved in certain transactions after the Rights become exercisable, a Holder of Rights (other than Rights owned by a shareholder who has acquired 15% or more of the Company's outstanding common stock or is determined to be an Adverse Person, which Rights become void) is entitled to buy a number of the acquiring company's Common Shares or the Company's common stock, as the case may be, having a market value of twice the exercise price of each Right. A potential dilutive effect may exist upon the exercise of the Rights. Until a Right is exercised, the holder will have no rights as a stockholder of the Company, including, without limitations, the right to vote as a stockholder or to receive dividends. The Rights are not exercisable until the Distribution Date and will expire at the close of business on March 18, 2009, unless earlier redeemed or exchanged by the Company.

8. Loss From Retirement of Debt

In 1997, the Company recorded an extraordinary loss of $1,482,000 after taxes for the early retirement of debt. The extraordinary loss consists primarily of write-offs of deferred finance costs associated with the retired notes and legal and bank fees relating to the early extinguishment of the debt.

9. Site Development and Restructuring Charges

During 1997, the Company incurred site development ($1,735,000) and restructuring ($702,000) charges of $2,437,000. The site development charges consist of $800,000 related to the Charles Town Races facility and $935,000 related to the abandonment of certain proposed operating sites during 1997. The restructuring charges primarily consist of: $350,000 in severance termination benefits and other charges at the Charles Town Races facility; $300,000 for the restructuring of the Erie, Pennsylvania OTW facility and $52,000 of property and equipment written off in connection with the discontinuation of Penn National Speedway, Inc. operations during 1997. These charges, net of income taxes, decreased the 1997 net income and diluted net income per share by $1,462,000 and $.09 per share, respectively.

On February 11, 2000, the Tennessee Supreme Court denied the Company's application for permission to appeal the decision of the Court of Appeals. In the appeal, the Company was asking the Supreme Court to take the jurisdictional question from the Appellate Court and to review the substantive issue of whether pari-mutuel wagering on horse racing is lawful in Tennessee under the existing statute without the Tennessee Commission. As a result of this decision, the Company has taken a charge against earnings in the year 1999 of $535,000 for costs incurred for its Tennessee racing license.

10. Litigation Settlement

In December 1997, Amtote international, Inc. ("Amtote"), filed an action against the Company and the Charles Town Joint Venture in the United States District Court for the Northern District of West Virginia. In its complaint, Amtote stated that the Company and the Charles Town Joint Venture allegedly breached certain contracts with Amtote and its affiliates when it entered into a wagering services contract with a third party. On September 30, 1999 the United States District Court for the Northern District of West Virginia rendered a decision which awarded liquidated damages to Amtote. On February 11, 2000, the Company and Amtote entered into a settlement agreement in which the Company which paid Amtote in full satisfaction of the judgement the sum of $1.5 million, which is included in accrued expenses.

11. Subsequent Events

In July 1999, the Company entered into an agreement with Trackpower, Inc. (OTC BB: TPWR) ("Trackpower") to serve as the exclusive pari-mutuel wagering hub operator for Trackpower. Trackpower provides direct-to-home digital satellite transmissions of horse racing to its subscriber base. The initial term of the contract is for five years with an additional five-year option available. The Company pays Trackpower a commission on all new revenues earned from their subscriber base. As additional incentive to enter into the contract, the Company received warrants to purchase 5,000,000 shares of common stock of Trackpower at prices ranging from $1.58 per share to $2.58 per share. The warrants vest at 20% per year and expire on April 30, 2004. The fair value of the warrants issued will be amortized over the vesting period or one year from the anniversary date of the agreement. As a result of the transition of operations in 1999, the amount to be amortized as a reduction of commissions earned in 1999 by Trackpower was not material.

In March 2000, the Company entered into a letter of intent with Trackpower and eBet Limited ("eBet") which that, if a definitive agreement is executed, will replace and restate the above agreement. Under the terms of the letter of intent, the Company and eBet will contribute various assets, equipment, management agreements relating to our telephone account wagering systems and business operations to Trackpower. Under the proposed agreement, the Company will continue to receive the same level of income as in 1999. The Company and eBet will each receive 18,000,000 shares of Trackpower common stock as well as warrants to purchase additional shares exercisable at $1.00 per share. Upon completion of the proposed transaction the Company and eBet will each own 26.5% of Trackpower prior to considering the exercises of options or warrants. The agreement is subject to due diligence, regulatory and other approvals.

12. Subsidiary Guarantors

Summarized financial information for years ended December 31, 1997, 1998, and 1999 for Penn National Gaming, Inc. ("Parent"), the Subsidiary Guarantors and Subsidiary Nonguarantors is as follows:

	Parent Company	Subsidiary Guarantors	Subsidiary Non-Guarantors	Elimin-ations	Consoli-dated
Year ended December 31, 1997					
Consolidated Statement of Income (In Thousands)					
Total revenues	$ 6,887	$ 90,320	$ 16,484	$ (2,155)	$ 111,536
Total operating expenses	3,434	81,822	18,700	(2,155)	101,801
Income from operations	3,453	8,498	(2,216)	--	9,735
Other income(expenses)	(3,565)	1,612	(1,705)	--	(3,658)
Income before income taxes	(112)	10,110	(3,921)	--	6,077
Taxes on income	(38)	3,909	(1,563)	--	2,308
Extraordinary item	(142)	(768)	(572)		(1,482)
Net income (loss)	$ (216)	$ 5,433	$ (2,930)	$ --	$ 2,287
Consolidated Statement of Cash Flows (In Thousands)					
Net cash provided by (used in) operating activities	$ 2,559	$ (169,422)	$ 882	$ 176,659	$ 10,678
Net cash provided by (used in) investing activities	(8,995)	68,529	40	(107,194)	(47,620)
Net cash provided by (used in) financing activities	22,361	100,266	--	(69,465)	53,162
Net increase (decrease) in cash and cash equivalents	15,925	(627)	922	--	16,220
Cash and cash equivalents at beginning of period	3,015	2,597	22	--	5,634
Cash and cash equivalents at end of period	$ 18,940	$ 1,970	$ 944	$ --	$ 21,854

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

	Parent Company	Subsidiary Guarantors	Subsidiary Non-Guarantors	Elimin-ations	Consoli-dated
As of December 31, 1999 Consolidated Balance Sheet (In Thousands)					
Current assets	$ 3,651	$ 7,669	$ 6,523	$ 139	$ 17,982
Net property, plant and equipment	813	79,932	46,126	--	126,871
Other assets	116,170	155,509	1,620	(227,552)	45,747
Total	$ 120,634	$ 243,110	$ 54,269	$ (227,413)	$ 190,600
Current liabilities	$ (29)	$ 25,731	$ 7,664	$ (8,015)	$ 25,351
Long-term liabilities	82,091	86,556	47,459	(117,129)	98,977
Shareholders' equity (deficiency)	38,572	130,823	(854)	(102,269)	66,272
Total	$ 120,634	$ 243,110	$ 54,269	$ (227,413)	$ 190,600
Year ended December 31, 1999 Consolidated Statement of Income (In Thousands)					
Total revenues	$ 4,147	$ 93,651	$ 79,772	$ (6,112)	$ 171,458
Total operating expenses	(3,393)	91,448	71,698	(6,112)	153,641
Income from operations	7,540	2,203	8,074	--	17,817
Other income(expenses)	(5,693)	3,020	(4,634)	--	(7,307)
Income before income taxes	1,847	5,223	3,440	--	10,510
Taxes on income	642	3,135	--	--	3,777
Net income	$ 1,205	$ 2,088	$ 3,440	$ --	$ 6,733
Year ended December 31, 1999 Consolidated Statement of Cash Flows (In Thousands)					
Net cash provided by (used in) operating activities	$ 6,287	$ 14,842	$ 4,313	$ (2,981)	$ 22,461
Net cash provided by (used in) investing activities	(6,516)	(20,245)	(3,205)	210	(29,756)
Net cash provided by financing activities	772	6,236	124	2,771	9,903
Net increase in cash and cash equivalents	543	833	1,232	--	2,608
Cash and cash equivalents at beginning of period	2,001	1,705	3,120	--	6,826
Cash and cash equivalents at end of period	$ 2,544	$ 2,538	$ 4,352	$ --	$ 9,434

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

Not Applicable

PART III

ITEM 10 DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by Item 10 is incorporated by reference from the Company's definitive proxy statement with respect to the Company's Annual Meeting of Shareholders to be held on May 17, 2000. Such proxy statement shall be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 11 EXECUTIVE COMPENSATION

The information required by Item 11 is incorporated by reference from the Company's definitive proxy statement with respect to the Company's Annual Meeting of Shareholders to be held on May 17, 2000. Such proxy statement shall be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 12 SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by Item 12 is incorporated by reference from the Company's definitive proxy statement with respect to the Company's Annual Meeting of Shareholders to be held on May 17, 2000. Such proxy statement shall be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

ITEM 13 CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by Item 13 is incorporated by reference from the Company's definitive proxy statement with respect to the Company's Annual Meeting of Shareholders to be held on May 17, 2000. Such proxy statement shall be filed pursuant to Regulation 14A promulgated under the Securities Exchange Act of 1934, as amended, within 120 days after the end of the fiscal year covered by this Annual Report on Form 10-K.

PART IV

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

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

(2) List of Exhibits

EXHIBIT

NOS. DESCRIPTION OF EXHIBIT

1. Purchase Agreement dated December 12, 1997 between Penn National Gaming, Inc. and BT Alex Brown Incorporated and Jefferies & Company, Inc.

2.1 Agreement and Plan of Reorganization dated April 11, 1994 among Penn National Gaming, Inc., Carlino Family Partnership, Carlino Financial Corporation and the shareholders and general partners of the entities now comprising Penn National Gaming, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

2.1 First Amendment to Asset Purchase Agreement dated as of January 28, 1999 by and between among Greenwood New Jersey, Inc., International Thoroughbred Breeders, Inc., Garden State Race Track, Inc., Freehold Racing Association, Atlantic City Harness Inc., Circa 1850, Inc., and Penn National Gaming, Inc. (Incorporated by reference to the Company's current report on Form 8-K, dated February 12, 1999.)

2.1.1 Amendment to Agreement and Plan of Reorganization dated April 26, 1994 among Penn National Gaming, Inc., Carlino Family Partnership, Carlino Financial Corporation and the shareholders and general partners of the entities now comprising Penn National Gaming, Inc. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

2.2 Agreement and Plan of Reorganization dated April 11, 1994 between Penn National Gaming, Inc. and Thomas J. Gorman. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

2.2 First Amendment to Joint Venture Agreement dated as of January 28, 1999, by and between Greenwood New Jersey, Inc., and Penn National Gaming, Inc. (Incorporated by reference to the Company's current report on Form 8-K, dated February 12, 1999.)

2.2.1 Amendment to Agreement and Plan of Reorganization dated April 26, 1994 between Penn National Gaming, Inc. and Thomas J. Gorman. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994.)

2.3 Closing Agreement dated January 15, 1997 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Gaming Limited Liability Company. (Incorporated by reference to the Company's current report on Form 8-K, dated January 30, 1997.)

2.4 Amended and Restated Operating Agreement dated as of December 31, 1996 among Penn National Gaming of West Virginia, Inc., Bryant Development Company and PNGI Charles Town Gaming limited Liability Company. (Incorporated by reference to the Company's current report on Form 8-K, dated January 30, 1997.)

2.5 Letter dated January 14, 1997 from Peter M. Carlino to James A. Reeder (Incorporated by reference to the Company's current report on Form 8-K, dated January 30, 1997.)

2.6 First Amendment and Consent dated as of January 7, 1997 among Penn National Gaming, Inc., Bankers Trust Company as Agent, CoreStates Bank, N.A. as Co-Agent, and certain banks party to the Credit Agreement dated as of November 27, 1996 (Incorporated by reference to the current report on Form 8-K, dated January 30, 1997.)

2.7 Amended and Restated Option Agreement dated as of February 17, 1995 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Gaming limited Liability Company (Incorporated by reference to Exhibit 2.1 of the Company's current report on Form 8-K, dated January 30, 1997.)

2.8 Transfer, Assignment and Assumption Agreement and Bill of Sale dated January 15, 1997 among Charles Town Races, Inc., Charles Town Racing Limited Partnership, and PNGI Charles Town Limited Liability Company (Incorporated by reference to Exhibit 2.2 of the Company's Form 10-Q, dated November 14, 1997.)

2.9 Second Amended and Restated Operating Agreement dated as of October 17, 1997, among Penn National Gaming of West Virginia, Inc., BDC Group and PNGI Charles Town Gaming Limited Liability Company (Incorporated by reference to the Company's Form 10-Q, dated November 14, 1997.)

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

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

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

4. Rights Agreement dated as of March 2, 1999, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to the Company's current report on Form 8-K, dated March 17, 1999.)

4.1 Indenture dated December 17, 1997 between Penn National Gaming, Inc. and State Street Bank and Trust Company. (Incorporated by reference to the Company's registration statement on Form S-4, File #333-45337, dated January 30, 1998.)

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

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

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

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

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

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

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

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

10.38 Consulting Agreement dated August 29, 1994, between Penn National Gaming, Inc. and Peter D. Carlino. (Incorporated by reference to the Company's Form 10-K, dated March 23, 1995.)

10.39 Lease dated July 7, 1994, between North Mall Associates and Penn National Gaming, Inc. for the York OTW. (Incorporated by reference to the Company's Form 10-K, dated March 23, 1995.)

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

10.42 Employment agreement dated June 1, 1995 between Penn National Gaming, Inc. and William J. Bork. (Incorporated by reference to the Company's Form 10-K, dated March 20, 1996.)

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

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

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

10.50 Formation Agreement dated February 26, 1996 between Penn National Gaming, Inc. and Bryant Development Company. (Incorporated by reference to the Company's Form 10-K, dated March 20, 1996.)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

10.85Assignment and Assumption of Lease Agreement dated December 31, 1998 between Mountainview Thoroughbred Racing Association and Ladbroke Racing Management-Pennsylvania. (Incorporated by reference to the Company's Form 10K, dated March 30, 1999.)

10.86Subordination, Non-Disturbance and Attornment Agreement dated December 31, 1998 between Mountainview Thoroughbred Racing Association and CRIIMI MAE Services Limited Partnership. (Incorporated by reference to the Company's Form 10-K, dated March 30, 1999.)

10.87Second Amended and Restated Credit Agreement dated as of January 28, 1999 between Penn National Gaming, Inc. and various banks, First Union National Bank, as Agent. (Incorporated by reference to the Company's Form 10-K, dated March 30, 1999.)

10.88Live Racing Agreement dated March 23, 1999 between Pennsylvania National Turf Club, Inc. and Mountainview Thoroughbred Racing Association and Pennsylvania Horsemen's Benevolent and Protection Association, Inc. (Incorporated by reference to the Company's Form 10-K, dated March 30, 1999.)

10.89Amendment to Employment Agreement dated June 1, 1999, between Penn National Gaming, Inc. and Peter M.Carlino. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.90Amendment to Employment Agreement dated June 1, 1999, between Penn National Gaming, Inc. and Robert S. Ippolito. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.91Second Amendment to Joint Venture Agreement dated as of July 29, 1999, between Penn National Gaming, Inc. and Greenwood Racing, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.92Shareholder's Agreement dated July 29, 1999, between Penn National Holding Company and Greenwood Racing, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.93Amended and Restated Limited Partnership Agreement dated July 29, 1999, between FR Park Racing, L.P., Pennwood Racing, Inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.94Amended and Restated Limited Partnership Agreement dated July 29, 1999, between FR Park Services, L.P., Pennwood Racing, Inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.95Amended and Restated Limited Partnership Agreement dated July 29, 1999, between GS Park Racing, L.P., Pennwood Racing, Inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.96Amended and Restated Limited Partnership Agreement dated July 29, 1999, between GS Park Services, L.P., Pennwood Racing, inc. and Penn National GSFR, Inc. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.97Amendment No. 1 to Second Amended and Restated Credit Agreement dated July 29, 1999, between Penn National Gaming, Inc. and First Union National Bank. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.98Amendment No. 2 to Second Amended and Restated Credit Agreement dated July 29, 1999, Penn National Gaming, Inc. and First Union National Bank. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.99Agreement dated July 9, 1999, between Penn National Gaming, Inc. and American Digital Communications, Inc. (Portions of this Exhibit have been omitted pursuant to a request for confidential treatment.) (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.01a Subordination and Intercreditor Agreement dated July 29, 1999, between Penn National Gaming, Inc., FR Park Racing, L.P., and Commerce Bank, N.A. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.02a Debt Service Maintenance Agreement dated July 29, 1999, between Penn National Gaming, Inc. and Commerce Bank, N.A. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.03a First Supplemental Indenture dated May 19, 1999, between Penn National Gaming, Inc. and State Street Bank and Trust Company, Trustee. (Incorporated by reference to the Company's Form 10-Q, dated August 12, 1999.)

10.04a Asset Purchase Agreement between BSL., Inc. and Casino Magic Corp. dated December 9, 1999. (Filed as exhibit 99.2 to the Company's current report on Form 8-K, dated December 17, 1999.)

10.05a Guaranty of Penn National Gaming, Inc. to Casino Magic Corp. dated December 9, 1999 (Filed as exhibit 99.3 to the Company's current report on Form 8-K, dated December 17, 1999.)

10.06a Guaranty of Hollywood Park, Inc. to BSL, Inc. dated December 9, 1999. (Filed as exhibit 99.4 to the Company's current report on Form 8-K, dated December 17, 1999.)

10.07a First Amendment to Asset Purchase Agreement between BSL, Inc. and Casino Magic Corp. dated December 17, 1999. (Filed as exhibit 99.5 to the Company's current report on Form 8-K, dated December 17, 1999.)

10.08a Asset Purchase Agreement between BTN, Inc. and Boomtown, Inc. dated December 9, 1999 (Filed as exhibit 99.6 to the Company's current report on Form 8-K, dated December 17, 1999.)

10.09a Guaranty of Penn National Gaming, Inc. to Boomtown, Inc. dated December 9, 1999 (Filed as exhibit 99.7 to the Company's current report on Form 8-K, dated December 17, 1999.)

10.10a Guaranty of Hollywood Park, Inc. to BTN, Inc. dated December 9, 1999. (Filed as exhibit 99.8 to the Company's current report on Form 8-K, dated December 17, 1999.)

10.11a First Amendment to Asset Purchase Agreement between BTN, Inc. and Boomtown, inc. dated December 17, 1999. (Filed as exhibit 99.9 to the Company's current report on Form 8-K, dated December 17, 1999.)

10.12a Senior secured multiple draw term loan dated December 13, 1999 between Penn National Gaming of West Virginia, Inc. and Bank of America.

10.13a Amendment No. 3 and Consent and Waiver under Second Amended and Restated Credit Agreement dated December 13, 1999 between Penn National Gaming, Inc. and First Union National Bank, as Agent.

10.14a Harness horsemen agreement dated December 17, 1999 between The Downs Racing, Inc. and the Pennsylvania Harness Horsemen.

10.15a Settlement agreement dated February 11, 2000 between Penn National Gaming, Inc. and Amtote International, Inc.

10.16a Thoroughbred horsemen letter dated February 24, 2000 between PNGI Charles Town Gaming, LLC and the Charles Town thoroughbred horsemen.

10.17a Agreement dated March 7, 2000 between Penn National Gaming, Inc. and Trackpower, Inc. and eBet Limited, Inc.

21 Subsidiaries of the Registrant.

27.1 Financial Data Schedule.

(B) Reports on Form 8-K

The Company filed the following reports on Form 8K during the fourth quarter 1999:

On December 10, 1999, the Company filed a current report on Form 8K which reflected the definitive agreement to purchase all of the assets of Casino Magic hotel, etc.

SIGNATURES

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

PENN NATIONAL GAMING, INC.

By /s/Peter M. Carlino

Peter M. Carlino, Chairman of the Board

Dated: March 20, 2000

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

SIGNATURE	TITLE	DATE
/s/Peter M. Carlino - ---------- Peter M. Carlino	Chief Executive Officer and Director (Principal Executive Officer)	March 20, 2000
/s/William J. Bork - ---------- William J. Bork	Chief Operating Officer and Director (Principal Operating Officer)	March 20, 2000
/s/Robert S. Ippolito - ---------- Robert S. Ippolito	Chief Financial Officer (Principal Financial Officer)	March 20, 2000
/s/Harold Cramer - ---------- Harold Cramer	Director	March 20, 2000
/s/David A. Handler - ---------- David A. Handler	Director	March 20, 2000
/s/Robert P. Levy - ---------- Robert P. Levy	Director	March 20, 2000
/s/ John M. Jacquemin - ---------- John M. Jacquemin	Director	March 20, 2000

EXHIBIT INDEX

Exhibit Nos.	Description of Exhibits	Page No.
10.04a	Senior secured multiple draw term loan dated December 13, 1999 between Penn National Gaming of West Virginia, Inc. and Bank of America.	67-186
10.13a	Amendment No. 3 and Consent and Waiver under Second Amended and Restated Credit Agreement dated December 13, 1999 between Penn National Gaming, Inc. and First Union National Bank, as Agent.	187-196
10.05a	Harness horsemen agreement dated December 17, 1999 between The Downs Racing, Inc. and the Pennsylvania Harness Horsemen.	197-205
10.06a	Settlement agreement dated February 11, 2000 between Penn National Gaming, Inc. and Amtote International, Inc.	206-208
10.07a	Thoroughbred horsemen letter dated February 24, 2000 between PNGI 209 Charles Town Gaming, LLC and the Charles Town thoroughbred horsemen.	
10.08a	Agreement dated March 7, 2000 between Penn National Gaming, Inc. and Trackpower, Inc. and eBet Limited, Inc.	210-218

SENIOR SECURED MULTIPLE DRAW TERM LOAN AGREEMENT

Dated as of December 13, 1999

among

PENN NATIONAL GAMING OF WEST VIRGINIA, INC.

as Borrower,

PENN NATIONAL GAMING, INC.

as Guarantor,

The Lenders referred to herein

and

BANK OF AMERICA, N.A.,

as Administrative Agent

TABLE OF CONTENTS

Schedules and Exhibits

SENIOR SECURED MULTIPLE DRAW TERM LOAN AGREEMENT

Dated as of December 13, 1999

This Senior Secured Multiple Draw Term Loan Agreement ("Agreement") is entered into by and among Penn National Gaming of West Virginia, Inc., a West Virginia corporation ("Borrower"), Penn National Gaming, Inc., a Pennsylvania corporation, as Guarantor ("PNGI"), each lender whose name is set forth on the signature pages of this Agreement and each lender which may hereafter become a party to this Agreement pursuant to Section 11.8 (collectively, the "Lenders" and individually, a "Lender") and Bank of America, N.A., as Administrative Agent.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

1 Article DEFINITIONS AND ACCOUNTING TERMS

Article 2 DEFINITIONS AND ACCOUNTING TERMS

1.1 Defined Terms . As used in this Agreement, the following terms shall have the meanings set forth below:

1.2

"10 5/8% Indenture" means the Indenture dated as of December 17, 1997 under which PNGI's 10 5/8% Senior Notes due 2004, Series A and 10 5/8% Senior Notes due 2004, Series B, were issued.

"Acquisition" means any transaction, or any series of related transactions, by which Borrower directly or indirectly (i) acquires any going business or all or substantially all of the assets of any firm, partnership, joint venture, limited liability company, corporation or division thereof, whether through purchase of assets, merger or otherwise, or (ii) acquires (in one transaction or as the most recent transaction in a series of transactions) control of at least a majority in ordinary voting power of the securities of a corporation which have ordinary voting power for the election of directors, or (iii) acquires control of a 50% or more ownership interest in any partnership, limited liability company or joint venture.

"Administrative Agent" means Bank of America, when acting in its capacity as the Administrative Agent under any of the Loan Documents, or any successor Administrative Agent.

"Administrative Agent's Office" means the Administrative Agent's address as set forth on the signature pages of this Agreement, or such other address as the Administrative Agent hereafter may designate by written notice to Borrower and the Lenders.

"Advance" means any advance made or to be made by any Lender to Borrower as provided in Article 2, and includes each Base Rate Advance and each LIBOR Advance.

"Affiliate" means, as to any Person, any other Person which directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (and the correlative terms, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise); provided that, in any event, any Person that owns, directly or indirectly, 10% or more of the securities having ordinary voting power for the election of directors or other governing body of a corporation that has more than 100 record holders of such securities, or 10% or more of the partnership or other ownership interests of any other Person that has more than 100 record holders of such interests, will be deemed to control such corporation, partnership or other Person.

"Agreement" means this Senior Secured Multiple Draw Term Loan Agreement, either as originally executed or as it may from time to time be supplemented, modified, amended, restated or extended.

"Applicable Regulations" means all Laws pursuant to which any Regulatory Board possesses regulatory, licensing or permit authority over gambling, gaming, casino, wagering, parimutuel and other similar activities conducted by PNGI or any of its Subsidiaries within its jurisdiction.

"Assignment Agreement" means an Assignment Agreement substantially in the form of Exhibit A.

"Availability Date" means

the date which is the first anniversary of the Closing Date.

"Bank of America" means Bank of America, N.A., its successors and assigns.

"Base Rate" means, as of any date of determination, the rate per annum (rounded upwards, if necessary, to the next 1/100 of 1%) equal to the higher of (a) the Prime Rate in effect on such date and (b) the Federal Funds Rate in effect on such date plus 1/2 of 1%.

"Base Rate Advance" means an Advance made hereunder and specified to be a Base Rate Advance in accordance with Article 2.

"Base Rate Loan" means a Loan made hereunder and specified to be a Base Rate Loan in accordance with Article 2.

"Base Rate Margin" means, for the initial Pricing Period 1.75% and, for each subsequent Pricing Period, the percentage set forth opposite the Leverage Ratio as of the last day of the Fiscal Quarter ending two months prior to the first day of that Pricing Period:

Leverage Ratio	Base Rate Margin
Greater than or equal to 3.00:1.00	1.75%
Less than 3.00:1.00 but greater than or equal to 2.50:1.00	1.50%
Less than 2.50:1.00 but greater than or equal to 2.00:1.00	1.00%
Less than 2.00:1.00 but greater than or equal to 1.50:1.00	0.75%
Less than 1.50:1.00	0.75%

"Borrower" means Penn National Gaming of West Virginia, Inc., a West Virginia corporation, its successors and
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permitted assigns.

"Business Day" means any Monday, Tuesday, Wednesday, Thursday or Friday, other than a day on which banks are authorized or required to be closed in California, Pennsylvania or West Virginia.

"Capital Expenditure" means any expenditure that is considered a capital expenditure under Generally Accepted Accounting Principles, including any amount which is required to be treated as an asset subject to a Capital Lease Obligation.

"Capital Lease Obligations" means all monetary obligations of a Person under any leasing or similar arrangement which, in accordance with Generally Accepted Accounting Principles, is classified as a capital lease.

"Cash" means, when used in connection with any Person, all monetary and non-monetary items owned by that Person that are treated as cash in accordance with Generally Accepted Accounting Principles, consistently applied.

"Cash Equivalents" means, when used in connection with any Person, that Person's Investments in:

(a) Government Securities due within one year after the date of the making of the Investment;

(a) readily marketable direct obligations of any State of the United States of America or any political subdivision of any such State or any public agency or instrumentality thereof given on the date of such Investment a credit rating of at least Aa by Moody's Investors Service, Inc. or AA by Standard & Poor's Ratings Group, in each case due within one year from the making of the Investment;

(a) certificates of deposit issued by, bank deposits in, eurodollar deposits through, bankers' acceptances of, and repurchase agreements covering Government Securities executed by, any Lender or any bank incorporated under the Laws of the United States of America, any State thereof or the District of Columbia and having on the date of such Investment combined capital, surplus and undivided profits of at least $250,000,000, in each case due within one year after the date of the making of the Investment;

(a) certificates of deposit issued by, bank deposits in, eurodollar deposits through, bankers' acceptances of, and repurchase agreements covering Government Securities executed by, any branch or office located in the United States of America of a bank incorporated under the Laws of any jurisdiction outside the United States of America having on the date of such Investment combined capital, surplus and undivided profits of at least $500,000,000, in each case due within one year after the date of the making of the Investment; and

(a) readily marketable commercial paper of corporations doing business in and incorporated under the Laws of the United States of America or any State thereof or of any corporation that is the holding company for a bank described in clause (c) or (d) above given on the date of such Investment a credit rating of at least P-1 by Moody's Investors Service, Inc. or A-1 by Standard & Poor's Ratings Group, in each case due within 90 days after the date of the making of the Investment.

"Certificate of a Responsible Official" means a certificate signed by a Responsible Official of the Person providing the certificate.

"Change of Control" means the occurrence of any of the following:

(a) individuals who on the Closing Date constituted the Board of Directors of PNGI (together with any new or replacement directors whose election by the Board of Directors, or whose nomination for election by the Board of Directors for election by PNGI's stockholders was approved by a vote of at least a majority of the directors then still in office who were either members of the Board of Directors of PNGI on the Closing Date or whose election or nomination for reelection was previously so approved) cease for any reason to constitute a majority of the directors then in office; or

(b) any transaction or series of related transactions in which any Person or two or more Persons (other than the Permitted Holders) acting in concert acquire beneficial ownership (within the meaning of Rule 13d-3(a)(1) under the Securities Exchange Act of 1934, as amended), directly or indirectly, of at least 25% on a fully diluted basis of the voting or economic interest in PNGI's capital stock; or

(c) the Permitted Holders cease to collectively own at least 25% on a fully diluted basis of the voting and/or economic interest in the capital stock of PNGI's capital stock; or

(d) any event which constitutes a "Change of Control" or "Change in Control" or similar event with respect to Indebtedness of PNGI or any of its Subsidiaries in a principal amount which is in excess of $1,000,000, in the aggregate which permits the holders thereof to accelerate the maturity of such Indebtedness or require the prepayment thereof prior to the stated or final maturity thereof; or

(e) any failure of PNGI to own, beneficially and of record, 100% of the capital stock of Borrower or of Borrower to own, beneficially and of record, 89% or more of the equity capital of the Charles Town Joint Venture.

"Charles Town Facility" means the Charles Town Entertainment Complex a/k/a Charles Town Races, located on Flowing Springs Road in Charles Town, Jefferson County, West Virginia 25414.

"Charles Town Facility Expansion" means the proposed expansion and improvement of the Charles Town Facility by the installation of the New Equipment and related equipment and fixtures.

"Charles Town Joint Venture" means PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company.

"Charles Town Operating Lease" means the Master Lease Agreement of even date herewith between Borrower and the Charles Town Joint Venture, as in effect on the date hereof, together with all equipment schedules now or hereafter delivered in connection therewith.

"Charles Town Subordination Agreement" means the Subordination Agreement, in form and substance satisfactory to the Administrative Agent, dated as of the date hereof, pursuant to which the Charles Town Joint Venture subordinates its interest in the Charles Town Operating Lease to the Lien of the Administrative Agent.

"Closing Date" means the time and Business Day on which the conditions set forth in Section 8.1 are satisfied or waived. The Administrative Agent shall notify Borrower and the Lenders of the date that is the Closing Date.

"Code" means the Internal Revenue Code of 1986, as amended or replaced and as in effect from time to time.

"Collateral" means all of the collateral covered by the Collateral Documents, including without limitation the G-Tech Equipment and the New Equipment.

"Collateral Documents" means, collectively, the Security Agreement, and any other security agreement, pledge agreement, deed of trust, mortgage or other collateral security agreement hereafter executed and delivered by PNGI, Borrower or any other Obligor to secure the Obligations.

"Commitment" means, subject to any decrease in the amount thereof pursuant to Sections 2.4 or 2.5, $20,000,000.

"Commitment Fee Rate" means, for the initial Pricing Period, 0.500% and for each subsequent Pricing Period, the percentage set forth opposite the Leverage Ratio as of the last day of the Fiscal Quarter ending two months prior to the first day of that Pricing Period:

Leverage Ratio	Commitment Fee Rate
Greater than or equal to 3.00:1.00	0.500%
Less than 3.00:1.00 but greater than or equal to 2.50:1.00	0.500%
Less than 2.50:1.00 but greater than or equal to 2.00:1.00	0.375%
Less than 2.00:1.00 but greater	0.375%

than or equal to 1.50:1.00
Less than 1.50:1.00 0.375%

"Compliance Certificate" means a certificate in the form of Exhibit B, properly completed and signed by a Senior Officer of Borrower.

"Consolidated Cash Interest Coverage Ratio" means, as of any date of determination, the ratio of (a) Consolidated EBITDA for the four Fiscal Quarter period then ended to (b) Consolidated Cash Interest Expense for the four Fiscal Quarter period then ended.

"Consolidated Cash Interest Expense" means, for any fiscal period, Consolidated Interest Expense for such period, provided that there shall be excluded any non-cash interest expense for such period (other than any interest that has been capitalized) to the extent that the same would otherwise have been included therein.

"Consolidated EBIT" means, for any fiscal period, Consolidated Net Income of PNGI and its Subsidiaries before Consolidated Interest Expense and provision for taxes for such period and without giving effect (a) to any cash extraordinary gains or losses not to exceed $1,000,000 in the most recent twelve-month period and (b) to any gains or losses from sales of assets other than from sales of inventory sold in the ordinary course of business.

"Consolidated EBITDA" means, for any fiscal period, Consolidated EBIT for such period, adjusted by (a) adding thereto the amount of all amortization of intangibles and depreciation that were deducted in arriving at Consolidated EBIT for such period, and (b) subtracting therefrom the amount of any payments made by PNGI and its Subsidiaries pursuant to Section 4 of the Plains Company Acquisition Agreement for such period (but only to the extent that such payments have not already reduced Consolidated Net Income for such period), it being understood and agreed, however, that for purposes of this clause (b), such payment will be treated as being paid in four equal consecutive quarterly installments, with the first such installment being treated as being paid in the fiscal quarter of PNGI in which such payment is made.

"Consolidated Indebtedness" means, as of any date of determination, the principal amount of all Indebtedness of PNGI and its Subsidiaries at such time other than Indebtedness in respect of letters of credit and Indebtedness under Swap Agreements unless a payment default has occurred thereunder.

"Consolidated Interest Expense" means, for any fiscal period, the total consolidated interest expense of PNGI and its Subsidiaries for such period (calculated without regard to any limitations on the payment thereof) plus, without duplication, the portion of rent paid or payable (without duplication) for that fiscal period under Capital

Lease Obligations that should be treated as interest in accordance with Financial Accounting Standards Board Statement No. 13; provided that the amortization of deferred financing costs with respect to this Agreement or the Indebtedness incurred hereunder shall be excluded from Consolidated Interest Expense to the extent the same would otherwise have been included therein.

"Consolidated Net Income" means, with respect to any Person and with respect to any fiscal period, the net income (or loss) of such Person and its Subsidiaries for such period, determined on a consolidated basis (after any deduction for minority interest), provided that (a) in determining Consolidated Net Income of PNGI, the net income of any other Person which is not a Subsidiary of PNGI or is accounted for by PNGI by the equity method of accounting shall be included only to the extent of the payment of dividends or distributions by such other Person to PNGI or a Subsidiary thereof during such period and (b) the net income (or loss) of any other Person acquired by such specified Person or a Subsidiary of such Person in a pooling of interest transaction for any period prior to the date of such acquisition shall be excluded.

"Consolidated Net Worth" means, as of any date of determination, the consolidated net worth of PNGI and its Subsidiaries.

"Contingent Obligation" means, as to any Person, any (a) guarantee by that Person of Indebtedness of, or other obligation performable by, any other Person or (b) assurance given by that Person to an obligee of any other Person with respect to the performance of an obligation by, or the condition or maintenance of the financial condition of, such other Person, whether direct, indirect or contingent, including any purchase or repurchase agreement covering such obligation, any interest rate swap agreement, forward contract or other arrangement of such Person, or any collateral security therefor, any agreement to provide funds (by means of loans, capital contributions or otherwise) to such other Person, any agreement to support the solvency or level of any balance sheet item of such other Person or any "keep-well" or other arrangement of whatever nature given for the purpose of assuring or holding harmless such obligee against loss with respect to any obligation of such other Person; provided, however, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation (unless the Contingent Obligation is limited by its terms to a lesser amount, in which case to the extent of such amount) or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by the Person in good faith.

"Contractual Obligation" means, as to any Person, any provision of any outstanding security issued by that Person or of any material agreement, instrument or undertaking to which that Person is a party or by which it or any of its Property is bound.

"Creditors" means, collectively, the Administrative Agent and the Lenders.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America, as amended from time to time, and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws from time to time in effect affecting the rights of creditors generally.

"Default" means any event that, with the giving of any applicable notice or passage of time specified in Section 9.1, or both, would be an Event of Default.

"Default Rate" means the interest rate prescribed in Section 3.6.

"Designated Eurodollar Market" means, with respect to any LIBOR Loan, (a) the London Eurodollar Market, (b) if prime banks in the London Eurodollar Market are at the relevant time not accepting deposits of Dollars or if the Administrative Agent determines in good faith that the London Eurodollar Market does not represent at the relevant time the effective pricing to the Lenders for deposits of Dollars in the London Eurodollar Market, the Cayman Islands Eurodollar Market or (c) if prime banks in the Cayman Islands Eurodollar Market are at the relevant time not accepting deposits of Dollars or if the Administrative Agent determines in good faith that the Cayman Islands Eurodollar Market does not represent at the relevant time the effective pricing to the Lenders for deposits of Dollars in the Cayman Islands Eurodollar Market, such other Eurodollar Market as may from time to time be selected by the Administrative Agent with the approval of Borrower and the Requisite Lenders.

"Disbursement Account" means a deposit account to be maintained by Borrower with Bank of America, as from time to time designated by Borrower by written notification to the Administrative Agent, into which Loans made hereunder shall be funded unless otherwise directed by the Borrower.

"Disposition" means the voluntary sale, transfer or other disposition of any asset of Borrower or any of its Subsidiaries other than (a) Cash, Cash Equivalents, inventory or other assets sold, leased or otherwise disposed of in the ordinary course of business of Borrower or its Subsidiaries, (b) equipment (including any aircraft) sold or otherwise disposed of where substantially similar equipment in replacement thereof has theretofore been acquired, or thereafter within 90 days is acquired, by Borrower or its Subsidiaries, (c) leases of retail space by Borrower, as lessor, in the ordinary course of the business of Borrower and in a manner consistent with other similarly situated businesses, (d) a disposition to Borrower or any of its Subsidiaries, and (e) Distributions permitted by Section 6.5.

"Distribution" means, with respect to shares of capital stock or any warrant or option to purchase an equity security or other equity security issued by a Person, (i) the retirement, redemption, purchase, or other acquisition for Cash or for Property by such Person of any such security, (ii) the declaration or (without duplication) payment by such Person of any dividend in Cash or in Property on or with respect to any such security, (iii) any Investment by such Person in the holder of 5% or more of any such security if a purpose of such Investment is to avoid characterization of the transaction as a Distribution, and (iv) any other payment in Cash or Property by such Person constituting a distribution under applicable Laws with respect to such security.

"Dollars" or "$" means United States dollars.

"Eligible Assignee" means, (a) another Lender, (b) with respect to any Lender, any Affiliate of that Lender, (c) any commercial bank having a combined capital and surplus of $100,000,000 or more, (d) any (i) savings bank, savings and loan association or similar financial institution or (ii) insurance company engaged in the business of writing insurance which, in either case (A) has a net worth of $200,000,000 or more, (B) is engaged in the business of lending money and extending credit under credit facilities similar to those extended under this Agreement and (C) is operationally and procedurally able to meet the obligations of a Lender hereunder to the same degree as a commercial bank and (e) any other financial institution (including a mutual fund or other fund) having total assets of $250,000,000 or more which meets the requirements set forth in subclauses (B) and (C) of clause (d) above; provided that (I) each Eligible Assignee must either (a) be organized under the Laws of the United States of America, any State thereof or the District of Columbia or (b) be organized under the Laws of the Cayman Islands or any country which is a member of the Organization for Economic Cooperation and Development, or a political subdivision of such a country, and (i) act hereunder through a branch, agency or funding office located in the United States of America and (ii) be exempt from withholding of tax on interest and deliver the documents related thereto pursuant to Section 11.21.

"ERISA" means the Employee Retirement Income Security Act of 1974, and any regulations issued pursuant thereto, as amended or replaced and as in effect from time to time.

"Eurodollar Base Rate" means, with respect to any LIBOR Loan, the average per annum interest rate at which deposits in Dollars would be offered for the applicable Interest Period by major banks in the Designated Eurodollar Market, as shown on the Telerate Page 3750 (or such other page as may replace it) at approximately 11:00 a.m. London time two Market Days before the commencement of the Interest Period. If such rate does not appear on the Telerate Page 3750 (or such other page that may replace it), the rate for that

interest period will be determined by such alternate method as reasonably selected by the Administrative Agent. The Administrative Agent's determination of the Eurodollar Base Rate shall be conclusive in the absence of manifest error.

"Eurodollar Market" means a regular established market located outside the United States of America by and among banks for the solicitation, offer and acceptance of Dollar deposits in such banks.

"Eurodollar Obligations" means eurocurrency liabilities, as defined in Regulation D.

"Event of Default" shall have the meaning provided in Section 9.1.

"Federal Funds Rate" means, as of any date of determination, the rate set forth in the weekly statistical release designated as H.15(519), or any successor publication, published by the Federal Reserve Board (including any such successor, "H.15(519)") for such date opposite the caption "Federal Funds (Effective)". If for any relevant date such rate is not yet published in H.15(519), the rate for such date will be the rate set forth in the daily statistical release designated as the Composite 3:30 p.m. Quotations for U.S. Government Securities, or any successor publication, published by the Federal Reserve Bank of New York (including any such successor, the "Composite 3:30 p.m. Quotations") for such date under the caption "Federal Funds Effective Rate". If on any relevant date the appropriate rate for such date is not yet published in either H.15(519) or the Composite 3:30 p.m. Quotations, the rate for such date will be the arithmetic mean of the rates for the last transaction in overnight Federal funds arranged prior to 9:00 a.m. (New York City time) on that date by each of three leading brokers of Federal funds transactions in New York City selected by the Administrative Agent. For purposes of this Agreement, any change in the Base Rate due to a change in the Federal Funds Rate shall be effective as of the opening of business on the effective date of such change.

"Fiscal Quarter" means the fiscal quarter of Borrower consisting of a three-month fiscal period ending on each March 31, June 30, September 30 and December 31.

"Fiscal Year" means the fiscal year of Borrower consisting of a twelve-month period ending on each December 31.

"Generally Accepted Accounting Principles" means accounting principles, as in effect on the Closing Date, as (a) set forth as generally accepted in the currently effective Opinions of the Accounting Principles Board of the American Institute of Certified Public Accountants, (b) set forth as generally accepted in the currently effective Statements of the Financial Accounting Standards Board or (c) that are approved by such other entity as

may be approved by a significant segment of the accounting profession in the United States of America. The term "consistently applied," as used in connection therewith, means that the accounting principles applied are consistent in all material respects with those applied at prior dates or for prior periods.

"G-Tech Equipment" means the approximately 799 video lottery terminals and related equipment and fixtures described as such on Schedule 1.1.

"Government Securities" means readily marketable (a) direct full faith and credit obligations of the United States of America or obligations guaranteed by the full faith and credit of the United States of America, or (b) obligations of an agency or instrumentality of, or corporation owned, controlled or sponsored by, the United States of America that are generally considered in the securities industry to be implicit obligations of the United States of America.

"Governmental Agency" means (a) any international, foreign, federal, state, county or municipal government, or political subdivision thereof, (b) any governmental or quasi-governmental agency, authority, board, bureau, commission, department, instrumentality or public body, or (c) any court or administrative tribunal of competent jurisdiction.

"Hazardous Materials" means substances regulated as hazardous substances pursuant to (a) the Comprehensive ---------- Environmental Response, Compensation and Liability Act of 1980, 42 U.S.C.ss. 9601 et seq., or as hazardous or toxic wastes or pollutants pursuant to the Hazardous Materials Transportation Act, 49 U.S.C.ss. 1801, et seq., the Resource Conservation and Recovery Act, 42 U.S.C.ss. 6901, et seq., or (b) any other Law regulating hazardous substances or hazardous or toxic wastes or pollutants or regulating the generation, use, storage, treatment, handling or transportation of any such substances, in each case as such Laws are amended from time to time.

"Hazardous Materials Laws" means all federal, state or local laws, ordinances, rules or regulations governing the disposal, transfer, generation, storage or treatment of Hazardous Materials applicable to any of the Real Property.

"Indebtedness" means, as to any Person (without duplication), (a) indebtedness of such Person for borrowed money or for the deferred purchase price of Property (excluding trade and other accounts payable in the ordinary course of business in accordance with customary trade terms), including any Contingent Obligation for any such indebtedness, (b) indebtedness of such Person of the nature described in clause (a) that is non-recourse to the credit of such Person but is secured by assets of such Person, to the extent of the value of such assets, (c) Capital Lease Obligations of such Person, (d) indebtedness of such Person arising under

bankers' acceptance facilities or under facilities for the discount of accounts receivable of such Person, (e) any direct or contingent obligations of such Person under letters of credit issued for the account of such Person and (f) any net obligations of such Person under a Swap Agreement.

"Intangible Assets" means assets that are considered intangible assets under Generally Accepted Accounting Principles, including customer lists, goodwill, computer software, copyrights, trade names, trademarks and patents.

"Interest Differential" means, with respect to any prepayment of a LIBOR Loan on a day other than the last day of the applicable Interest Period and with respect to any failure to borrow a LIBOR Loan on the date or in the amount specified in any Request for Loan, (a) the per annum interest rate payable (or, with respect to a failure to borrow, the interest rate which would have been payable) pursuant to Section 3.1(c) with respect to the LIBOR Loan minus (b) the LIBOR on, or as near as practicable to, the date of the prepayment or failure to borrow for a LIBOR Loan with an Interest Period commencing on such date and ending on the last day of the Interest Period of the LIBOR Loan so prepaid or which would have been borrowed on such date.

"Interest Period" means, as to each LIBOR Loan, the period commencing on the date specified by Borrower pursuant to Section 2.1(b) and ending 1, 2, 3 or 6 months thereafter, as specified by Borrower in the applicable Request for Loan; provided that:

(a) The first day of any Interest Period shall be a Market Day;

(a) Any Interest Period that would otherwise end on a day that is not a Market Day shall be extended to the next succeeding Market Day unless such Market Day falls in another calendar month, in which case such Interest Period shall end on the next preceding Market Day;

(a) Borrower may not specify an Interest Period that extends beyond any Reduction Date unless the aggregate principal amount of the LIBOR Loans having an Interest Period ending after such Reduction Date does not exceed the Commitment (after giving effect to any reduction thereto scheduled to be made on such Reduction Date pursuant to Section 2.5); and

(a) No Interest Period shall extend beyond the Maturity Date.

"Investment" means, when used in connection with any Person, any investment by or of that Person, whether by means of purchase or other acquisition of stock or other securities of any other Person or by means of a loan, advance creating a debt, capital contribution, guaranty or other debt or equity participation or interest in any other Person, including any partnership and joint venture interests of such Person. The amount of any Investment shall be the amount actually invested, without adjustment for subsequent increases or decreases in the value of such Investment.

"Laws" means, collectively, all federal, state and local statutes, rules, regulations, ordinances, codes and administrative or judicial precedents, or other matters having the force of law and binding upon the parties hereto.

"Lenders" has the meaning set forth in the preamble hereto.

"Leverage Ratio" means, as of the last day of each Fiscal Quarter, the ratio of (a) Consolidated Indebtedness as of such date to (b) Consolidated EBITDA for the four Fiscal Quarter period then ended (in each case taken as one accounting period), provided that for purposes of determining the Base Rate Margin, the LIBOR Margin and the Commitment Fee Rate, the term "Consolidated Indebtedness" as used in the foregoing clause (a) of this definition shall be the sum of (i) Consolidated Indebtedness (other than the then outstanding principal amount of all Loans) on the last day of the applicable Fiscal Quarter plus (ii) the average outstanding principal amount of all Loans for the Fiscal Quarter then ended.

"LIBOR" means, with respect to any LIBOR Loan, an interest rate per annum (rounded upward, if necessary, to the nearest 1/100 of one percent) determined pursuant to the following formula:

$$\text{LIBOR} = \frac{\text{Eurodollar Base Rate}}{\text{1.00 - Reserve Percentage}}$$

"LIBOR Advance" means an Advance made hereunder and specified to be a LIBOR Advance in accordance with Article 2.

"LIBOR Loan" means a Loan made hereunder and specified to be a LIBOR Loan in accordance with Article 2.

"LIBOR Margin" means, for the initial Pricing Period 2.75% and, for each subsequent Pricing Period, the percentage set forth opposite the Leverage Ratio as of the last day of the Fiscal Quarter ending two months prior to the first day of that Pricing Period:

Leverage Ratio	LIBOR Margin
Greater than or equal to 3.00:1.00	2.75%
Less than 3.00:1.00 but greater than or equal to 2.50:1.00	2.50%
Less than 2.50:1.00 but greater than or equal to 2.00:1.00	2.00%
Less than 2.00:1.00 but greater than or equal to 1.50:1.00	1.75%
Less than 1.50:1.00	1.50%

"LIBOR Office" means, as to each Lender, its office or branch so designated by written notice to the Administrative Agent as its LIBOR Office. If no LIBOR Office is designated by a Lender, its LIBOR Office shall be its office at its address for purposes of notices hereunder.

"License Revocation" means the revocation, failure to renew or suspension of, or the appointment of a receiver, supervisor or similar official with respect to, any casino, gambling or gaming license issued by any Regulatory Board covering any casino or gaming facility of PNGI or its Subsidiaries.

"Lien" means any mortgage, deed of trust, pledge, hypothecation, assignment for security, security interest, encumbrance, lien or charge of any kind, whether voluntarily incurred or arising by operation of Law or otherwise, affecting any Property, including any agreement to grant any of the foregoing, any conditional sale or other title retention agreement, any lease in the nature of a security interest, and/or the filing of or agreement to give any financing statement (other than a precautionary financing statement with respect to a lease that is not in the nature of a security interest or customary pre-filings of financing statements in connection with any refinancing) under the Uniform Commercial Code or comparable Law of any jurisdiction with respect to any Property.

"Loan" means the aggregate of the Advances made at any one time by the Lenders pursuant to Article 2.

"Loan Documents" means, collectively, this Agreement, the Notes, the PNGI Guaranty, the Collateral Documents, the Charles Town Subordination Agreement, each Request for Loan, each Compliance Certificate and any other agreements of any type or nature hereafter executed and delivered by Borrower or any of its Subsidiaries or Affiliates to the Administrative Agent or to any Lender in any way relating to or in furtherance of this Agreement, in each case either as originally executed or as the same may from time to time be supplemented, modified, amended, restated, extended or supplanted.

"Margin Stock" means "margin stock" as such term is defined in Regulation T, U or X.

"Market Day" means any Business Day on which dealings in Dollar deposits are conducted by and among banks in the Designated Eurodollar Market.

"Material Adverse Effect" means any set of circumstances or events which (a) has or may reasonably be expected to have any material adverse effect whatsoever upon the validity or enforceability of any Loan Document, (b) is or may reasonably be expected to be material and adverse to the condition (financial or otherwise), business operations or prospects of PNGI and its Subsidiaries, taken as a whole, or (c) materially impairs or may reasonably be expected to materially impair the ability of PNGI and its Subsidiaries, taken as a whole, to perform the Obligations.

"Maturity Date" means the earlier of (a) December 31, 2002 and (b) the date which is the third anniversary of the Closing Date.

"Multiemployer Plan" means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA.

"Negative Pledge" means a Contractual Obligation that contains a covenant binding on PNGI or any of its Subsidiaries that prohibits Liens on any of its or their Property, other than (a) any such covenant contained in a Contractual Obligation granting a Lien permitted under Section 6.8 which affects only the Property that is the subject of such permitted Lien and (b) any such covenant that does not apply to Liens securing the Obligations.

"Net Cash Proceeds" means with respect to any Disposition or any offerings of Indebtedness or equity securities of PNGI or its Subsidiaries, the gross sales proceeds received by PNGI and its Subsidiaries from such Disposition or offering in Cash and Cash Equivalents net of brokerage commissions, legal expenses and other transactional costs payable by PNGI and its Subsidiaries with respect to such Disposition and net of an amount determined in good faith by Borrower to be the estimated amount of income taxes payable by PNGI attributable to such Disposition and any reserves

required to be established in accordance with Generally Accepted Accounting Principles by PNGI or its Subsidiaries as a reserve against any liabilities associated with such Disposition, including without limitation pension and other post-employment benefit liabilities, liabilities related to environmental matters and liabilities under indemnification obligations associated with such Disposition.

"Net Equity Proceeds" means, with respect to each issuance or sale of any equity by any Person or any capital contribution to such Person, the cash proceeds (net of underwriting discounts and commissions and other reasonable costs associated therewith) received by such Person from the respective sale or issuance of its equity or from the respective capital contribution.

"New Equipment" means (a) the 565 slot machines and related equipment and fixtures purchased or to be purchased by Borrower and leased pursuant to the Charles Town Operating Lease and described on Schedule 1.2, and (b) any additional equipment and fixtures financed hereunder.

"Note" means any of the promissory notes made by Borrower to a Lender evidencing Advances under that Lender's Pro Rata Share of the Commitment, substantially in the form of Exhibit C, either as originally executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted.

"Obligations" means all present and future obligations of every kind or nature of Borrower or any other Obligor at any time and from time to time owed to the Administrative Agent or the Lenders or any one or more of them, under any one or more of the Loan Documents, whether due or to become due, matured or unmatured, liquidated or unliquidated, or contingent or noncontingent, including obligations of performance as well as obligations of payment, and including interest that accrues after the commencement of any proceeding under any Debtor Relief Law by or against Borrower or any Subsidiary or Affiliate of Borrower.

"Obligor" means Borrower, PNGI, the Charles Town Joint Venture, and each other future guarantor of the Obligations, and each Affiliate of PNGI which has at any time executed any Loan Document.

"Opinion of Counsel" means the favorable written legal opinions of Morgan, Lewis & Bockius, LLP, and Bowles, Rice, special counsel to the Obligors, in each case issued on the Closing Date and in a form solely acceptable to the Administrative Agent, together with copies of all factual certificates and legal opinions upon which such counsel have relied.

"Outstanding Obligations" means, as of each date of determination, and giving effect to the making of any such credit accommodations requested on that date, the aggregate principal amount of the outstanding Loans.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereof established under ERISA.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, which is subject to Title IV of ERISA and is maintained by Borrower or any of its Subsidiaries or to which Borrower or any of its Subsidiaries contributes or has an obligation to contribute.

"Permitted Holders" means Peter D. Carlino, his progeny and his or their spouses, and any trusts over which any such Person has sole control (voting or otherwise) and which name as beneficiaries only such Person or such Person's spouse or children.

"Person" means any individual or entity, including a trustee, corporation, limited liability company, general partnership, limited partnership, joint stock company, trust, estate, unincorporated organization, business association, firm, joint venture, Governmental Agency, or other entity.

"Plains Company Acquisition Agreement" means the Purchase Agreement dated as of September 13, 1996 by and between the Estate of Joseph B. Banks and PNGI.

"PNGI" means Penn National Gaming, Inc.,
a Pennsylvania corporation.

"PNGI Credit Agreement" means the Second Amended and Restated Credit Agreement among PNGI, various Banks, and First Union National Bank, as Agent, dated January 28, 1999, as amended on or prior to the date hereof and in effect on the date hereof, including the amendment thereto effective concurrently herewith.

"PNGI Credit Party" means any "Credit Party" as such term is defined in the PNGI Credit Agreement.

"PNGI Guaranty" means the unconditional guaranty or guaranties of the Obligations delivered by PNGI, either as originally executed or as it may from time to time be supplemented, modified, amended, or supplanted.

"Pricing Period" means (a) the period beginning on the Closing Date and ending on February 29, 2000, and (b) each of the succeeding three month periods beginning on each March 1, June 1, September 1 and December 1.

"Prime Rate" means the rate of interest publicly announced from time to time by Bank of America as its "prime rate." It is a rate set by Bank of America based upon various factors including Bank of America's costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in the Prime Rate announced by Bank of America shall take effect at the opening of business on the day specified in the public announcement of such change.

"Projections" means the financial projections attached hereto as Schedule 4.17.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible.

"Pro Rata Share" means, as of each date of determination and with respect to each Lender, the percentage of the Commitment owned by that Lender (or, if the Commitment has been terminated, the percentage of the Outstanding Obligations owned by that Lender). As of the Closing Date, the Pro Rata Share of each Lender is as set forth on the signature pages hereto. The records of the Administrative Agent shall be presumed to correctly reflect the Pro Rata Share of the Lenders then party to this Agreement.

"Quarterly Payment Date" means each March 31, June 30, September 30 and December 31 to occur following the date of this Agreement.

"Real Property" means, as of any date of determination, all real Property then or theretofore owned, leased or occupied by PNGI or any of its Subsidiaries.

"Reduction Amount" means, with respect to each Reduction Date, the amount set forth in the matrix below opposite that Reduction Date in the column headed "Reduction Amount" or such lesser amount to which that Reduction Amount may be reduced in accordance with the second sentence of Section 2.4:

Reduction Dates	Reduction Amount
03/31/00	$ 1,250,000
06/30/00	$ 1,250,000
09/30/00	$ 1,250,000
12/31/00	$ 1,250,000
03/31/01	$ 1,250,000
06/30/01	$ 1,250,000
09/30/01	$ 1,250,000
12/31/01	$ 1,250,000
03/31/02	$ 1,250,000
06/30/02	$ 1,250,000
09/30/02	$ 1,250,000
12/31/02	$ 6,250,000

"Reduction Date" means March 31, 2000, and the last day of each succeeding June, September, December and March through the Maturity Date.

"Regulation D" means Regulation D, as at any time amended, of the Board of Governors of the Federal Reserve System, or any other regulation in substance substituted therefor.

"Regulations T, U and X" means Regulations T, U and X, as at any time amended, of the Board of Governors of the Federal Reserve System, or any other regulations in substance substituted therefor.

"Regulatory Board" means, collectively, (a) the Pennsylvania Horse Racing Commission, the Pennsylvania Harness Racing Commission, the West Virginia Racing Commission, the West Virginia Lottery Commission, and (b) any other Governmental Agency that holds regulatory, licensing or permit authority over gambling, gaming or casino activities conducted by PNGI or any of its Subsidiaries within its jurisdiction.

"Request for Loan" means a written request for a Loan substantially in the form of Exhibit D, signed by a Responsible Official of Borrower and properly completed to provide all information required to be included therein.

"Requirement of Law" means, as to any Person, the articles or certificate of incorporation and by-laws or other organizational or governing documents of such Person, and any Law, or judgment, award, decree, writ or determination of a Governmental Agency, in each case applicable to or binding upon such Person or any of its Property or to which such Person or any of its Property is subject.

"Requisite Lenders" means, as of each date of determination (a) if the Commitment is then in effect, Lenders having Pro Rata Shares constituting 66 2/3% of the Commitment (but if there are only two Lenders, both Lenders), and (b) if the Commitment has then been terminated and there are then any Obligations outstanding, Lenders holding 66 2/3% or more of the Outstanding Obligations (but if there are only two Lenders, both Lenders).

"Reserve Percentage" means, with respect to any LIBOR Loan, the maximum reserve percentage (expressed as a decimal, rounded upward, if necessary, to the nearest 1/100th of 1%) in effect on the date the Eurodollar Base Rate for that LIBOR Loan is determined (whether or not applicable to any Lender) under regulations issued from time to time by the Federal Reserve Board for determining the maximum reserve requirement (including any emergency, supplemental or other marginal reserve requirement) with respect to eurocurrency funding (currently referred to as "eurocurrency liabilities") having a term comparable to the Interest Period for such LIBOR Loan. The determination by the Administrative Agent of any applicable Reserve Percentage shall be conclusive in the absence of manifest error.

"Responsible Official" means (a) when used with reference to a Person other than an individual, any officer of such Person, general partner of such Person, officer of a corporate general partner of such Person, or corporate officer of a corporate general partner of a partnership that is a general partner of such Person, or any other responsible official thereof duly acting on behalf thereof, and (b) when used with reference to a Person who is an individual, such Person. Any document or certificate hereunder that is signed or executed by a Responsible Official of another Person shall be conclusively presumed to have been authorized by all necessary corporate, partnership and/or other action on the part of such other Person.

"Right of Others" means, as to any Property in which a Person has an interest, any legal or equitable right, title or other interest (other than a Lien) held by any other Person in that Property, and any option or right held by any other Person to acquire any such right, title or other interest in that Property, including any option or right to acquire a Lien.

"Scheduled Expense" means the proposed expenditures to be made by Borrower for New Equipment and Leasehold Improvements described on Schedule 1.2, the amounts of which shall not exceed the amounts listed under the column labeled "Unpaid as of December 13, 1999" on Schedule 1.2.

"Security Agreement" means a security agreement executed and delivered by Borrower in favor of the Administrative Agent for the benefit of the Creditors, either as originally executed or as it may from time to time be supplemented, modified, amended, extended or supplanted.

"Senior Officer" means the (a) chief executive officer, (b) president, (c) any vice president, (d) chief financial officer, (e) treasurer or (f) assistant treasurer of the Person designated.

"Significant Transaction" means any (a) Acquisition following the Closing Date by PNGI or its Subsidiaries of another Person or group of Persons for a consideration in excess of $10,000,000, or any Investment following the Closing Date by PNGI or its Subsidiaries in any other Person in an amount which is in excess of $10,000,000, (b) any purchase, lease or other acquisition by PNGI or any of its Subsidiaries of capital or fixed assets for a consideration which is in excess of $10,000,000, in each case whether in a single transaction or a series of related transactions, but in any event excluding Capital Expenditures made to improve or expand assets owned by PNGI or its Subsidiaries as of the Closing Date. Execution of any agreement requiring PNGI or its Subsidiaries to enter into a Significant Transaction shall not be deemed to constitute a Significant Transaction unless or until the underlying transactions are consummated.

"Solvent" means, as of any date of determination, and as to any Person, that on such date: (a) the fair valuation of the assets of such Person is greater than the fair valuation of such Person's probable liability in respect of existing debts; (b) such Person does not intend to, and does not believe that it will, incur debts beyond such Person's ability to pay as such debts mature; (c) such Person is not engaged in a business or transaction, and is not about to engage in a business or transaction, which would leave such Person with assets remaining which would constitute unreasonably small capital after giving effect to the nature of the particular business or transaction; and (d) such Person is generally paying its debts as they become due. For purposes of the foregoing (1) the "fair valuation" of any assets means the amount realizable within a reasonable time, either through collection or sale, of such assets at their regular market value, which is the amount obtainable by a capable and diligent businessman from an interested buyer willing to purchase such assets within a reasonable time under ordinary circumstances; and (2) the term "debts" includes any legal liability whether matured or unmatured, liquidated or unliquidated, absolute, fixed or contingent.

"Special LIBOR Circumstance" means the application or adoption after the Closing Date of any Law or interpretation, or any change after the Closing Date therein or thereof, or any change after the Closing Date in the interpretation or administration thereof by any Governmental Agency, central bank or comparable authority charged with the interpretation or administration thereof, or compliance by any Lender or its LIBOR Office with any request or directive (whether or not having the force of Law) of any such Governmental Agency, central bank or comparable authority issued after the Closing Date, or the existence or occurrence after the Closing Date of circumstances affecting the Designated Eurodollar Market generally that are beyond the reasonable control of the Lenders.

"Subordinated Obligations" means any Indebtedness of Borrower which is subordinated in right of payment to the Obligations, the terms of which are approved by the Administrative Agent, acting with the consent of the Requisite Lenders, in writing.

"Subsidiary" means, as of any date of determination and with respect to any Person, any corporation, limited liability company or partnership (whether or not, in either case, characterized as such or as a "joint venture"), whether now existing or hereafter organized or acquired: (a) in the case of a corporation or limited liability company, of which a majority of the securities having ordinary voting power for the election of directors or other governing body (other than securities having such power only by reason of the happening of a contingency) are at the time beneficially owned by such Person and/or one or more Subsidiaries of such Person, or (b) in the case of a partnership, of which a majority of the partnership or other ownership interests are at the time beneficially owned by such Person and/or one or more of its Subsidiaries.

"Swap Agreement" means a written agreement between Borrower and one or more financial institutions providing for "swap", "cap", "collar" or other interest rate protection with respect to any Indebtedness.

"to the best knowledge of" means, when modifying a representation, warranty or other statement of any Person, that the fact or situation described therein is known by the Person (or, in the case of a Person other than a natural Person, known by a Responsible Official of that Person) making the representation, warranty or other statement, or with the exercise of reasonable due diligence under the circumstances (in accordance with the standard of what a reasonable Person in similar circumstances would have done) would have been known by the Person (or, in the case of a Person other than a natural Person, would have been known by a Responsible Official of that Person).

"type", when used with respect to any Loan or Advance, means the designation of whether such Loan or Advance is a Base Rate Loan or Advance, or a LIBOR Loan or Advance.

"Venue" means any gaming, pari-mutuel, racing or other entertainment venue now or hereafter operated by PNGI or any of its Subsidiaries.

"Wholly-Owned Subsidiary" means, as to any Person, (i) any corporation 100% of whose capital stock (other than director's qualifying shares) is at the time owned by such Person and/or one or more Wholly-Owned Subsidiaries of such Person and (ii) any partnership, association, joint venture or other entity in which such Person and/or one or more Wholly-Owned Subsidiaries of such Person has a 100% equity interest at such time.

"Year 2000 Issue" means failure of computer software, hardware and firmware systems, and equipment containing embedded computer chips, to properly receive, transmit, process, manipulate, store, retrieve, re-transmit or in any other way utilize data and information due to the occurrence of the year 2000 or the inclusion of dates on or after January 1, 2000.

1.1 Use of Defined Terms . Any defined term used in the plural shall refer to all members of the relevant class, and any defined term used in the singular shall refer to any one or more of the members of the relevant class.

1.2

1.3 Accounting Terms . All accounting terms not specifically defined in this Agreement shall be construed in conformity with, and all financial data required to be submitted by this Agreement shall be prepared in conformity with, Generally Accepted Accounting Principles as in effect on the Closing Date, applied on a consistent basis.

1.4

1.5 Rounding . Any financial ratios required to be maintained by Borrower or PNGI pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed in this Agreement and rounding the result up or down to the nearest number (with a round-up if there is no nearest number) to the number of places by which such ratio is expressed in this Agreement.

1.6

1.7 Exhibits and Schedules . All Exhibits and Schedules to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified or amended, are incorporated herein by this reference. A matter disclosed on one Schedule shall be deemed disclosed on all Schedules.

1.8

1.9 References to "and its Subsidiaries" . Any reference herein to "and its Subsidiaries" or the like shall refer solely to the subject Person during such times as the subject Person shall have no Subsidiaries. No use of the term "Subsidiary" or any derivative thereof in the Loan Documents shall imply a right in any Person to make any Investments in or Acquisitions of any other Person.

1.10

1.11 References to Times . Each reference to a time of day set forth in the Loan Documents shall, unless expressly stated to the contrary, be a reference to the then prevailing California local time.

1.12

1.13 Miscellaneous Terms . The term "or" is disjunctive; the term "and" is conjunctive. The term "shall" is mandatory; the term "may" is permissive. Masculine terms also apply to females; feminine terms also apply to males. The term "including" is by way of example and not limitation.

1.14

Article LOANS

Article 3 LOANS

1.1 Loans-General .

1.2

(a) Subject to the terms and conditions set forth in this Agreement, on the Closing Date each Lender shall, pro rata according to that Lender's Pro Rata Share of the then applicable Commitment, make an Advances to Borrower under the Commitment in the aggregate amount of $9,100,000. Subject to the terms and conditions set forth in this Agreement, from the Closing Date through the Availability Date each Lender shall, pro rata according to that Lender's Pro Rata Share of the then applicable Commitment, make further Advances to Borrower under the Commitment against Scheduled Expenses in such amounts as Borrower may request that do not result in the Outstanding Obligations being in excess of the Commitment. Unless the Administrative Agent otherwise requests, Borrower shall not request any Loan which results in an increase in the aggregate principal amount of the Outstanding Obligations more frequently than once in each calendar month. The proceeds of all Advances made hereunder shall be used as set forth in Section 5.9. Amounts repaid under the Commitment may not be reborrowed. Subject to the limitations set forth herein, Borrower may repay under the Commitment without premium or penalty.

(a) Subject to the next sentence, each Loan shall be made pursuant to a Request for Loan which shall (i) specify the requested date of such Loan, type of Loan, amount of such Loan and in the case of a LIBOR Loan, the Interest Period for such Loan, (ii) in the case of each Loan made following the Closing Date which results in an increase in the Outstanding Obligations, describe the Scheduled Expenses made by Borrower which are to be financed using the proceeds of the requested Loan and attach photocopies of invoices for such Scheduled Expenses, and (iii) in the case of any Scheduled Expense for the purchase of New Equipment, attach a duly executed Schedule to the Charles Town Operating Lease pursuant to which such New Equipment has been accepted by the Charles Town Joint Venture, as Lessee under the Charles Town Operating Lease. The amount of each Loan made following the Closing Date which will result in an increase in the amount of the Outstanding Obligations shall also be subject to the conditions set forth in Section 8.2. Unless the Administrative Agent has previously notified Borrower to the contrary (which notice may be given in the sole and absolute discretion of the Administrative Agent), Loans may be requested by telephone by a Responsible Official of Borrower, in which case Borrower shall confirm such request by promptly delivering a Request for Loan in person or by telecopier conforming to the preceding sentence to the Administrative Agent. Neither the Administrative Agent nor any Lender shall incur any liability whatsoever hereunder in acting upon any telephonic request for a Loan purportedly made by a Responsible Official of Borrower, which hereby agrees to indemnify the Administrative Agent and the Lenders from any loss, cost, expense or liability as a result of so acting.

(a) Promptly following receipt of a Request for Loan, the Administrative Agent shall notify each Lender by telephone or telecopier (and if by telephone, promptly confirmed by telecopier) of the date and type of the Loan, the applicable Interest Period, and that Lender's Pro Rata Share of the Loan. Not later than 11:00 a.m. on the date specified for any Loan, each Lender shall make its Pro Rata Share of the Loan in immediately available funds available to the Administrative Agent at the Administrative Agent's Office. Upon satisfaction or waiver of the applicable conditions set forth in Article 8, all Advances shall be credited on that date in immediately available funds to the Disbursement Account for direct use by Borrower for the purposes described in Section 5.9.

(a) Unless the Requisite Lenders otherwise consent, each Loan shall be in an amount which is an integral multiple of $100,000 which is not less than $500,000.

(a)The Advances made by each Lender shall be evidenced by that Lender's Note.

(a) A Request for Loan shall be irrevocable upon the Administrative Agent's receipt thereof (or, in the case of a telephonic request for Loan referred to in the second sentence of Section 2.1(b), upon the Administrative Agent's receipt of that telephone call).

(a) If no Request for Loan (or telephonic request for Loan referred to in the second sentence of Section 2.1(b), if applicable) has been made within the requisite notice periods set forth in Section 2.2 or 2.3 in connection with a Loan which, if made and giving effect to the application of the proceeds thereof, would not increase the outstanding principal Indebtedness evidenced by the Notes, then Borrower shall be deemed to have requested, as of the date upon which the related then outstanding Loan is due pursuant to Section 3.1(e), a Base Rate Loan in an amount equal to the amount necessary to cause the outstanding principal Indebtedness evidenced by the Notes to remain the same and the Lenders shall make the Advances necessary to make such Loan notwithstanding Sections 2.1(b) and 2.2.

1.1 Base Rate Loans . Each request by Borrower for a Base Rate Loan shall be made pursuant to a Request for Loan (or telephonic or other request for loan referred to in the second sentence of Section 2.1(b), if applicable) received by the Administrative Agent, at the Administrative Agent's Office, not later than 10:00 a.m. on the date (which must be the first Business Day of a month) of the requested Base Rate Loan. All Loans shall constitute Base Rate Loans unless properly designated as LIBOR Loans pursuant to Section 2.3.

1.1 LIBOR Loans .

1.2

(a) Each request by Borrower for a LIBOR Loan shall be made pursuant to a Request for Loan (or telephonic or other request for Loan referred to in the second sentence of Section 2.1(b), if applicable) received by the Administrative Agent, at the Administrative Agent's Office, not later than 10:00 a.m. at least three Market Days before the first day of the applicable Interest Period.

(a) On the date which is two Market Days before the first day of the applicable Interest Period, the Administrative Agent shall confirm its determination of the applicable LIBOR (which determination shall be conclusive in the absence of manifest error) and promptly shall give notice of the same to Borrower and the Lenders by telephone or telecopier (and if by telephone, promptly confirmed by telecopier).

(a) Unless the Administrative Agent and the Requisite Lenders otherwise consent, no more than three LIBOR Loans shall be outstanding at any one time.

(a) No LIBOR Loan may be requested where a Default or Event of Default has occurred and remains continuing.

(a) Nothing contained herein shall require any Lender to fund any LIBOR Advance in the Designated Eurodollar Market.

1.1 Voluntary Reduction of Commitment . Borrower shall have the right, at any time and from time to time prior to the Availability Date, without penalty or charge, upon at least three Business Days' prior written notice by Borrower to the Administrative Agent, to voluntarily reduce, permanently and irrevocably, in amounts which are integral multiples of $1,000,000, or to terminate, all or a portion of the then undisbursed portion of the Commitment. Concurrently with the making of any such reduction in the Commitment, Borrower may specify that the Reduction Amounts for one or more Reduction Dates will be reduced in an aggregate amount which is the same as the amount of the reduction of the Commitment, provided that in the absence of a timely specification to this effect by Borrower, each such reduction shall be applied to Reduction Amounts in the inverse order of their occurrence. The Administrative Agent shall promptly notify the Lenders of any reduction or termination of the Commitment under this Section, and of any changes to the Reduction Amounts.

1.2

1.3 Scheduled Reductions of Commitment . The Commitment shall automatically and permanently reduce on each Reduction Date by the related Reduction Amount.

1.4

1.5 Mandatory Reductions of Commitment . The Commitment shall permanently reduce in the amount of any mandatory prepayments required pursuant to Section 3.1(f). Any reduction of the Commitment pursuant to this Section 2.6 shall be in addition to the scheduled reductions described in Section 2.5.

1.6

1.7 Administrative Agent's Right to Assume Funds Available for Advances . Unless the Administrative Agent shall have been notified by a Lender no later than the Business Day prior to the funding by the Administrative Agent of any Loan that such Lender does not intend to make available to the Administrative Agent such Lender's Pro Rata Share of that Loan, the Administrative Agent may assume that such Lender has made such amount available to the Administrative Agent on the date of the Loan and the Administrative Agent may, in reliance upon such assumption, make available to Borrower a corresponding amount. If the Administrative Agent has made funds available to Borrower based on such assumption and such corresponding amount is not in fact made available to the Administrative Agent by such Lender, the Administrative Agent shall be entitled to recover such corresponding amount on demand from such Lender. If such Lender does not pay such corresponding amount forthwith upon the Administrative Agent's demand therefor, the Administrative Agent promptly shall notify Borrower and Borrower shall pay such corresponding amount to the Administrative Agent. The Administrative Agent also shall be entitled to recover from such Lender interest on such corresponding amount in respect of each day from the date such corresponding amount was made available by the Administrative Agent to Borrower to the date such corresponding amount is recovered by the Administrative Agent, at a rate per annum equal to (a) the Federal Funds Rate for the first two days following a demand by the Administrative Agent and (b) thereafter, the rate of interest then payable by Borrower with respect to Base Rate Advances. Nothing herein shall be deemed to relieve any Lender from its obligation to fulfill its share of the Commitment or to prejudice any rights which the Administrative Agent or Borrower may have against any Lender as a result of any default by such Lender hereunder.

1.8

Article PAYMENTS AND FEES

Article 3 PAYMENTS AND FEES

1.1 Principal and Interest .

1.2

(a) Interest shall be payable on the outstanding daily unpaid principal amount of each Advance from the date thereof until payment in full is made and shall accrue and be payable at the rates set forth or provided for herein before and after default, before and after maturity, before and after judgment, and before and after the commencement of any proceeding under any Debtor Relief Law, with interest on overdue interest at the Default Rate to the fullest extent permitted by applicable Laws.

(a) Interest accrued on each Base Rate Loan on each Quarterly Payment Date, and on the date of any prepayment of the Notes pursuant to Section 3.1(f) or Section 3.1(g), shall be due and payable on that day. Except as otherwise provided in Section 3.6, the unpaid principal amount of each Base Rate Loan shall bear interest at a fluctuating rate per annum equal to the Base Rate plus the Base Rate Margin. Each change in the interest rate under this Section 3.1(b) due to a change in the Base Rate shall take effect simultaneously with the corresponding change in the Base Rate.

(a) Interest accrued on each LIBOR Loan which is for a term of three months or less shall be due and payable on the last day of the related Interest Period. Interest accrued on each other LIBOR Loan shall be due and payable on the date which is three months after the date such LIBOR Loan was made and on the last day of the related Interest Period. Except as otherwise provided in Sections 3.1(d) and 3.6, the unpaid principal amount of any LIBOR Loan shall bear interest at a rate per annum equal to the LIBOR for that LIBOR Loan plus the LIBOR Margin.

(a) During the existence of a Default or Event of Default, the Requisite Lenders may determine that any or all then outstanding LIBOR Loans shall be converted to Base Rate Loans. Such conversion shall be effective upon notice to Borrower from the Requisite Lenders (or from the Administrative Agent on behalf of the Requisite Lenders) and shall continue so long as such Default or Event of Default continues to exist.

(a) If not sooner paid, the principal Indebtedness evidenced by the Notes shall be payable as follows:

(i) the principal amount of each LIBOR Loan shall be payable on the last day of the Interest Period for such

Loan (provided that such principal amount may be paid using the proceeds of a Base Rate Loan made pursuant to Section 2.1(g));

(i) the amount, if any, by which the Outstanding Obligations at any time exceed the Commitment shall be payable immediately; and

(i) the principal Indebtedness evidenced by the Notes shall in any event be payable on the Maturity Date.

(a) The Notes shall be prepaid on or before the fifth Business Day following the receipt by PNGI or any of its Subsidiaries of Net Cash Proceeds from the sale, transfer or other disposition of any Collateral.

(a) The Notes may, at any time and from time to time, voluntarily be paid or prepaid in whole or in part without premium or penalty, except that with respect to any voluntary prepayment under this Section, (i) any partial prepayment shall be not less than $500,000 and in integral multiples of $100,000, (ii) the Administrative Agent shall have received written notice of any prepayment by 10:00 a.m. on the Business Day immediately preceding the date of such prepayment (which must be a Business Day) in the case of a Base Rate Loan, and, in the case of a LIBOR Loan, three Market Days before the date of prepayment, which notice shall identify the date and amount of the prepayment and the Loans being prepaid, (iii) each prepayment of principal shall be accompanied by payment of interest accrued to the date of payment on the amount of principal paid and (iv) any payment or prepayment of all or any part of any LIBOR Loan on a day other than the last day of the applicable Interest Period shall be subject to Section 3.5(d).

1.1 Facility Fees . On the Closing Date and on each anniversary of the Closing Date, Borrower shall pay to the Administrative Agent a facility fee equal to 0.50% of the then effective Commitment (less any reduction thereto scheduled to occur on the next succeeding December 31). The facility fees are for the ratable account of the Lenders according to their Pro Rata Shares. The facility fees are for the credit facilities provided to Borrower under this Agreement and are nonrefundable.

1.2

1.3 Commitment Fees . From the Closing Date, Borrower shall pay to the Administrative Agent, for the ratable accounts of the Lenders according to their Pro Rata Shares, an unused commitment fee equal to the then applicable Commitment Fee Rate per annum times the average daily amount by which (a) the Commitment exceeds (b) the aggregate principal Indebtedness outstanding under the Notes. Unused commitment fees shall be payable quarterly in arrears on each Quarterly Payment Date, on the date of any termination of the Commitment, and on the Maturity Date.

1.4

1.5 Increased Commitment Costs . If any Lender shall determine in good faith that the introduction after the Closing Date of any applicable law, rule, regulation or guideline regarding capital adequacy, or any change therein or any change in the interpretation or administration thereof by any central bank or other Governmental Agency charged with the interpretation or administration thereof, or compliance by such Lender (or its LIBOR Office) or any corporation controlling the Lender, with any request, guideline or directive regarding capital adequacy (whether or not having the force of law) of any such central bank or other authority, affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy and such Lender's desired return on capital) determines in good faith that the amount of such capital is increased, or the rate of return on capital is reduced, as a consequence of its obligations under this Agreement, then, within ten Business Days after demand of such Lender, Borrower shall pay to such Lender, from time to time as specified in good faith by such Lender, additional amounts sufficient to compensate such Lender in light of such circumstances, to the extent reasonably allocable to such obligations under this Agreement. Each Lender's determination of such amounts shall be conclusive in the absence of manifest error.

1.1 LIBOR Costs and Related Matters .

1.2

(a) If, after the date hereof, the existence or occurrence of any Special LIBOR Circumstance:

(1) shall subject any Lender or its LIBOR Office to any tax, duty or other charge or cost with respect to any LIBOR Advance, any of its Notes evidencing LIBOR Loans or its obligation to make LIBOR Advances, or shall change the basis of taxation of payments to any Lender attributable to the principal of or interest on any LIBOR Advance or any other amounts due under this Agreement in respect of any LIBOR Advance, any of its Notes evidencing LIBOR Loans or its obligation to make LIBOR Advances, excluding, in the case of each Lender, the Administrative Agent and each Eligible Assignee, and any Affiliate or LIBOR Office thereof, (i) taxes imposed on or measured in whole or in part by its overall net income, gross income or gross receipts or capital and franchise taxes imposed on it, by (A) any jurisdiction (or political subdivision thereof) in which it is organized or maintains its principal office or LIBOR Office or (B) any jurisdiction (or political subdivision thereof) in which it is "doing business" (unless it would not be doing business in such jurisdiction (or political subdivision thereof) absent the transactions contemplated hereby), (ii) any withholding taxes or other taxes based on gross income imposed by the United States of America (other than withholding taxes and taxes based on gross income resulting solely from or attributable to any change in any law, rule or regulation or any change in the interpretation or administration of any law, rule or regulation by any Governmental Agency) or (iii) any withholding taxes or other taxes based on gross income imposed by the United States of America for any period with respect to which it has failed to provide Borrower with the appropriate form or forms required by Section 11.21, to the extent such forms are then required by applicable Laws;

(1) shall impose, modify or deem applicable any reserve not applicable or deemed applicable on the date hereof (including, without limitation, any reserve imposed by the Board of Governors of the Federal Reserve System, but excluding the Reserve Percentage taken into account in calculating the LIBOR), special deposit, capital or similar requirements against assets of, deposits with or for the account of, or credit extended by, any Lender or its LIBOR Office; or

(1) shall impose on any Lender or its LIBOR Office or the Designated LIBOR Market any other condition affecting any LIBOR Advance, any of its Notes evidencing LIBOR Loans, its obligation to make LIBOR Advances or this Agreement, or shall otherwise affect any of the same;

and the result of any of the foregoing, as determined in good faith by such Lender, increases the cost to such Lender or its LIBOR Office of making or maintaining any LIBOR Advance or in respect of any LIBOR Advance, any of its Notes evidencing LIBOR Loans or its obligation to make LIBOR Advances or reduces the amount of any sum received or receivable by such Lender or its LIBOR Office with respect to any LIBOR Advance, any of its Notes evidencing LIBOR Loans or its obligation to make LIBOR Advances (assuming such Lender's LIBOR Office had funded 100% of its LIBOR Advance in the Designated LIBOR Market), then, within five Business Days after demand by such Lender (with a copy to the Administrative Agent), Borrower shall pay to such Lender such additional amount or amounts as will compensate such Lender for such increased cost or reduction (determined as though such Lender's LIBOR Office had funded 100% of its LIBOR Advance in the Designated LIBOR Market). Borrower hereby indemnifies each Lender against, and agrees to hold each Lender harmless from and reimburse such Lender within ten (10) Business Days after demand for (without duplication) all costs, expenses, claims, penalties, liabilities, losses, reasonable legal fees and damages incurred or sustained by each Lender in connection with this Agreement, or any of the rights, obligations or transactions provided for or contemplated herein, as a direct result of the existence or occurrence of any Special LIBOR Circumstance. A statement of any Lender claiming compensation under this subsection and setting forth in reasonable detail the additional amount or amounts to be paid to it hereunder shall be conclusive in the absence of manifest error. Each Lender agrees to endeavor promptly to notify Borrower of any event of which it has actual knowledge, occurring after the Closing Date, which will entitle such Lender to compensation pursuant to this Section, and agrees to designate a different LIBOR Office if such designation will avoid the need for or reduce the amount of such compensation and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender. If any Lender claims compensation under this Section, Borrower may at any time, upon at least four (4) Market Days' prior notice to the Administrative Agent and such Lender and upon payment in full of the amounts provided for in this Section through the date of such payment plus any prepayment fee required by Section 3.5(d), pay in full the affected LIBOR Advances of such Lender or request that such LIBOR Advances be converted to Base Rate Advances.

(a) If, after the date hereof, the existence or occurrence of any Special LIBOR Circumstance shall, in the good faith opinion of any Lender, make it unlawful or impossible for such Lender or its LIBOR Office to make, maintain or fund its portion of any LIBOR Loan, or materially restrict the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the Designated LIBOR Market, or to determine or charge interest rates based upon the LIBOR, and such Lender shall so notify the Administrative Agent, then such Lender's obligation to make LIBOR Advances shall be suspended for the duration of such illegality or impossibility and

the Administrative Agent forthwith shall give notice thereof to the other Lenders and Borrower. Upon receipt of such notice, the outstanding principal amount of such Lender's LIBOR Advances, together with accrued interest thereon, automatically shall be converted to Base Rate Advances with Interest Periods corresponding to the LIBOR Loans of which such LIBOR Advances were a part on either (1) the last day of the Interest Period(s) applicable to such LIBOR Advances if such Lender may lawfully continue to maintain and fund such LIBOR Advances to such day(s) or (2) immediately if such Lender may not lawfully continue to fund and maintain such LIBOR Advances to such day(s), provided that in such event the conversion shall not be subject to payment of a prepayment fee under Section 3.5(d). Each Lender agrees to endeavor promptly to notify Borrower of any event of which it has actual knowledge, occurring after the Closing Date, which will cause that Lender to notify the Administrative Agent under this Section 3.5(b), and agrees to designate a different LIBOR Office if such designation will avoid the need for such notice and will not, in the good faith judgment of such Lender, otherwise be materially disadvantageous to such Lender. In the event that any Lender is unable, for the reasons set forth above, to make, maintain or fund its portion of any LIBOR Loan, such Lender shall fund such amount as a Base Rate Advance for the same period of time, and such amount shall be treated in all respects as a Base Rate Advance. Any Lender whose obligation to make LIBOR Advances has been suspended under this Section 3.5(b) shall promptly notify the Administrative Agent and Borrower of the cessation of the Special LIBOR Circumstance which gave rise to such suspension.

(a) If, with respect to any proposed LIBOR Loan:

(1) the Administrative Agent reasonably determines that, by reason of circumstances affecting the Designated LIBOR Market generally that are beyond the reasonable control of the Lenders, deposits in Dollars (in the applicable amounts) are not being offered to any Lender in the Designated LIBOR Market for the applicable Interest Period; or

(1) the Requisite Lenders advise the Administrative Agent that the LIBOR as determined by the Administrative Agent (i) does not represent the effective pricing to such Lenders for deposits in Dollars in the Designated LIBOR Market in the relevant amount for the applicable Interest Period, or (ii) will not adequately and fairly reflect the cost to such Lenders of making the applicable LIBOR Advances;

then the Administrative Agent forthwith shall give notice thereof to Borrower and the Lenders, whereupon until the Administrative Agent notifies Borrower that the circumstances giving rise to such suspension no longer exist, the obligation of the Lenders to make any future LIBOR Advances shall be suspended. If at the time of such notice there is then pending a Request for Loan that specifies a LIBOR Loan, such Request for Loan shall be deemed to specify a Base Rate Loan.

(a) Upon payment or prepayment of any LIBOR Advance (other than as the result of a conversion required under Section 3.5(b)), on a day other than the last day in the applicable Interest Period (whether voluntarily, involuntarily, by reason of acceleration, or otherwise), or upon the failure of Borrower (for a reason other than the failure of a Lender to make an Advance) to borrow on the date or in the amount specified for a LIBOR Loan in any Request for Loan, Borrower shall pay to the appropriate Lender within ten (10) Business Days after demand a prepayment fee or failure to borrow fee, as the case may be (determined as though 100% of the LIBOR Advance had been funded in the Designated LIBOR Market) equal to the sum of:

(1) the principal amount of the LIBOR Advance prepaid or not borrowed, as the case may be, times the number of days between the date of prepayment or failure to borrow, as applicable, and the last day in the applicable Interest Period, divided by 360, times the applicable Interest Differential (provided that the product of the foregoing formula must be a positive number); plus

(1) all reasonable out-of-pocket expenses incurred by the Lender reasonably attributable to such payment, prepayment or failure to borrow.

Each Lender's determination of the amount of any prepayment fee payable under this Section 3.5(d) shall be conclusive in the absence of manifest error.

1.1 Late Payments . If any Event of Default occurs and remains continuing, the Loans shall thereafter bear interest, to the fullest extent permitted by applicable Laws at a fluctuating interest rate per annum at all times equal to (a) with respect to any payment of principal or interest, 2% in excess of the rate of interest otherwise payable or (b) with respect to all other amounts, the sum of (i) the Base Rate plus (ii) the applicable Base Rate Margin plus (iii) 2%. Accrued and unpaid interest on past due amounts (including, without limitation, interest on past due interest) shall be compounded monthly, on the last day of each calendar month, to the fullest extent permitted by applicable Laws.

1.2

1.3 Computation of Interest and Fees . Computation of interest on Base Rate Loans shall be calculated on the basis of a year of 365 or 366 days, as the case may be, and the actual number of days elapsed; computation of interest on LIBOR Loans and all fees under this Agreement shall be calculated on the basis of a year of 360 days and the actual number of days elapsed. Borrower acknowledges that such latter calculation method will result in a higher yield to the Lenders than a method based on a year of 365 or 366 days. Interest shall accrue on each

Loan for the day on which the Loan is made; interest shall not accrue on a Loan, or any portion thereof, for the day on which the Loan or such portion is paid. Any Loan that is repaid on the same day on which it is made shall bear interest for one day.

1.4

1.5 Non-Business Days . If any payment to be made by Borrower or any other Obligor under any Loan Document shall come due on a day other than a Business Day, payment shall instead be considered due on the next succeeding Business Day and the extension of time shall be reflected in computing interest and fees.

1.1 Manner and Treatment of Payments .

1.2

(a) Each payment hereunder (except payments pursuant to Sections 3.4, 3.5, 11.3, 11.11 and 11.22) or on the Notes or under any other Loan Document shall be made to the Administrative Agent, at the Administrative Agent's Office, for the account of each of the Lenders or the Administrative Agent, as the case may be, in immediately available funds not later than 11:00 a.m. on the day of payment (which must be a Business Day). All payments received after 11:00 a.m. on any Business Day, shall be deemed received on the next succeeding Business Day. The amount of all payments received by the Administrative Agent for the account of each Lender shall be immediately paid by the Administrative Agent to the applicable Lender in immediately available funds and, if such payment was received by the Administrative Agent by 11:00 a.m. on a Business Day and not so made available to the account of a Lender on that Business Day, the Administrative Agent shall reimburse that Lender for the cost to such Lender of funding the amount of such payment at the Federal Funds Rate. All payments shall be made in lawful money of the United States of America.

(a) Each payment or prepayment on account of any Loan shall be applied pro rata according to the outstanding Advances made by each Lender comprising such Loan.

(a) Each Lender shall use its best efforts to keep a record of Advances made by it and payments received by it with respect to each of its Notes and, subject to Section 10.6(g), such record shall, as against Borrower, be presumptive evidence of the amounts owing. Notwithstanding the foregoing sentence, no Lender shall be liable to any Obligor for any failure to keep such a record.

(a) Each payment of any amount payable by Borrower or any other Obligor under this Agreement or any other Loan Document shall be made free and clear of, and without reduction by reason of, any taxes, assessments or other charges imposed by any Governmental Agency, central bank or comparable authority, excluding, in the case of each Lender, the Administrative Agent and each Eligible Assignee, and any Affiliate or LIBOR Office thereof, (i) taxes imposed on or measured in whole or in part by its overall net

income, gross income or gross receipts or capital and franchise taxes imposed on it, (ii) any withholding taxes or other taxes based on gross income imposed by the United States of America (other than withholding taxes and taxes based on gross income resulting solely from or attributable to any change in any law, rule or regulation or any change in the interpretation or administration of any law, rule or regulation by any Governmental Agency) or (iii) any withholding taxes or other taxes based on gross income imposed by the United States of America for any period with respect to which it has failed to provide Borrower with the appropriate form or forms required by Section 11.21, to the extent such forms are then required by applicable Laws (all such non-excluded taxes, assessments or other charges being hereinafter referred to as "Taxes"). To the extent that Borrower is obligated by applicable Laws to make any deduction or withholding on account of Taxes from any amount payable to any Lender under this Agreement, Borrower shall (i) make such deduction or withholding and pay the same to the relevant Governmental Agency and (ii) pay such additional amount to that Lender as is necessary to result in that Lender's receiving a net after-Tax amount equal to the amount to which that Lender would have been entitled under this Agreement absent such deduction or withholding. If and when receipt of such payment results in an excess payment or credit to that Lender on account of such Taxes, that Lender shall promptly refund such excess to Borrower.

1.1 Funding Sources . Nothing in this Agreement shall be deemed to obligate any Lender to obtain the funds for any Loan or Advance in any particular place or manner or to constitute a representation by any Lender that it has obtained or will obtain the funds for any Loan or Advance in any particular place or manner.

1.2

1.3 Failure to Charge Not Subsequent Waiver . Any decision by the Administrative Agent or any Lender not to require payment of any interest (including interest arising under Section 3.6), fee, cost or other amount payable under any Loan Document, or to calculate any amount payable by a particular method, on any occasion shall in no way limit or be deemed a waiver of the Administrative Agent's or such Lender's right to require full payment of any interest (including interest arising under Section 3.6), fee, cost or other amount payable under any Loan Document, or to calculate an amount payable by another method that is not inconsistent with this Agreement, on any other or subsequent occasion.

1.4

1.5 Administrative Agent's Right to Assume Payments Will be Made by Borrower . Unless the Administrative Agent shall have been notified by Borrower prior to the date on which any payment to be made by Borrower hereunder is due that Borrower does not intend to remit such payment, the Administrative Agent may, in its discretion, assume that Borrower has remitted such payment when so due and the Administrative Agent may, in its discretion and in reliance upon such assumption, make available to each Lender on such payment date an amount equal to such Lender's share of such assumed payment. If Borrower has not in fact remitted such payment to the Administrative Agent, each Lender shall forthwith on demand repay to the Administrative Agent the amount of such assumed payment

made available to such Lender, together with interest thereon in respect of each day from and including the date such amount was made available by the Administrative Agent to such Lender to the date such amount is repaid to the Administrative Agent at the Federal Funds Rate.

1.6

1.7 Fee Determination Detail . The Administrative Agent and each Lender shall provide reasonable detail to Borrower regarding the manner in which the amount of any payment of fees or costs to the Administrative Agent and the Lenders, or that Lender, under Article 3 has been determined, concurrently with demand for such payment.

1.8

1.9 Survival . All of Borrower's obligations under Sections 3.4, 3.5 and 11.22 shall survive for ninety days following the date on which the Commitment is terminated, and all Loans hereunder are fully paid.

Article REPRESENTATIONS AND WARRANTIES

Article 3 PRESENTATIONS AND WARRANTIES

Each of PNGI and Borrower represents and warrants to the Creditors that:

1.1 Existence and Qualification; Power; Compliance With Laws . Borrower is a corporation duly formed, validly existing and in good standing under the Laws of West Virginia. PNGI is a corporation duly formed, validly existing and in good standing under the Laws of Pennsylvania. Borrower and each other Obligor is duly qualified or registered to transact business and is in good standing in each other jurisdiction in which the conduct of its business or the ownership or leasing of its Properties makes such qualification or registration necessary, except where the failure so to qualify or register and to be in good standing may not reasonably be expected to have Material Adverse Effect. Borrower and each other Obligor has all requisite corporate or other organizational power and authority to conduct its business, to own and lease its Properties and to execute and deliver each Loan Document to which it is a party and to perform its Obligations. All outstanding shares of the capital stock of Borrower and each other Obligor are duly authorized and validly issued, fully paid and non-assessable, and no holder thereof has any enforceable right of rescission under any applicable state or federal securities Laws. PNGI and each Subsidiary is in compliance with all Laws and other legal requirements applicable to its business, has obtained all authorizations, consents, approvals, orders, licenses and permits from, and has accomplished all filings, registrations and qualifications with, or obtained exemptions from any of the foregoing from, any Governmental Agency that are necessary for the transaction of its business, except where the failure so to comply, file, register, qualify or obtain exemptions may not reasonably be expected to have a Material Adverse Effect.

1.2

1.3 Authority; Compliance With Other Agreements and Instruments and Government Regulations . The execution, delivery and performance of the Loan Documents by PNGI, Borrower and each other Obligor have been duly authorized by all necessary corporate action, and do not and will not:

1.4

(a) Require any consent or approval not heretofore obtained of any director, stockholder, security holder or (in the case of any Creditor except where the failure to obtain any such creditor's consent may not reasonably be expected to have any Material Adverse Effect) any creditor of such Obligor;

(a) Violate or conflict with any provision of such Obligor's articles of incorporation or bylaws;

(a) Except to the extent contemplated by the Loan Documents, result in or require the creation or imposition of any Lien or Right of Others upon or with respect to any Property now owned or leased or hereafter acquired by such Obligor;

(a) Violate any Requirement of Law applicable to such Obligor in any material respect;

(a) Result in a breach of or constitute a default under, or cause or permit the acceleration of any obligation owed under, any indenture or loan or credit agreement or any other Contractual Obligation involving Property or obligations in excess of $1,000,000 to which PNGI or any of its Subsidiaries is a party or by which PNGI or any of its Subsidiaries or any of its Property is bound or affected, including without limitation the 10 5/8% Indenture and the PNGI Credit Agreement;

and neither PNGI, Borrower nor any of its Subsidiaries is in violation of, or default under, any Requirement of Law or Contractual Obligation, or any indenture, loan or credit agreement described in Section 4.2(e), in any respect that may reasonably be expected to have a Material Adverse Effect. Without limiting the foregoing provisions of this Section, Borrower represents and warrants to the Lenders that each Loan made hereunder is a permissible "Purchase Money Loan" or a permitted "Refinancing" of indebtedness as such terms are defined in the 10 5/8% Indenture.

1.1 No Governmental Approvals Required . Except as previously obtained or made, no material authorization, consent, approval, order, license or permit from, or material filing, registration or qualification with, any Governmental Agency is or will be required to authorize or permit under applicable Laws the execution, delivery and performance by Borrower or any other Obligor of the Loan Documents to which it is a party. All authorizations from, or filings with, any Governmental Agency will be accomplished as of the Closing Date or such other date.

1.2

1.3 Subsidiaries . As of the Closing Date, Borrower does not have any Subsidiaries which are not described on Schedule 4.4 and, other than Borrower's Investment in the Charles Town Joint Venture, Borrower does not own any capital stock, equity interest or debt security which is convertible, or exchangeable, for capital stock or equity interests in any Person.

1.4

1.5 Financial Statements . Borrower has furnished (a) the audited consolidated and consolidating financial statements of PNGI and its Subsidiaries for the Fiscal Year ended December 31, 1998, and (b) the unaudited consolidated and consolidating financial statements of PNGI and its Subsidiaries for the nine month fiscal period ended September 30, 1999, to the Administrative Agent and the Lenders, which financial statements fairly present the financial condition, results of operations and changes in financial position of PNGI and its Subsidiaries as of such dates and for such periods in conformity with Generally Accepted Accounting Principles, consistently applied.

1.6

1.7 No Material Adverse Effects . As of the Closing Date, no circumstance or event has occurred that constitutes a Material Adverse Effect since December 31, 1998.

1.8

1.9 Title to Property . On the Closing Date and on each subsequent date, Borrower holds the lessor's interest under the Charles Town Operating Lease, free and clear of all Liens and Rights of Others, other than Liens or Rights of Others permitted by Section 6.8.

1.10

1.11 Intangible Assets . Each of PNGI and its Subsidiaries owns, or possesses the right to use to the extent necessary in its respective business, all material trademarks, trade names, copyrights, patents, patent rights, computer software, licenses and other Intangible Assets which are used in the conduct of its business as now operated, and no such Intangible Asset, to the best knowledge of Borrower, conflicts with the valid trademark, trade name, copyright, patent, patent right or Intangible Asset of any other Person to the extent that such conflict may reasonably be expected to have a Material Adverse Effect. Each registered patent, trademark or copyright owned by PNGI and its Subsidiaries, or as to which any of them is a licensee, is described on Schedule 4.8.

1.12

1.13 Public Utility Holding Company Act . Neither PNGI nor any of its Subsidiaries is a "holding company", or a "subsidiary company" of a "holding company", or an "affiliate" of a "holding company" or of a "subsidiary company" of a "holding company", within the meaning of the Public Utility Holding Company Act of 1935, as amended.

1.14

1.15 Litigation . There are no actions, suits, proceedings or investigations pending as to which PNGI or any of its Subsidiaries have been served or have received notice or, to the best knowledge of Borrower, threatened against or affecting PNGI or any of its Subsidiaries or any Property of any of them (including the Real Property) before any Governmental Agency, which may reasonably be expected to have a monetary impact which is in excess of $1,000,000, and no such action, suit, proceeding or investigation may reasonably be expected to have a Material Adverse Effect.

1.16

1.17 Binding Obligations . Each of the Loan Documents to which Borrower or any other Obligor is a party will, when executed and delivered by such Obligor, constitute the legal, valid and binding obligation of such Obligor, enforceable against such Obligor in accordance with its terms, except as enforcement may be limited by Debtor Relief Laws, Applicable Regulations or equitable principles relating to the granting of specific performance and other equitable remedies as a matter of judicial discretion.

1.18

1.19 No Default . No event has occurred and is continuing that is a Default or Event of Default.

1.1 ERISA .

1.2

(a) With respect to each Pension Plan:

(i) such Pension Plan complies in all material respects with ERISA and any other applicable Laws to the extent that noncompliance may reasonably be expected to have a Material Adverse Effect;

(i) such Pension Plan has not incurred any "accumulated funding deficiency" (as defined in Section 302 of ERISA) that may reasonably be expected to have a Material Adverse Effect;

(i) no "reportable event" (as defined in Section 4043 of ERISA) has occurred that may reasonably be expected to have a Material Adverse Effect; and

(i) neither PNGI nor any of its Subsidiaries has engaged in any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code) that may reasonably be expected to have a Material Adverse Effect.

(a) Neither PNGI nor any of its Subsidiaries has incurred or expects to incur any withdrawal liability to any Multiemployer Plan that may reasonably be expected to have a Material Adverse Effect.

1.1 Regulations T, U and X; Investment Company Act . No part of the proceeds of any Loan hereunder will be used to purchase or carry, or to extend credit to others for the purpose of purchasing or carrying, any Margin Stock in violation of Regulations T, U and X. Neither PNGI nor any of its Subsidiaries is or is required to be registered as an "investment company" under the Investment Company Act of 1940.

1.2

1.3 Disclosure . No statement made by Borrower or any of its Affiliates to the Administrative Agent or any Lender in connection with this Agreement, or in connection with any Loan, as of the date thereof contained any untrue statement of a material fact or omitted a material fact necessary to make the statement made not misleading in light of all the circumstances existing at the date the statement was made.

1.4

1.5 Tax Liability . PNGI and its Subsidiaries have filed all tax returns which are required to be filed, and have paid, or made provision for the payment of, all taxes with respect to the periods, Property or transactions covered by said returns, or pursuant to any assessment received by PNGI or any of its Subsidiaries, except (a) such taxes, if any, as are being contested in good faith by appropriate proceedings and as to which adequate reserves have been established and maintained and (b) immaterial taxes so long as no material item or portion of Property of PNGI or any of its Subsidiaries is in jeopardy of being seized, levied upon or forfeited.

1.6

1.7 Projections . As of the Closing Date, to the best knowledge of Borrower, the assumptions set forth in the Projections are reasonable and consistent with each other and with all facts known to Borrower, and the Projections are reasonably based on such assumptions. Nothing in this Section shall be construed as a representation or covenant that the Projections in fact will be achieved.

1.8

1.9 Hazardous Materials . Except as would not individually or in the aggregate have a Material Adverse Effect, (a) to the best knowledge of Borrower, none of PNGI nor any of its Subsidiaries nor any of their affiliated predecessors in interest at any time has disposed of, discharged, released or threatened the release of any Hazardous Materials on, from or under any Real Property in violation of any Hazardous Materials Law, (b) to the best knowledge of Borrower, no condition exists that violates any Hazardous Material Law affecting any Real Property, (c) to the best knowledge of Borrower, no Real Property nor any portion thereof is or has been utilized by PNGI or any of its Subsidiaries as a site for the manufacture of any Hazardous Materials and (d) to the extent that any Hazardous Materials are used, generated or stored by PNGI or any of its Subsidiaries on any Real Property, or transported to or from any Real Property, such use, generation, storage and transportation are in compliance in all material respects with all Hazardous Materials Laws.

1.10

1.11 Applicable Regulations . PNGI and its Subsidiaries are in compliance in all material respects with all Applicable Regulations that are applicable to them.

1.12

1.13 Security Interests . Upon the execution and delivery thereof, each of the Security Agreement will create valid security interests in the Collateral described therein securing the Obligations, and all action necessary to perfect the security interests so created , other than filing of the UCC-1 financing statements delivered to the Administrative Agent pursuant to Section 8.1 with the appropriate Governmental Agency, shall have been taken and completed to the fullest extent that such Liens may be perfected by filing. Upon the making of such filings, the security interests granted to the Administrative Agent by the Security Agreement will be perfected and of first priority, subject only to the matters disclosed on Schedule 6.8 or permitted by Section 6.8(e) and (f), to the fullest extent that such Liens may be perfected by filing.

1.14

1.15 Year 2000 Compliance . PNGI and its Subsidiaries have reviewed the effect of the Year 2000 Issue on the computer software, hardware and firmware systems and equipment containing embedded microchips owned or operated by or for PNGI and its Subsidiaries. The costs to PNGI and its Subsidiaries of any reprogramming required as a result of the Year 2000 Issue to permit the proper functioning of such systems and equipment and the proper processing of data, and the testing of such reprogramming, and of required systems changes are not reasonably expected to result in a Default or a Material Adverse Effect.

1.16

1.17 Solvency . After giving effect to this Agreement and the other Loan Documents (including after giving effect to Advances under this Agreement as of the Closing Date), Borrower shall be Solvent.

1.18

1.19 The Schedules . (a) Schedule 1.1 correctly lists by serial number the G-Tech Equipment, all of which is owned by Borrower and in the possession of the Charles Town Joint Venture at the Charles Town Facility pursuant to the Charles Town Operating Lease. As of the Closing Date, all of the New Equipment listed on Schedule 1.2 (other than that described as "1500 CDS Player Tracking System," "700 Coin Conversion Kits," "Casino Signage" and a portion of the "Count Room Equipment") is owned by Borrower and in the possession of the Charles Town Joint Venture at the Charles Town Facility pursuant to the Charles Town Operating Lease, and Borrower has made each of the expenditures listed on Schedule 1.2 under the column headed "Paid as of December 13, 1999."

1.20

1.21 (b) As of each date subsequent to the Closing Date, all such New Equipment, and any additional New Equipment delivered following the Closing Date is owned by Borrower and in the possession of the Charles Town Joint Venture at the Charles Town Facility pursuant to the Charles Town Operating Lease.

Article AFFIRMATIVE COVENANTS(OTHER THAN INFORMATION ANDREPORTING REQUIREMENTS)
Article AFFIRMATIVE COVENANTS(OTHER THAN INFORMATION
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AND1 REPORTING REQUIREMENTS)(OTHER THAN INFORMATION AND

1 REPORTING REQUIREMENTS) ----------

So long as any Advance remains unpaid, or any other Obligation remains unpaid or unperformed, or any portion of the Commitment remains in force, PNGI and Borrower shall, and each shall cause each of its Subsidiaries and each other Obligor to, unless the Administrative Agent (with the written approval of the Requisite Lenders) otherwise consents:

1.1 Payment of Taxes and Other Potential Liens . Pay and discharge promptly all taxes, assessments and governmental charges or levies imposed upon any of them, upon their respective Property or any part thereof and upon their respective income or profits or any part thereof, except that PNGI and its Subsidiaries shall not be required to pay or cause to be paid (a) any tax, assessment, charge or levy that is not yet past due, or is being contested in good faith by appropriate proceedings so long as the relevant entity has established and maintains adequate reserves for the payment of the same or (b) any immaterial tax so long as no material item or portion of Property of PNGI or any of its Subsidiaries is in jeopardy of being seized, levied upon or forfeited.

1.2

1.3 Preservation of Existence . Preserve and maintain their respective existences in the jurisdiction of their formation and all material authorizations, rights, franchises, privileges, consents, approvals, orders, licenses, permits, or registrations from any Governmental Agency that are necessary for the transaction of their respective business, except where the failure to so preserve and maintain the existence of any Subsidiary or such authorizations would not constitute a Material Adverse Effect; and qualify and remain qualified to transact business in each jurisdiction in which such qualification is necessary in view of their respective business or the ownership or leasing of their respective Properties except where the failure to so qualify or remain qualified would not constitute a Material Adverse Effect. Borrower shall at all times be a Wholly-Owned Subsidiary of PNGI.

1.4

1.5 Maintenance of Properties . Maintain, preserve and protect all of their respective depreciable Properties in good order and condition, subject to wear and tear in the ordinary course of business, and not permit any waste or unreasonable deterioration of their respective Properties, except that the failure to maintain, preserve and protect a particular item of depreciable Property that is not of significant value, either intrinsically or to the operations of PNGI and its Subsidiaries, taken as a whole, shall not constitute a violation of this covenant.

1.1 Maintenance of Insurance . Maintain liability, casualty and other insurance (subject to customary deductibles and retentions) with responsible insurance

companies in such amounts and against such risks as is carried by responsible companies engaged in similar businesses and owning similar assets in the general areas in which PNGI and its Subsidiaries operate.

1.2

1.3 Compliance With Laws . Comply, within the time period, if any, given for such compliance by the relevant Governmental Agency or Agencies with enforcement authority, with all Requirements of Law noncompliance with which constitutes a Material Adverse Effect, except that PNGI and its Subsidiaries need not comply with a Requirement of Law then being contested in good faith by appropriate proceedings.

1.4

1.5 Inspection Rights Borrower shall permit the Administrative Agent or any Lender, or any authorized employee, agent or representative thereof, to examine, audit and make copies and abstracts from the records and books of account of, and to visit and inspect the Properties of, Borrower and its Subsidiaries and to discuss the affairs, finances and accounts of Borrower and its Subsidiaries with any of their officers, key employees or accountants. All rights of the Administrative Agent and the Lenders under this Section may be exercised upon reasonable advance notice and at any time during regular business hours and as often as reasonably requested (but not so as to materially interfere with the business of Borrower or any of its Subsidiaries). The costs of all such monitoring, examining, auditing and inspection by and at the requests of the Administrative Agent or any Lender shall be borne by the Borrower.

1.6

1.7 Keeping of Records and Books of Account . Keep adequate records and books of account reflecting all financial transactions in conformity with Generally Accepted Accounting Principles, consistently applied, and in material conformity with all applicable requirements of any Governmental Agency having regulatory jurisdiction over PNGI or any of its Subsidiaries.

1.8

1.9 Compliance With Agreements . Promptly and fully comply with all Contractual Obligations under all material agreements, indentures, leases and/or instruments to which any one or more of them is a party, whether such material agreements, indentures, leases or instruments are with a Lender or another Person, except for any such Contractual Obligations (a) the performance of which would cause a Default or (b) then being contested by any of them in good faith by appropriate proceedings or if the failure to comply with such agreements, indentures, leases or instruments does not constitute a Material Adverse Effect.

1.10

1.11 Use of Proceeds . Use the proceeds of the Loans solely (a) to refinance the purchase money indebtedness of PNGI incurred in connection with PNGI's purchase of the video lottery terminals and other gaming equipment the ownership of which is to be transferred to Borrower as of the Closing Date and which are the subject of the Charles Town Operating Lease and (b) to finance the purchase price of the New Equipment and the costs of the installation thereof in the Charles Town Facility, and related construction and improvement associated with the Charles Town Facility Expansion pursuant to transactions which qualify as purchase money Indebtedness pursuant to Section 4.17 of the 10 5/8% Indenture and which are Scheduled Expenses.

1.12

1.13 Hazardous Materials Laws . Keep and maintain all Real Property and each portion thereof in compliance in all material respects with all applicable Hazardous Materials Laws and promptly notify the Administrative Agent in writing (attaching a copy of any pertinent written material) of (a) any and all material enforcement, cleanup, removal or other governmental or regulatory actions instituted, completed or threatened in writing by a Governmental Agency pursuant to any applicable Hazardous Materials Laws with regard to the Real Property, (b) any and all material claims made or threatened in writing by any Person against PNGI or any of its Subsidiaries relating to damage, contribution, cost recovery, compensation, loss or injury resulting from any Hazardous Materials with regard to the Real Property, and (c) any Senior Officer of Borrower receives written notice or other clear evidence of any material occurrence or condition on any real property adjoining or in the vicinity of such Real Property and affecting the Real Property that may reasonably be expected to cause such Real Property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of such Real Property under any applicable Hazardous Materials Laws.

1.14

1.15 Year 2000. Borrower shall use its best efforts to promptly make, and to cause PNGI and each of its Subsidiaries to make, all required systems changes in computer software, hardware and firmware systems and equipment containing embedded microchips owned or operated by or for PNGI and its Subsidiaries required as a result of the Year 2000 Issue to permit the proper functioning of such computer systems and other equipment, except to the extent that the failure to take any such action would not reasonably be expected to result in a Default or a Material Adverse Effect. At the request of any Lender, Borrower shall provide, and shall cause PNGI and each of its Subsidiaries to provide, to such Lender reasonable assurance of its compliance with the preceding sentence.

Article NEGATIVE COVENANTSArticle 3 NEGATIVE COVENANTS

So long as any Advance remains unpaid, or any other Obligation remains unpaid or unperformed, or any portion of the Commitment remains in force, PNGI and Borrower shall not, and each shall not permit any of its Subsidiaries or any other Obligor to, unless the Administrative Agent (with the written approval of the Requisite Lenders or, if required by Section 11.2, of all of the Lenders) otherwise consents:

1.1 Prepayment of Indebtedness . Other than as to the Obligations and revolving payments with respect to the PNGI Credit Agreement, prepay any principal or interest on any Indebtedness of PNGI or any of its Subsidiaries prior to the date when due, or make any payment or deposit with any Person that has the effect of providing for the satisfaction of any Indebtedness of PNGI or any of its Subsidiaries prior to the date when due, in each case if a Default or Event of Default then exists or would result therefrom.

1.2

1.3 Payment of Subordinated Obligations . Prepay any principal (including sinking fund payments) or any other amount with respect to any Subordinated Obligation, or purchase or redeem any Subordinated Obligation except for regularly scheduled payments of interest with respect to Subordinated Obligations, to the extent permitted by the subordination provisions thereof.

1.4

1.5 Hostile Tender Offers . Make any offer to purchase or acquire, or consummate a purchase or acquisition of, 5% or more of the capital stock of any corporation or other business entity if the board of directors or management of such corporation or business entity has notified PNGI or any of its Subsidiaries that it opposes such offer or purchase and such notice has not been withdrawn or superseded.

1.1 Mergers, Sales of Assets, Etc . Wind up, liquidate or dissolve its affairs or enter into any transaction of merger or consolidation, or convey, sell, lease or otherwise dispose of all or any part of its property or assets, or enter into any sale-leaseback transactions, or purchase or otherwise acquire (in one or a series of related transactions) any part of the property or assets (other than purchases or other acquisitions of inventory, materials and equipment in the ordinary course of business) of any Person (or agree to do any of the foregoing at any future time), except that, (i) to the extent that no Default or Event of Default exists or would result therefrom, and (ii) as a result thereof, no Change of Control or Significant Transaction has occurred, PNGI and its Subsidiaries may:

(a) make Capital Expenditures permitted by Section 6.17;

(b) sell assets (other than the capital stock of any Subsidiary, the Collateral, or the equity interest in the Charles Town Joint Venture) in an arm's-length transaction in which (i)

PNGI or any of its Subsidiaries, as applicable, receives at least fair market value (as determined in good faith by PNGI or such Subsidiary of PNGI), (ii) at least 85% of the total consideration received by PNGI or any of its Subsidiaries, as applicable, is cash and is paid at the time of the closing of such sale, and (iii) the aggregate amount of the proceeds received from all assets sold during any Fiscal Year does not exceed $3,000,000;

(c) make Investments to the extent permitted by Section 6.18;

(d) lease (as lessee) real or personal property (so long as any such lease does not create a Capitalized Lease Obligation except to the extent permitted by Section 6.14);

(e) make sales of inventory in the ordinary course of business;

(f) sell obsolete or worn-out equipment or materials in the ordinary course of business;

(g) grant leases or subleases to other Persons of Property other than the Collateral;

(h) in the ordinary course of business, license, as licensor or licensee, patents, trademarks, copyrights and know-how to and/or from third Persons; and

(i) Except for mergers involving Borrower and the Charles Town Joint Venture, merge with PNGI or any other Wholly-Owned Subsidiary.

1.1 Distributions . Make any Distribution, whether from capital, income or otherwise, and whether in Cash or
other Property, other than:

1.2

(a) Distributions from any Subsidiary of Borrower to Borrower or from any Subsidiary of PNGI to PNGI; and

(a) Distributions payable solely in capital stock of PNGI of the same class as that to which such Distributions are payable.

1.1 ERISA . (a) At any time, permit any Pension Plan to: (i) engage in any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code); (ii) fail to comply with ERISA or any other applicable Laws; (iii) incur any material "accumulated funding deficiency" (as defined in Section 302 of ERISA); or (iv) terminate in any manner, which, with respect to each event listed above, may reasonably be expected to result in a Material Adverse Effect, or (b) withdraw, completely or partially, from any Multiemployer Plan if to do so may reasonably be expected to result in a Material Adverse Effect.

1.2

1.3 Change in Nature of Business . Engage (directly or indirectly) in any business other than the businesses in which PNGI and its Subsidiaries are engaged in as of the date hereof and reasonable extensions thereof, it being understood and agreed that, except as provided below, in no event shall PNGI or any of its Subsidiaries engage in any business or enter into any agreement which requires PNGI or any of its Subsidiaries to make any payments under Section 4 of the Plains Company Acquisition Agreement; provided, however, PNGI and its Subsidiaries may operate slot machines at the Penn National Race Track, the Pocono Downs Race Track and at any Non-Primary Location (as defined in the PNGI Credit Agreement) operated by PNGI and its Subsidiaries and may make the required payments pursuant to Section 4 of the Plains Company Acquisition Agreement in connection therewith.

1.4

1.5 Liens and Negative Pledges . Create, incur, assume or suffer to exist any Lien or Negative Pledge upon or with respect to any property or assets (real or personal, tangible or intangible) of PNGI or any of its Subsidiaries whether now owned or hereafter acquired, or sell any such property or assets subject to an understanding or agreement, contingent or otherwise, to repurchase such property or assets (including sales of accounts receivable with recourse to PNGI or any of its Subsidiaries), or assign any right to receive income or permit the filing of any financing statement under the Uniform Commercial Code or any other similar notice of Lien under any similar recording or notice statute; provided that the provisions of this Section shall not prevent the creation, incurrence, assumption or existence of the following (Liens described below are herein referred to as "Permitted Liens"):

1.6

(a) the Liens and Negative Pledges under the Security Agreement;

(b) Liens expressly permitted under the PNGI Credit Agreement (as in effect on the date of this Agreement) including any refinancings thereof permitted thereby, provided that no Liens or Negative Pledges on the Collateral other than those in favor of the Administrative Agent and the Lenders under this Agreement shall be permitted.

1.1 Indebtedness . Contract, create, incur, assume or suffer to exist any Indebtedness, except:

1.2

(a) Indebtedness incurred pursuant to this Agreement and the PNGI Credit Agreement (but not refinancings thereof); and

(b) Indebtedness outstanding on January 28, 1999 and listed on Schedule 6.9, without giving effect to any subsequent extension, renewal or refinancing thereof except to the extent set forth on Schedule 6.9, provided that the aggregate principal amount of the Indebtedness to be extended, renewed or refinanced does not increase from that amount outstanding at the time of any such extension, renewal or refinancing; and

(c) Indebtedness permitted by the PNGI Credit Agreement as in effect on the date of this Agreement;

Notwithstanding anything to the contrary contained in this Section or in Section 6.8 until such time as the Charles Town Joint Venture is a Wholly-Owned Subsidiary of PNGI, Borrower shall not permit the Charles Town Joint Venture to incur any Indebtedness other than existing Indebtedness of the Charles Town Joint Venture which is also listed on Schedule 6.9, it being understood that this prohibition shall extend to the making of any intercompany loans to the Charles Town Joint Venture.

1.1 Contingent Obligations . Guarantee or assume to agree to become liable in any way, either directly or indirectly, for any additional Indebtedness or liabilities of others except to endorse checks or drafts in the ordinary course of business, or otherwise assume any Contingent Obligation.

1.2

1.3 New Subsidiaries . Permit PNGI or any of its Subsidiaries to establish, create or acquire any Subsidiary without the consent of the Administrative Agent and the Requisite Lenders.

1.4

1.5 Transactions with Affiliates . Enter into any transaction or series of related transactions, whether or not in the ordinary course of business, with any Affiliate of PNGI or any of its Subsidiaries, other than in the ordinary course of business and on terms and conditions substantially as favorable to PNGI or such Subsidiary of PNGI as would reasonably be obtained by PNGI or such Subsidiary of PNGI at that time in a comparable arm's-length transaction with a Person other than an Affiliate, except that the following in any event shall be permitted:

1.6

(i) Distributions may be paid to the extent provided in Section 6.5;

(i) loans may be made and other transactions may be entered into by PNGI and each Subsidiary of PNGI to the extent permitted by Sections 6.4, 6.9 and 6.17;

(i) customary fees may be paid to non-officer directors of PNGI and its Subsidiaries; and

(i) the Subsidiaries of PNGI may pay management fees to PNGI.

1.1 Leverage Ratio . Permit the Leverage Ratio as of the last day of any Fiscal Quarter described in the matrix set forth below, to exceed the ratio set forth opposite that Fiscal Quarter:

1.2

Fiscal Quarters Ending	Maximum Ratio
Closing Date through	
December 31, 1999	4.00:1.00
March 31, 2000 through	
December 31, 2000	3.50:1.00
Thereafter	3.00:1.00

Leases . Permit the aggregate payments (including, without limitation, any property taxes paid as additional rent or lease payments) made by PNGI and each of PNGI's Subsidiaries on a consolidated basis under all agreements to rent or lease any real or personal property (or any extension or renewal thereof) (excluding Capital Lease Obligations) to exceed $1,600,000 during any Fiscal Year.

Consolidated Cash Interest Coverage Ratio . Permit the Consolidated Cash Interest Coverage Ratio as of the last day of any Fiscal Quarter to be less than 3.00:1.00.

Consolidated Net Worth . Permit Consolidated Net Worth, as of the last day of any Fiscal Quarter, to be less than the sum of (i) $53,856,000 plus (ii) 50% of Consolidated Net Income (without reduction for any net loss in any Fiscal Quarter) for the period from January 1, 1999 through and including the last day of such Fiscal Quarter, plus (iii) 75% of Net Equity Proceeds received by PNGI or any of its Subsidiaries during the period from January 1, 1999 through and including the last day of such Fiscal Quarter.

Capital Expenditures .

(i) Make or commit to make any Capital Expenditure during any Fiscal Year other than Capital Expenditures in an aggregate amount that do not exceed the amount indicated below for the applicable Fiscal Year:

Fiscal Year Ending	Maximum Amount
December 31, 1999	$15,000,000
December 31, 2000	$24,000,000
December 31, 2001	$20,000,000
December 31, 2002	$10,000,000

(ii) In addition to the foregoing, the Borrower and its Subsidiaries may make Capital Expenditures with the amount of any insurance proceeds received by the Borrower or its Subsidiaries from any casualty insurance policy with respect to any Property, provided that such insurance proceeds are used to finance the purchase of similar Property within the 270 day period following their receipt.

1.1 Acquisitions and Investments . Make any Acquisition or make any Investment other than Acquisitions and Investments permitted by Section 8.05 of the PNGI Credit Agreement which do not constitute Significant Transactions.

1.2

1.3 Amendments to Joint Venture Agreement and Charles Town Operating Lease . Amend, modify or change the Charles Town Joint Venture Agreement or Charles Town Operating Lease, other than any such amendment, modification or change which could not reasonably be expected to be adverse to the interests of the Lenders in any material respect (it being understood and agreed, however, that in any event PNGI or a Wholly-Owned Subsidiary thereof shall at all times be the managing member of the Charles Town Joint Venture and shall own at least 89% of the equity interest therein).

Article INFORMATION AND REPORTING REQUIREMENTS
Article 3 INFORMATION AND
REPORTING REQUIREMENTS

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1.1 Financial and Business Information . So long as any Advance remains unpaid, or any other Obligation remains unpaid or unperformed, or any portion of the Commitment remains in force, PNGI and Borrower shall, unless the Administrative Agent (with the written approval of the Requisite Lenders) otherwise consents, at their sole expense, deliver to the Administrative Agent, a sufficient number of copies for all of the Lenders, of the following:

1.2

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

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

(a) Within 95 days after the close of each fiscal year of PNGI, (i) the consolidated and consolidating balance sheets of PNGI and its Subsidiaries as at the end of such fiscal year and the related consolidated and consolidating statements of income and retained earnings and of cash flows for such fiscal year setting forth comparative figures for the preceding fiscal year and certified, in the case of the consolidated financial statements, by BDO Seidman, LLP or such other independent certified public accountants of recognized national standing reasonably acceptable to the Administrative Agent, together with a report of such accounting firm stating that in the course of its regular audit of the

financial statements of PNGI and its Subsidiaries, which audit was conducted in accordance with generally accepted auditing standards, such accounting firm obtained no knowledge of any Default or an Event of Default which has occurred and is continuing or, if in the opinion of such accounting firm such a Default or Event of Default has occurred and is continuing, a statement as to the nature thereof and in the case of the consolidating financial statements, by the Chief Financial Officer of PNGI and (ii) management's discussion and analysis of the important operational and financial developments during the respective fiscal year.

(a) Promptly after PNGI's or any of its Subsidiaries' receipt thereof, a copy of any "management letter" received from its certified public accountants and management's response thereto.

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

(a) Promptly after request by the Administrative Agent or any Lender, copies of any detailed audit reports, management letters or recommendations submitted to PNGI by independent accountants in connection with the accounts or books of PNGI or any of its Subsidiaries, or any audit of any of them;

(a) Promptly after the filing or delivery thereof, copies of all financial information, proxy materials and reports, if any, which PNGI or any of its Subsidiaries shall publicly file with the Securities and Exchange Commission or its Successors or deliver to holders of its Indebtedness pursuant to the terms of the documentation governing such Indebtedness (or any trustee, agent or other representative therefor);

(a) Promptly after the same are available, copies of any written communication to PNGI, Borrower or any other Subsidiary of PNGI from any Regulatory Board advising it of a violation of or non-compliance with any Applicable Regulation by PNGI, Borrower or any other Subsidiary of PNGI;

(a) Notice in writing within 30 days after any change of PNGI's or Borrower's senior management personnel;

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

(i) any pending or threatened Environmental Claim against PNGI or any of its Subsidiaries or any Real Property owned or operated by PNGI or any of its Subsidiaries;

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

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

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

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

(a) Promptly after (i) PNGI or any of its Subsidiaries receives any correspondence or other written communication from any Regulatory Board (other than correspondence relating to routine operating matters of PNGI or any of its Subsidiaries in the ordinary course of business) or (ii) PNGI or any of its Subsidiaries delivers any correspondence or other written communication to any Regulatory Board (other than correspondence relating to routine operating matters of PNGI or any of its Subsidiaries), PNGI shall deliver copies of any such correspondence or other written communication to each of the Lenders;

(a) Promptly after request by the Administrative Agent or any Lender, copies of any other material report or other document that was filed by PNGI or any of its Subsidiaries with any Governmental Agency;

(a) Promptly, and in any event within ten Business Days upon a Senior Officer becoming aware, of the occurrence of any (i) "reportable event" (as such term is defined in Section 4043 of ERISA) or (ii) "prohibited transaction" (as such term is defined in Section 406 of ERISA or Section 4975 of the Code) in connection with any Pension Plan or any trust created thereunder, telephonic notice specifying the nature thereof, and, no more than five Business Days after such telephonic notice, written notice again specifying the nature thereof and specifying what action PNGI or any of its Subsidiaries is taking or proposes to take with respect thereto, and, when known, any action taken by the Internal Revenue Service with respect thereto;

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

(a) Such other data and information as from time to time may be reasonably requested by the Administrative Agent, any Lender (through the Administrative Agent) or the Requisite Lenders.

1.1 Compliance Certificates . For so long as any Advance remains unpaid, any other Obligation remains unpaid or unperformed, or any portion of the Commitment remains outstanding, Borrower shall deliver to the Administrative Agent for distribution by it to the Lenders concurrently with the financial statements required pursuant to Sections 7.1(a) a properly completed Compliance Certificate signed by a Senior Officer.

Article CONDITIONSArticle 3 CONDITIONS

1.1 The Closing Date . The obligation of each Lender to make the initial Advance to be made by it on the Closing Date, is subject to the following conditions precedent, each of which shall be satisfied prior to the making of the initial Advances (unless all of the Lenders, in their sole and absolute discretion, shall agree otherwise): 1.2

(a) The Administrative Agent shall have received all of the following, each of which shall be originals unless otherwise specified, each properly executed by a Responsible Official of each party thereto, each dated as of the Closing Date and each in form and substance satisfactory to the Administrative Agent and its legal counsel (unless otherwise specified or, in the case of the date of any of the following, unless the Administrative Agent otherwise agrees or directs):

(1) executed counterparts of this Agreement, sufficient in number for distribution to the Lenders and Borrower;

(1) Notes issued to each Lender in the principal amount of that Lender's Pro Rata Share;

(1) the PNGI Guaranty, executed by PNGI;

(1) the Security Agreement, executed by Borrower together with UCC-1 financing statements for filing in each appropriate jurisdiction;

(1) the Charles Town Subordination Agreement, executed by the Charles Town Joint Venture;

(1) such documentation with respect to PNGI, Borrower and each other Obligor as the Administrative Agent may require to establish its due organization, valid existence and good standing, its qualification to engage in business in each material jurisdiction in which it is engaged in business or required to be so qualified, its authority to execute, deliver and perform the Loan Documents, the identity, authority and capacity of each Responsible Official thereof authorized to act on its behalf, including certified copies of articles of incorporation and amendments thereto, bylaws and amendments thereto, certificates of good standing and/or qualification to engage in business, tax clearance certificates, certificates of corporate resolutions, and incumbency certificates;

(1) the Opinions of Counsel;

(1) Such assurances as the Administrative Agent deems appropriate that the relevant Regulatory Boards have approved the credit facilities to be provided hereunder to the extent that such approval is required by Applicable Regulations;

(1) a Certificate of a Responsible Official signed by a Senior Officer of PNGI and Borrower certifying that:

(a) attached thereto are true, current and complete copies of the 10 5/8% Indenture, the PNGI Credit Agreement and the Charles Town Operating Lease, each as amended to date; and

(b) the conditions specified in Sections 8.1(c) and 8.1(d) have been satisfied;

(1) Evidence that the $5,000,000 "Term Loan" (as defined in the PNGI Credit Agreement) has been repaid in full and any applicable commitments with respect thereto terminated;

(1) An amendment to the PNGI Credit Agreement in form and substance acceptable to the Lenders pursuant to which the requisite lenders thereunder agree to (A) the removal, waiver or modification of any provisions in the PNGI Credit Agreement which would otherwise prohibit the credit facilities and related security interests contemplated hereby and by the other Loan Documents, and (B) agree to subordinate their interest in the Collateral and the proceeds thereof to the Liens of the Administrative Agent in the Collateral and the proceeds thereof;

(1) such other assurances, certificates, documents, consents or opinions as the Administrative Agent reasonably may require.

(a) Evidence that the security interests of the Administrative Agent in the Collateral are of first
priority.

(a) The representations and warranties of PNGI and Borrower contained in Article 4 shall be true and correct.

(a) PNGI, Borrower and any other Obligors shall be in compliance with all the terms and provisions of the Loan Documents, and after giving effect to the initial Advance, no Default or Event of Default shall have occurred and be continuing.

(a) The fees due and payable on the Closing Date pursuant to Article 3 shall have been paid.

(a) The Administrative Agent and the Lenders shall have reviewed and found satisfactory information confirming that PNGI and its Subsidiaries are taking all necessary and appropriate steps, if any, to address the Year 2000 Issue.

(a) No Material Adverse Effect shall have occurred since December 31, 1998.

(a) PNGI shall have transferred to Borrower the ownership of the G-Tech Equipment and all New Equipment heretofore delivered, and Borrower (and shall have delivered a copy of the bill of sale or other appropriate evidence of such transfer to the Administrative Agent) and the Charles Town Joint Venture shall have entered into the Charles Town Operating Lease with respect thereto.

(a) All legal matters relating to the Loan Documents shall be satisfactory to Sheppard, Mullin, Richter & Hampton, LLP, special counsel to the Administrative Agent.

1.1 Any Advance . The obligation of each Lender to make any Advance which would increase the Outstanding ---------- Obligations is subject to the conditions precedent that: 1.2 (a) except as disclosed by the Obligors and approved in writing by the Requisite Lenders, the representations and warranties contained in Article 4 (other than the representations set forth in Sections 4.4, 4.10 and 4.17) shall be true and correct on the date of such Advance as though made on that date;

(a) There shall not be any pending or threatened action, suit, proceeding or investigation affecting PNGI or any of its Subsidiaries before any Governmental Agency that constitutes a Material Adverse Effect;

(a) except as provided for in Section 2.1(g), the Administrative Agent shall have timely received a Request for Loan in compliance with Article 2 (or telephonic or other request for Loan referred to in the second sentence of Section 2.1(b), if applicable);

(a) no Default or Event of Default shall have occurred and remain continuing or will result from such Advance;

(a) the amount of the increase in the Outstanding Obligations shall not exceed the amount of the Scheduled Expenses made by Borrower during the one month period preceding the making of the requested Loan (which Scheduled Expenses shall not have been the basis for any prior such Loan), the invoices for such Scheduled Expenses (and

in the case of those relating to the purchase of New Equipment, the lease schedule to the Charles Town Operating Lease) attached to the related Request for Loan shall be reasonably acceptable to the Administrative Agent;

(a) Borrower shall have delivered to the Administrative Agent amendments to its Uniform Commercial Code financing statements describing the New Equipment purchased with the proceeds of the Loan;

(a) no portion of the New Equipment shall have been delivered to the Borrower more than 20 days prior to the date of the related Loans, and the Collateral shall be subject be subject to a first priority perfected security interest in favor of the Administrative Agent; and

(a) the Administrative Agent shall have received, in form and substance satisfactory to the Administrative Agent, such other assurances, certificates, documents or consents related to the foregoing as the Administrative Agent or the Requisite Lenders reasonably may require, including without limitation any assurances which the Administrative Agent may require to establish that the proposed Loan is permitted under the terms of the PNGI Credit Agreement and the 10 5/8 Indenture.

Article EVENTS OF DEFAULT AND REMEDIES UPON EVENT OF DEFAULT Article 3 EVENTS OF DEFAULT AND REMEDIES UPON EVENT OF DEFAULT
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1.1 Events of Default . The existence or occurrence of any one or more of the following events, whatever the ---------- reason therefor and under any circumstances whatsoever, shall constitute an Event of Default:

1.2

(a) Borrower fails to pay any principal on any of the Notes, or any portion thereof, on the date when due; or

(a) Borrower fails to pay any interest on any of the Notes, or any fees under Sections 3.2 or 3.3 or any portion thereof, within two Business Days after the date when due; or fails to pay any other fee or amount payable to the Lenders under any Loan Document, or any portion thereof, within five Business Days after demand therefor; or

(a) PNGI or Borrower fail to comply with any of the covenants contained in Article 6; or

(a) PNGI, Borrower or any other Obligor fails to perform or observe any other covenant or agreement (not specified in clauses (a), (b) or (c) above) contained in any Loan Document on its part to be performed or observed within thirty Business Days after the giving of notice by the Administrative Agent on behalf of the Requisite Lenders of such Default; or

(a) Any representation or warranty of PNGI, Borrower or any other Obligor made in any Loan Document, or in any certificate or other writing delivered by Borrower pursuant to any Loan Document, proves to have been incorrect when made or reaffirmed; or

(a) PNGI or any of its Subsidiaries (i) fails to pay the principal, or any principal installment, of any present or future Indebtedness for borrowed money of $1,000,000 or more, or any guaranty of present or future Indebtedness for borrowed money of $1,000,000 or more, on its part to be paid, when due (or within any stated grace period), whether at the stated maturity, upon acceleration, by reason of required prepayment, the exercise of any "put" exercised by the holder of such Indebtedness or otherwise or (ii) fails to perform or observe any other term, covenant or agreement on its part to be performed or observed, or suffers any event to occur, in connection with any present or future Indebtedness for borrowed money of $1,000,000 or more, or of any guaranty of present or future indebtedness for borrowed money of $1,000,000 or more, if as a result of such failure or sufferance any holder or holders thereof (or an agent or trustee on its or their behalf) has the right to declare such indebtedness due before the date on which it otherwise would become due; or

(a) Any event occurs which gives the holder or holders of any Subordinated Obligation (or an agent or trustee on its or their behalf) the right to declare such Subordinated Obligation due before the date on which it otherwise would become due, or the right to require the issuer thereof to redeem or purchase, or offer to redeem or purchase, all or any portion of any Subordinated Obligation; or

(a) Any Loan Document, at any time after its execution and delivery and for any reason other than the agreement of the Lenders or satisfaction in full of all the Obligations ceases to be in full force and effect or is declared by a court of competent jurisdiction to be null and void, invalid or unenforceable in any respect which, in any such event in the reasonable opinion of the Requisite Lenders, is materially adverse to the interests of the Lenders; or any Obligor thereto denies that it has any or further liability or obligation under any Loan Document, or purports to revoke, terminate or rescind same; or

(a) A final judgment against PNGI or any of its Subsidiaries is entered for the payment of money in excess of $1,000,000 (other than any money judgment covered in full by insurance) and, absent procurement of a stay of execution, such judgment remains unsatisfied for sixty calendar days after the date of entry of judgment, or in any event later than five days prior to the date of any proposed sale thereunder; or any writ or warrant of attachment or execution or similar process is issued or levied against all or any part of the Property of any such Person and is not released, vacated or fully bonded within sixty calendar days after its issue or levy; or

(a) PNGI or any of its Subsidiaries institutes or consents to the institution of any proceeding under a Debtor Relief Law relating to it or to all or any part of its Property, or is unable or admits in writing its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any part of its Property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of that Person and the appointment continues undischarged or unstayed for sixty calendar days; or any proceeding under a Debtor Relief Law relating to any such Person or to all or any part of its Property is instituted without the consent of that Person and continues undismissed or unstayed for sixty calendar days; or

(a) The occurrence of an Event of Default (as such term is or may hereafter be specifically defined in any other Loan Document) under any other Loan Document; or

(a) Any determination is made by a court of competent jurisdiction that any Subordinated Obligation is
not subordinated in accordance with its terms to the Obligations; or

(a) Any Pension Plan maintained by PNGI or any of its Subsidiaries is determined to have an "accumulated funding deficiency" as that term is defined in Section 302 of ERISA and the result is a Material Adverse Effect; or

(a) The occurrence of any License Revocation at Charles Town Facility or the occurrence of any License Revocation at any other Venue of PNGI or its Subsidiaries which continues for five days; or

(a) The occurrence of any Change of Control or any Significant Transaction.

1.1 Remedies Upon Event of Default . Without limiting any other rights or remedies of the Administrative Agent or the Lenders provided for elsewhere in this Agreement, or in the other Loan Documents, or by applicable Law, or in equity, or otherwise:

1.2

(a) Upon the occurrence, and during the continuance, of any Event of Default other than an Event of ----- ---- Default described in Section 9.1(j):

(1) the Commitment to make Advances and all other obligations of the Creditors to the Obligors and all rights of Borrower and the other Obligors under the Loan Documents shall be suspended without notice to or demand upon Borrower, which are expressly waived by Borrower, except that all of the Lenders or the Requisite Lenders (as the case may be, in accordance with Section 11.2) may waive an Event of Default or, without waiving, determine, upon terms and conditions satisfactory to the Lenders or Requisite Lenders, as the case may be, to reinstate the Commitment and make further Advances, which waiver or determination shall apply equally to, and shall be binding upon, all the Lenders; and

(1) the Requisite Lenders may request the Administrative Agent to, and the Administrative Agent thereupon shall, terminate the Commitment and may declare all or any part of the unpaid principal of the Notes, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents to be forthwith due and payable, whereupon the same shall become and be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower.

(a) Upon the occurrence of any Event of Default described in Section 9.1(j):

(1) the Commitment to make Advances and all other obligations of the Creditors to the Obligors and all rights of Borrower and any other Obligors under the Loan Documents shall terminate without notice to or demand upon Borrower, which are expressly waived by Borrower, except that all the Lenders may waive the Event of Default or, without waiving, determine, upon terms and conditions satisfactory to all the Lenders, to reinstate the Commitment and make further Advances, which determination shall apply equally to, and shall be binding upon, all the Lenders; and

(1) the unpaid principal of all Notes, all interest accrued and unpaid thereon and all other amounts payable under the Loan Documents shall be forthwith due and payable, without protest, presentment, notice of dishonor, demand or further notice of any kind, all of which are expressly waived by Borrower.

(a) Upon the occurrence and during the continuance of any Event of Default, the Lenders and the Administrative Agent, or any of them, without notice to (except as expressly provided for in any Loan Document) or demand upon Borrower, which are expressly waived by Borrower (except as to notices expressly provided for in any Loan Document), may proceed (but only with the consent of the Requisite Lenders) to protect, exercise and enforce their rights and remedies under the Loan Documents against Borrower and any other Obligor and such other rights and remedies as are provided by Law or equity.

(a) The order and manner in which the Lenders' rights and remedies are to be exercised shall be determined by the Requisite Lenders in their sole discretion, and all payments received by the Administrative Agent and the Lenders, or any of them, shall be applied first to the costs and expenses (including reasonable attorneys' fees and disbursements and the reasonably allocated costs of attorneys employed by the Administrative Agent or by any Lender) of the Administrative Agent and of the Lenders, and thereafter paid pro rata to the Lenders in the same proportions that the aggregate Obligations owed to each Lender under the Loan Documents bear to the aggregate Obligations owed under the Loan Documents to all the Lenders, without priority or preference among the Lenders. Regardless of how each Lender may treat payments for the purpose of its own accounting, for the purpose of computing Borrower's Obligations hereunder and under the Notes, payments shall be applied first, to the costs and expenses of the Administrative Agent and the Lenders, as set forth above, second, to the payment of accrued and unpaid interest due under any Loan Documents to and including the date of such application (ratably,

and without duplication, according to the accrued and unpaid interest due under each of the Loan Documents), and third, to the payment of all other amounts (including principal and fees) then owing to the Administrative Agent or the Lenders under the Loan Documents. No application of payments will cure any Event of Default, or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents, or prevent the exercise, or continued exercise, of rights or remedies of the Lenders hereunder or thereunder or at Law or in equity.

Article THE ADMINISTRATIVE AGENT
Article 3 THE ADMINISTRATIVE AGENT
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1.1 Appointment and Authorization . Subject to Section 10.8, each Creditor hereby irrevocably appoints and authorizes the Administrative Agent to take such action as administrative agent on its behalf and to exercise such powers under the Loan Documents as are delegated to the Administrative Agent by the terms thereof or are reasonably incidental, as determined by the Administrative Agent, thereto. This appointment and authorization is intended solely for the purpose of facilitating the servicing of the Loans and does not constitute appointment of the Administrative Agent as a trustee or agent for any Lender or as representative of any Lender for any other purpose and, except as specifically set forth in the Loan Documents to the contrary, the Administrative Agent shall take such action and exercise such powers only in an administrative and ministerial capacity.

1.2

1.3 Administrative Agent and Affiliates . Bank of America (and each successor Administrative Agent) has the same rights and powers under the Loan Documents as any other Lender and may exercise the same as though it were not the Administrative Agent, and the term "Lender" or "Lenders" includes Bank of America in its individual capacity. Bank of America (and each successor Administrative Agent) and its Affiliates may accept deposits from, lend money to and generally engage in any kind of banking, trust or other business with PNGI or any of its Subsidiaries as if it were not the Administrative Agent and without any duty to account therefor to the other Creditors. Bank of America (and each successor Administrative Agent) need not account to any other Creditor for any monies received by it for reimbursement of its costs and expenses as Administrative Agent hereunder, or for any monies received by it in its capacity as a Lender hereunder. The Administrative Agent shall not be deemed to hold a fiduciary trust or other special relationship or any other special relationship with any other Creditor and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against the Administrative Agent.

1.4

1.5 Proportionate Interest in any Collateral . The Administrative Agent, on behalf of all the Creditors, shall hold in accordance with the Loan Documents all items of any collateral or interests therein received or held by the Administrative Agent. Subject to the Administrative Agent's right to reimbursement for its costs and expenses hereunder (including reasonable attorneys' fees and disbursements and other professional services and the reasonably allocated costs of attorneys employed by the Administrative Agent) and subject to the application of payments in accordance with Section 9.2(d), each Lender shall have an interest in the Collateral or interests therein in the same proportions that the aggregate Obligations owed such Lender under the Loan Documents bear to the aggregate Obligations owed under the Loan Documents to all the Lenders, without priority or preference among the Lenders.

1.6

1.7 Lenders' Credit Decisions . Each Creditor agrees that it has, independently and without reliance on any other Creditor or the directors, officers, agents, employees or attorneys thereof, and instead in reliance upon information

supplied to it by or on behalf of the Obligors and upon such other information as it has deemed appropriate, made its own independent credit analysis and decision to enter into this Agreement. Each Lender agrees that it shall, independently and without reliance upon any other Creditor or the directors, officers, agents, employees or attorneys thereof, continue to make its own independent credit analyses and decisions in acting or not acting under the Loan Documents.

1.1 Action by Administrative Agent .

1.2

(a) Absent actual knowledge of the Administrative Agent of the existence of a Default or Event of Default, the Administrative Agent may assume that no Default or Event of Default has occurred and is continuing, unless the Administrative Agent has received notice from the Obligors stating the nature of the Default or has received notice from a Lender stating the nature of the Default and that such Lender considers the Default to have occurred and to be continuing.

(a) The Administrative Agent has only those obligations under the Loan Documents as are expressly set forth therein.

(a) Except for any obligation expressly set forth in the Loan Documents and as long as the Administrative Agent may assume that no Event of Default has occurred and is continuing, the Administrative Agent may, but shall not be required to, exercise its discretion to act or not act, provided that (i) the Administrative Agent shall be required to act or not act upon the instructions of the Requisite Lenders (or of all the Lenders, to the extent required by Section 11.2) and those instructions shall be binding upon the Administrative Agent and all of the other Creditors, and (ii) the Administrative Agent shall not be required to act or not act if to do so would be contrary to any Loan Document or to applicable Law or would result, in the reasonable judgment of the Administrative Agent, in substantial risk of liability to the Administrative Agent.

(a) If the Administrative Agent has received a notice specified in clause (a), the Administrative Agent shall immediately give notice thereof to the Lenders and shall act or not act upon the instructions of the Requisite Lenders (or of all the Lenders, to the extent required by Section 11.2), provided that (i) the Administrative Agent shall not be required to act or not act if to do so would be contrary to any Loan Document or to applicable Law or would result, in the reasonable judgment of the Administrative Agent, in substantial risk of liability to the Administrative Agent, and (ii) if the Requisite Lenders (or all the Lenders, if required under Section 11.2) fail, for five Business Days after the receipt of notice from the Administrative Agent, to instruct the Administrative Agent, then the Administrative Agent, in its sole discretion, may act or not act as it deems advisable for the protection of the interests of the Lenders.

(a) The Administrative Agent shall have no liability to any Creditor for acting, or not acting, as instructed by the Requisite Lenders (or all the Lenders, if required under Section 11.2), notwithstanding any other provision hereof.

1.1 Liability of Administrative Agent . Neither the Administrative Agent nor any of its directors, officers, agents, employees or attorneys shall be liable for any action taken or not taken by them under or in connection with the Loan Documents, except for their own gross negligence or willful misconduct. Without limitation on the foregoing, the Administrative Agent and its directors, officers, agents, employees and attorneys:

1.2

(a) May treat the payee of any Note as the holder thereof until the Administrative Agent receives notice of the assignment or transfer thereof, in form satisfactory to the Administrative Agent, signed by the payee, and may treat each Lender as the owner of that Lender's interest in the Obligations for all purposes of this Agreement until the Administrative Agent receives notice of the assignment or transfer thereof, in form satisfactory to the Administrative Agent, signed by that Lender.

(a) May consult with legal counsel (including in-house legal counsel), accountants (including in-house accountants) and other professionals or experts selected by it, or with legal counsel, accountants or other professionals or experts for PNGI or its Subsidiaries or the Lenders, and shall not be liable for any action taken or not taken by it in good faith in accordance with any advice of such legal counsel, accountants or other professionals or experts.

(a) Shall not be responsible to any Creditor for any statement, warranty or representation made in any of the Loan Documents or in any notice, certificate, report, request or other statement (written or oral) given or made in connection with any of the Loan Documents.

(a) Except to the extent expressly set forth in the Loan Documents, shall have no duty to ask or inquire as to the performance or observance by any Obligor of any of the terms, conditions or covenants of any of the Loan Documents or to inspect any Collateral or the Property, books or records of PNGI or any of its Subsidiaries.

(a) Will not be responsible to any Creditor for the due execution, legality, validity, enforceability, genuineness, effectiveness, sufficiency or value of any Loan Document, any other instrument or writing furnished pursuant thereto or in connection therewith, or any Collateral.

(a) Will not incur any liability by acting or not acting in reliance upon any Loan Document, notice, consent, certificate, statement, request or other instrument or writing believed by it to be genuine and signed or sent by the proper party or parties.

(a) Will not incur any liability for any arithmetical error in computing any amount paid or payable by any Obligor or paid or payable to or received or receivable from any Lender under any Loan Document, including, without limitation, principal, interest, commitment fees, Advances and other amounts.

1.1 Indemnification . Each Lender shall, ratably in accordance with its Pro Rata Share, indemnify and hold the Administrative Agent, and each of its directors, officers, agents, employees and attorneys harmless against any and all liabilities, obligations, losses, damages, penalties, actions, judgments, suits, costs, expenses or disbursements of any kind or nature whatsoever (including, without limitation, attorneys' fees and disbursements and reasonably allocated costs of attorneys employed by the Administrative Agent) that may be imposed on, incurred by or asserted against it or them in any way relating to or arising out of the Loan Documents or any action taken or not taken by such indemnitee thereunder, except such as result from its own gross negligence or willful misconduct. Without limitation on the foregoing, each Lender shall reimburse the Administrative Agent upon demand for that Lender's Pro Rata Share of any out-of-pocket cost or expense incurred by the Administrative Agent in connection with the negotiation, preparation, execution, delivery, amendment, waiver, restructuring, reorganization (including a bankruptcy reorganization), enforcement or attempted enforcement of the Loan Documents, to the extent that any Obligor is required by Section 11.3 to pay that cost or expense but fails to do so upon demand.

1.2

1.3 Successor Administrative Agent . The Administrative Agent may, and at the request of the Requisite Lenders shall, resign as Administrative Agent upon thirty days' notice to the Lenders and Borrower. If the Administrative Agent resigns as Administrative Agent under this Agreement, the Requisite Lenders shall appoint from among the Lenders a successor administrative agent for the Lenders. If no successor administrative agent is appointed prior to the effective date of the resignation of the Administrative Agent, the Administrative Agent may appoint a successor administrative agent from among the Lenders. Upon the acceptance of its appointment as successor administrative agent hereunder, such successor administrative agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent and the term "Administrative Agent" shall mean such successor administrative agent and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Article 10, and Sections 11.3, 11.11 and 11.22, shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent. If no successor administrative agent has accepted appointment as Administrative Agent by the date which is thirty (30) days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and the Lenders shall perform all of the duties of the Administrative Agent hereunder until such time, if any, as the Requisite Lenders appoint a successor administrative agent as provided for above.

1.4

1.5 Foreclosure on Collateral . In the event of foreclosure or enforcement of the Lien created by any of the Collateral Documents, title to the Collateral covered thereby shall be taken and held by the Administrative Agent (or any designee thereof) pro rata for the benefit of the Lenders in accordance with their Pro Rata Shares and shall be administered in accordance with the standard form of collateral holding participation agreement used by the Administrative Agent in comparable syndicated credit facilities.

1.6

1.7 No Obligations of Borrower or PNGI . Nothing contained in this Article 10 shall be deemed to impose upon PNGI or Borrower any obligation in respect of the due and punctual performance by the Administrative Agent of its obligations to the Lenders under any provision of this Agreement, and PNGI and Borrower shall have no liability to the Administrative Agent or any of the Lenders in respect of any failure by the Administrative Agent or any Lender to perform any of its obligations to the Administrative Agent or the Lenders under this Agreement.

1.8

1.9 Permitted Release of Collateral . The Administrative Agent is hereby authorized to release its Lien on any Collateral which is the subject of a disposition permitted hereunder, and each Lender shall confirm upon request the authority of the Administrative Agent to make any such release of Collateral.

Article MISCELLANEOUSArticle 3 MISCELLANEOUS

1.1 Cumulative Remedies; No Waiver . The rights, powers, privileges and remedies of the Creditors provided herein, in the Notes and in the other Loan Documents are cumulative and not exclusive of any right, power, privilege or remedy provided by Law or equity. No failure or delay on the part of any Creditor in exercising any right, power, privilege or remedy may be, or may be deemed to be, a waiver thereof; nor may any single or partial exercise of any right, power, privilege or remedy preclude any other or further exercise of the same or any other right, power, privilege or remedy. The terms and conditions of Article 8 are inserted for the sole benefit of the Creditors; the same may be waived in whole or in part, with or without terms or conditions, in respect of any Loan without prejudicing the Creditors' rights to assert them in whole or in part in respect of any other Loan.

1.2

1.3 Amendments; Consents . No amendment, modification, supplement, extension, termination or waiver of any provision of this Agreement or any other Loan Document, no approval or consent thereunder, and no consent to any departure by any Obligor therefrom, may in any event be effective unless in writing signed or approved in writing by the Requisite Lenders or by the Administrative Agent with the consent of the Requisite Lenders (and, in the case of any amendment, modification or supplement to (i) Article 10, signed by the Administrative Agent, and (ii) to any Loan Document, signed by the Obligors party thereto), and then only in the specific instance and for the specific purpose given; and, without the approval in writing of all the Lenders affected thereby, no amendment, modification, supplement, termination, waiver or consent may be effective: 1.4

(a) To amend or modify the principal of, or the amount of principal or principal prepayments on any Note, to increase the amount of the Commitment or the Pro Rata Share of any Lender without the consent of that Lender,

(a) Without the consent of the affected Lenders, to decrease the rate of interest or amount of any fee payable to any Lender, or to decrease the amount of any unused commitment fee payable to any Lender, or to decrease any other fee or amount payable to any Lender under the Loan Documents;

(a) To postpone any date (including the Maturity Date) fixed for any payment of principal of, prepayment of principal of or any installment of interest on, any Note or any installment of any unused commitment fee, or to extend the term of the Commitment, or to release the PNGI Guaranty (except as otherwise provided in any Loan Document);

(a) To release any portion of the Collateral having an aggregate value in excess of $100,000 (except ------ as expressly provided in any Loan Document);

(a) To release or otherwise terminate the Charles Town Subordination Agreement;

(a) To amend the provisions of the definition of "Requisite Lenders", Section 8.2, Section 8.3 or this ---------- Section 11.2; or

(a) To amend any provision of this Agreement that expressly requires the consent or approval of all the Lenders.

Any amendment, modification, supplement, termination, waiver or consent pursuant to this Section 11.2 shall apply equally to, and shall be binding upon, all of the Creditors.

1.1 Costs, Expenses and Taxes . PNGI shall pay within ten Business Days after demand, accompanied by an invoice therefor, the reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with the negotiation, preparation, syndication, administration, execution and delivery of the Loan Documents. Borrower shall pay within ten Business Days after demand, accompanied by an invoice therefor, the reasonable out-of-pocket costs and expenses of the Administrative Agent in connection with any amendment to the Loan Documents or any waiver of the terms thereof, and the reasonable costs and expenses of the Administrative Agent and, after a Default, the Lenders in connection with the refinancing, restructuring, reorganization (including a bankruptcy reorganization) and enforcement or attempted enforcement of the Loan Documents, and any matter related thereto. The foregoing costs and expenses shall include the actual environmental review fees, filing fees, recording fees, title insurance premiums and fees, appraisal fees, search fees, and other out-of-pocket expenses and the reasonable fees and out-of-pocket expenses of any legal counsel (including reasonably allocated costs of legal counsel employed by the Administrative Agent or any Lender), independent public accountants and other outside experts retained by the Administrative Agent or any Lender, whether or not such costs and expenses are incurred or suffered by the Administrative Agent or any Lender in connection with or during the course of any bankruptcy or insolvency proceedings of any Obligor. Such costs and expenses shall also include, in the case of any amendment or waiver of any Loan Document, the administrative costs of the Administrative Agent reasonably attributable thereto. Borrower shall pay any and all documentary, recording, stamp and other taxes, and all costs, expenses, fees and charges payable or determined to be payable in connection with the filing or recording of this Agreement, any other Loan Document or any other instrument or writing to be delivered hereunder or thereunder, or in connection with any transaction pursuant hereto or thereto. Any amount payable to the Administrative Agent or any Lender under this Section 11.3 shall bear interest from the date of demand for payment at the Default Rate.

1.2

1.3 Nature of Lenders' Obligations . The obligations of the Lenders hereunder are several and not joint or joint and several. Nothing contained in this Agreement or any other Loan Document and no action taken by any Creditor pursuant hereto or thereto may, or may be deemed to, make any of the Creditors a partnership, an association, a joint venture or other entity, either among

themselves or with PNGI or any of its Subsidiaries. Each Lender's obligation to make any Advance pursuant hereto is several and not joint or joint and several, and in the case of the initial Advance only, is conditioned upon the performance by all other Lenders of their obligations to make initial Advances. A default by any Lender will not increase the Pro Rata Share of the Commitment attributable to any other Lender. Any Lender not in default may, if it desires, assume in such proportion as the nondefaulting Lenders agree the obligations of any Lender in default, but is not obligated to do so.

1.4

1.5 Survival of Representations and Warranties . All representations and warranties contained herein or in any other Loan Document, or in any certificate or other writing delivered by or on behalf of any one or more of the Obligors, will survive the making of the Loans hereunder and the execution and delivery of the Notes, and have been or will be relied upon by each Creditor, notwithstanding any investigation made by the Creditors or on their behalf.

1.6

1.7 Notices . Except as otherwise expressly provided in the Loan Documents, all notices, requests, demands, directions and other communications provided for hereunder or under any other Loan Document must be in writing and must be mailed, telecopied, dispatched by commercial courier or delivered to the appropriate party at the address set forth on the signature pages of this Agreement or other applicable Loan Document or, as to any party to any Loan Document, at any other address as may be designated by it in a written notice sent to all other parties to such Loan Document in accordance with this Section. Except as otherwise expressly provided in any Loan Document, if any notice, request, demand, direction or other communication required or permitted by any Loan Document is given by mail it will be effective on the earlier of receipt or the third calendar day after deposit in the United States mail with first class or airmail postage prepaid; if given by telecopier, when sent; if dispatched by commercial courier, on the scheduled delivery date; or if given by personal delivery, when delivered.

1.8

1.9 Execution of Loan Documents . This Agreement and any other Loan Document may be executed in any number of counterparts and any party hereto or thereto may execute any counterpart, each of which when executed and delivered will be deemed to be an original and all of which counterparts of this Agreement or any other Loan Document, as the case may be, when taken together will be deemed to be but one and the same instrument. The execution of this Agreement or any other Loan Document by any party hereto or thereto will not become effective until counterparts hereof or thereof, as the case may be, have been executed by all the parties hereto or thereto.

1.1 Binding Effect; Assignment .

1.2

(a) This Agreement and the other Loan Documents to which any Obligor is a party will be binding upon and inure to the benefit of the relevant Obligor and the Creditors, and their respective successors and assigns, except that the Obligors may not assign their rights hereunder or thereunder or any interest herein or therein without the prior written consent of all the Lenders. Each Lender represents that it is not acquiring its Note with a view to the distribution thereof within the meaning of the Securities Act of 1933, as amended (subject to any requirement that disposition of such Note must be within the control of such Lender). Any Lender may at any time pledge its Note or any other instrument evidencing its rights as a Lender under this Agreement to a Federal Reserve Bank, but no such pledge shall release that Lender from its obligations hereunder or grant to such Federal Reserve Bank the rights of a Lender hereunder absent foreclosure of such pledge.

(a) From time to time following the Closing Date, each Lender may assign to one or more Eligible Assignees all or any portion of its Pro Rata Share; provided that (i) such Eligible Assignee, if not then a Lender or an Affiliate of the assigning Lender, shall be approved by the Administrative Agent and Borrower (neither of which approvals shall be unreasonably withheld or delayed), provided that the consent of Borrower to assignments shall not be required when any Default or Event of Default has occurred and remains continuing, (ii) such assignment shall be evidenced by an Assignment Agreement, a copy of which shall be furnished to the Administrative Agent as provided below, (iii) except in the case of an assignment to an Affiliate of the assigning Lender, to another Lender or of the entire remaining Commitment of the assigning Lender, the assignment shall not assign a Pro Rata Share of the Commitment equivalent to less than $1,000,000, and (iv) the effective date of any such assignment shall be as specified in the Assignment Agreement, but not earlier than the date which is five Business Days after the date the Administrative Agent has received the Assignment Agreement. Upon the effective date of such Assignment Agreement, the Eligible Assignee named therein shall be a Lender for all purposes of this Agreement, with the Pro Rata Share therein set forth and, to the extent of such Pro Rata Share, the assigning Lender shall be released from its further obligations under the Loan Documents. Borrower agrees that it shall execute and deliver (against delivery by the assigning Lender to Borrower of its Note) to such assignee Lender, a Note evidencing that assignee Lender's Pro Rata Share, and to the assigning Lender, a Note evidencing the remaining balance Pro Rata Share retained by the assigning Lender.

(a) By executing and delivering an Assignment Agreement, the Eligible Assignee thereunder acknowledges and agrees that: (i) other than the representation and warranty that it is the legal and

beneficial owner of the Pro Rata Share being assigned thereby free and clear of any adverse claim, the assigning Lender has made no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or the execution, legality, validity, enforceability, genuineness or sufficiency of this Agreement or any other Loan Document; (ii) the assigning Lender has made no representation or warranty and assumes no responsibility with respect to the financial condition of Borrower or the performance by Borrower of the Obligations; (iii) it has received a copy of this Agreement, together with copies of the most recent financial statements delivered pursuant to Section 7.1 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment Agreement; (iv) it will, independently and without reliance upon the Administrative Agent or any Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under this Agreement; (v) it appoints and authorizes the Administrative Agent to take such action and to exercise such powers under this Agreement and the other Loan Documents as are delegated to the Administrative Agent by this Agreement; and (vi) it will perform in accordance with their terms all of the obligations which by the terms of this Agreement are required to be performed by it as a Lender.

(a) Each Lender may from time to time grant participations to one or more banks or other financial institutions (including another Lender) in all or a portion of its Pro Rata Share; provided, however, that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the participating banks or other financial institutions shall not be a Lender hereunder for any purpose except, if the participation Agreement so provides, for the purposes of Sections 3.4, 3.5, 11.11 and 11.22 but only to the extent that the cost of such benefits to Borrower does not exceed the cost which Borrower would have incurred in respect of such Lender absent the participation, (iv) Borrower, the Administrative Agent and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement, (v) the participation interest shall be expressed as a percentage of the granting Lender's Pro Rata Share as it then exists and shall not restrict an increase in the Commitment, or in the granting Lender's Pro Rata Share, so long as the amount of the participation interest is not affected thereby and (vi) the consent of the holder of such participation interest shall not be required for amendments or waivers of provisions of the Loan Documents other than those which (A) extend the Maturity Date or any other date upon which any payment of money is due to the Lenders, (B) reduce the rate of interest payable with respect to the participation, any fee or any other monetary amount payable to the participant, (C) reduce the amount of any installment of principal due under the Notes in a manner which affects the participant, or (D) release any material portion of the Collateral.

(a) Notwithstanding anything in this Section 11.8 to the contrary, the rights of the Lenders to make assignments of, and grant participations in, their Pro Rata Shares of the Commitment shall be subject to the approval of any Regulatory Board (including the approval of the identity of any proposed assignee or participant), to the extent required by Applicable Regulations.

1.1 Right of Setoff . If an Event of Default has occurred and is continuing, each Creditor may (but only with the consent of the Requisite Lenders) exercise its rights under Article 9 of the Uniform Commercial Code and other applicable Laws and, to the extent permitted by applicable Laws, apply any funds in any deposit account maintained with it by PNGI and Borrower or any Property of PNGI and Borrower in its possession against the Obligations.

1.2

1.3 Sharing of Setoffs . Each Lender severally agrees that if it, through the exercise of any right of setoff, banker's lien or counterclaim against any Obligor, or otherwise, receives payment of the Obligations held by it that is ratably more than any other Lender, through any means, receives in payment of the Obligations held by that Lender, then, subject to applicable Laws (a) the Lender exercising the right of setoff, banker's lien or counterclaim or otherwise receiving such payment shall purchase, and shall be deemed to have simultaneously purchased, from the other Lender a participation in the Obligations held by the other Lender and shall pay to the other Lender a purchase price in an amount so that the share of the Obligations held by each Lender after the exercise of the right of setoff, banker's lien or counterclaim or receipt of payment shall be in the same proportion that existed prior to the exercise of the right of setoff, banker's lien or counterclaim or receipt of payment; and (b) such other adjustments and purchases of participations shall be made from time to time as shall be equitable to ensure that all of the Lenders share any payment obtained in respect of the Obligations ratably in accordance with each Lender's share of the Obligations immediately prior to, and without taking into account, the payment; provided that, if all or any portion of a disproportionate payment obtained as a result of the exercise of the right of setoff, banker's lien, counterclaim or otherwise is thereafter recovered from the purchasing Lender by any Obligor or any Person claiming through or succeeding to the rights of any Obligor, the purchase of a participation shall be rescinded and the purchase price thereof shall be restored to the extent of the recovery, but without interest. Each Lender that purchases a participation in the Obligations pursuant to this Section 11.10 shall from and after the purchase have the right to give all notices, requests, demands, directions and other communications under this Agreement with respect to the portion of the Obligations purchased to the same extent as though the purchasing Lender were the original owner of the Obligations purchased. Each Obligor expressly consents to the foregoing arrangements and agrees that any Lender holding a participation in an Obligation so purchased may exercise any and all rights of setoff, banker's lien or counterclaim with respect to the participation as fully as if the Lender were the original owner of the Obligation purchased.

1.4

1.5 Indemnity by PNGI and Borrower . Each of PNGI and Borrower agrees to indemnify, save and hold harmless the Creditors and their directors, officers, agents, attorneys and employees (collectively the "Indemnitees") from and against: (a) any and all claims, demands, actions or causes of action, if the claim, demand, action or cause of action arises out of or relates to the Commitment, the use or contemplated use of proceeds of any Loan, or the relationship between any such Person and the Creditors under this Agreement; (b) any administrative or investigative proceeding by any Governmental Agency arising out of or related to a claim, demand, action or cause of action described in clause (a) above; and (c) any and all liabilities, losses, costs or expenses (including reasonable attorneys' fees and the reasonably allocated costs of attorneys employed by any Indemnitee and disbursements of such attorneys and other professional services) that any Indemnitee suffers or incurs as a result of the assertion of any foregoing claim, demand, action or cause of action; provided that no Indemnitee shall be entitled to indemnification for any loss caused by its own gross negligence or willful misconduct or as to any claim asserted by that Indemnitee against PNGI or Borrower to the extent that PNGI or Borrower prevails on that claim in a final and non-appealable determination by a court of competent jurisdiction or an arbitrator appointed in accordance herewith. If any claim, demand, action or cause of action is asserted against any Indemnitee, such Indemnitee shall promptly notify PNGI and Borrower, but the failure to so promptly notify PNGI and Borrower shall not affect PNGI's and Borrower's obligations under this Section unless such failure materially prejudices PNGI's or Borrower's, as applicable, right to participate in the contest of such claim, demand, action or cause of action, as hereinafter provided. Each Indemnitee may contest the validity, applicability and amount of such claim, demand, action or cause of action with counsel of its own choosing and shall permit PNGI and Borrower to participate in such contest. Any Indemnitee that proposes to settle or compromise any claim or proceeding for which PNGI or Borrower may be liable for payment of indemnity hereunder shall give PNGI and Borrower written notice of the terms of such proposed settlement or compromise reasonably in advance of settling or compromising such claim or proceeding. In connection with any claim, demand, action or cause of action covered by this Section 11.11 against more than one Indemnitee, all such Indemnitees shall be represented by the same legal counsel (which may be a law firm engaged by the Indemnitees or attorneys employed by an Indemnitee or a combination of the foregoing) selected by the Indemnitees and reasonably acceptable to PNGI and Borrower; provided, that if such legal counsel determines in good faith that representing all such Indemnitees would or could result in a conflict of interest under Laws or ethical principles applicable to such legal counsel or that a defense or counterclaim is available to an Indemnitee that is not available to all such Indemnitees, then to the extent reasonably necessary

to avoid such a conflict of interest or to permit unqualified assertion of such a defense or counterclaim, each Indemnitee shall be entitled to separate representation by legal counsel selected by that Indemnitee and reasonably acceptable to PNGI and Borrower, with all such legal counsel using reasonable efforts to avoid unnecessary duplication of effort by counsel for all Indemnitees; and further provided that the Administrative Agent (as an Indemnitee) shall at all times be entitled to representation by separate legal counsel. Any obligation or liability of PNGI or Borrower to any Indemnitee under this Section 11.11 shall survive the expiration or termination of this Agreement, the repayment of all Loans, and the payment and performance of all other Obligations owed to the Lenders.

1.6

1.7 Nonliability of the Lenders . Each of PNGI and Borrower acknowledges and agrees that: ---------- 1.8

(a) Any inspections of any Property of PNGI or Borrower made by or through the Creditors are for purposes of administration of the Loans only and PNGI and Borrower are not entitled to rely upon the same;

(a) By accepting or approving anything required to be observed, performed, fulfilled or given to the Creditors pursuant to the Loan Documents, no Creditor shall be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not constitute a warranty or representation to anyone with respect thereto by any Creditor;

(a) The relationship between each Obligor and Creditors is, and shall at all times remain, solely that of borrower and lenders; no Creditor shall under any circumstance be construed to be a partner or joint venturer with the Obligors; no creditor shall under any circumstance be deemed to be in a relationship of confidence or trust or a fiduciary or other special relationship with the Obligors, or to owe any fiduciary duty or other special duty to the Obligors; no Creditor undertakes or assumes any responsibility or duty to PNGI or its Affiliates to select, review, inspect, supervise, pass judgment upon or inform the Obligors of any matter in connection with their Property or the operations of the Obligors; the Obligors shall rely entirely upon their own judgment with respect to such matters; and any review, inspection, supervision, exercise of judgment or supply of information undertaken or assumed by the Creditors in connection with such matters is solely for the protection of the Creditors and neither the Obligors nor any other Person is entitled to rely thereon; and

(a) The Creditors shall not be responsible or liable to any Person for any loss, damage, liability or claim of any kind relating to injury or death to Persons or damage to Property caused by the actions, inaction or negligence of the Obligors and PNGI and Borrower each hereby indemnifies and holds each Creditor harmless from any such loss, damage, liability or claim.

1.1 No Third Parties Benefitted . This Agreement is made for the purpose of defining and setting forth certain obligations, rights and duties of PNGI, Borrower and the Creditors in connection with the Loans and is made for the sole benefit of PNGI, Borrower, the Creditors and the Creditors' successors and assigns. Except as provided in Sections 11.8, 11.11 and 11.14, no other Person shall have any rights of any nature hereunder or by reason hereof.

1.2

1.3 Confidentiality . Each Lender agrees to hold any confidential information that it may receive from PNGI and its Subsidiaries pursuant to this Agreement in confidence, except for disclosure: (i) to other Lenders; (ii) to legal counsel and accountants for PNGI and its Subsidiaries or any Lender; (iii) to other professional advisors to PNGI and its Subsidiaries or any Lender, provided that the recipient has accepted such information subject to a confidentiality Agreement substantially similar to this Section 11.14; (iv) to regulatory officials having jurisdiction over that Lender; (v) to any Regulatory Board having regulatory jurisdiction over PNGI or its Subsidiaries; (vi) as required by Law or legal process or in connection with any legal proceeding to which that Lender and PNGI or any of its Subsidiaries are adverse parties; and (vii) to another financial institution in connection with a disposition or proposed disposition to that financial institution of all or part of that Lender's interests hereunder or a participation interest in its Note, provided that the recipient has accepted such information subject to a written confidentiality Agreement. For purposes of the foregoing, "confidential information" shall mean any information respecting PNGI or any of its Subsidiaries reasonably considered by them to be confidential, other than (i) information previously filed with any Governmental Agency and available to the public, (ii) information previously published in any public medium from a source other than, directly or indirectly, that Lender, and (iii) information previously disclosed by PNGI or any of its Subsidiaries to any Person not associated with themselves without a confidentiality Agreement or obligation substantially similar to this Section 11.14. Nothing in this Section shall be construed to create or give rise to any fiduciary duty or other special duty on the part of any Creditor to PNGI or any of its Subsidiaries.

1.4

1.5 Further Assurances . Each Obligor shall, at their expense and without expense to the Creditors, do, execute and deliver such further acts and documents as any Creditor from time to time reasonably requires for the assuring and confirming unto the Creditors of the rights hereby created or intended now or hereafter so to be, or for carrying out the intention or facilitating the performance of the terms of any Loan Document.

1.6

1.7 Integration . This Agreement, together with the other Loan Documents, comprises the complete and integrated Agreement of the parties on the subject matter hereof and supersedes all prior agreements, written or oral, on the subject matter hereof. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control and govern; provided that the inclusion of supplemental rights or remedies in favor of the Creditors in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

1.8

1.9 Governing Law . Except to the extent otherwise provided therein, each Loan Document shall be governed by, and construed and enforced in accordance with, the local Laws of California, without reference to the choice of law or conflicts of laws provisions thereof.

1.10

1.11 Severability of Provisions . Any provision in any Loan Document that is held to be inoperative, unenforceable or invalid as to any party or in any jurisdiction shall, as to that party or jurisdiction, be inoperative, unenforceable or invalid without affecting the remaining provisions or the operation, enforceability or validity of that provision as to any other party or in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

1.12

1.13 Headings . Article and Section headings in this Agreement and the other Loan Documents are included for convenience of reference only and are not part of this Agreement or the other Loan Documents for any other purpose.

1.14

1.15 Time of the Essence . Time is of the essence of the Loan Documents.
---------- 1.16

1.17 Foreign Lenders and Participants . Each Lender, and each holder of a participation interest herein, that is incorporated or otherwise organized under the Laws of a jurisdiction other than the United States of America or any State thereof or the District of Columbia shall deliver to Borrower (with a copy to the Administrative Agent) on the Closing Date (or after accepting an assignment or receiving a participation interest herein pursuant to Section 11.8, if applicable) either Form W8-ECI or other Internal Revenue Service forms satisfactory to Borrower and the Administrative Agent that no withholding under the federal income tax laws is required with respect to such Person. Thereafter and from time to time, each such Person shall (a) promptly submit to Borrower (with a copy to the Administrative Agent) such additional duly completed and signed copies of one of such forms as may then be available under then current United States laws and regulations to avoid, or such evidence as is satisfactory to Borrower and the Administrative Agent of any available exemption from, United States withholding taxes in respect of all payments to be made to such Person by Borrower pursuant to this Agreement and (b) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Lender, and as may be reasonably necessary (including the re-designation of its LIBOR Office, if any) to avoid any requirement of applicable Laws that Borrower make any deduction or withholding for taxes from amounts payable to such Person.

1.18

1.19 Waiver of Right to Trial by Jury . EACH PARTY TO THIS AGREEMENT HEREBY EXPRESSLY WAIVES ANY RIGHT TO TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION ARISING UNDER ANY LOAN DOCUMENT OR IN ANY WAY CONNECTED WITH OR RELATED OR INCIDENTAL TO THE DEALINGS OF THE PARTIES HERETO OR ANY OF THEM WITH RESPECT TO ANY LOAN DOCUMENT, OR THE TRANSACTIONS RELATED THERETO, IN EACH CASE WHETHER NOW EXISTING OR HEREAFTER ARISING, AND WHETHER SOUNDING IN CONTRACT OR TORT OR OTHERWISE; AND EACH PARTY HEREBY AGREES AND CONSENTS THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE DECIDED BY COURT TRIAL WITHOUT A JURY, AND THAT ANY PARTY TO THIS AGREEMENT MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF THE SIGNATORIES HERETO TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.

1.20
1.1

1.21 Purported Oral Amendments . EACH OBLIGOR EXPRESSLY ACKNOWLEDGES THAT THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY ONLY BE AMENDED OR MODIFIED, OR THE PROVISIONS HEREOF OR THEREOF WAIVED OR SUPPLEMENTED, BY AN INSTRUMENT IN WRITING THAT COMPLIES WITH SECTION 11.2. BORROWER AGREES THAT IT WILL NOT RELY ON ANY COURSE OF DEALING, COURSE OF PERFORMANCE, OR ORAL OR WRITTEN STATEMENTS BY ANY CREDITOR OR ITS REPRESENTATIVES THAT DOES NOT COMPLY WITH SECTION 11.2 TO EFFECT AN AMENDMENT, MODIFICATION, WAIVER OR SUPPLEMENT TO THIS AGREEMENT OR THE OTHER LOAN DOCUMENTS.

1.22

1.23 IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written. 1.24

1.25 "Borrower"
1.26
1.1

PENN NATIONAL GAMING OF WEST VIRGINIA, INC., a West Virginia corporation

By: _____

[Printed name and title]

"Guarantor"

PENN NATIONAL GAMING, INC., a Pennsylvania corporation

By: _____

[Printed name and title]

Address for notices:

Penn National Gaming, Inc.
Penn National Gaming of West Virginia, Inc.
==========
Attention: _____
Telecopier:_____
Telephone:_____

BANK OF AMERICA N.A., as Administrative Agent and Issuing Lender

By: _____
Janice Hammond, Vice President

Address:

Bank of America, N.A.
555 South Flower Street
Los Angeles, California 90071
Attn: Janice Hammond, Vice President

Telecopier: (213) 228-2299
Telephone: (213) 222-9861

BANK OF AMERICA, N.A., as a Lender

Pro Rata Share $10,000,000 (50%)

By: _____
Scott L. Faber, Principal

Address:

Bank of America, N.A.
555 South Flower Street, #3283
Los Angeles, California 90071
Attn: Scott L. Faber, Principal
Telecopier: (213) 228-2641
Telephone: (213) 228-2768

With a copy to:

Bank of America, N.A.
555 South Flower Street (LA-5777)
Los Angeles, California 90071
Attn: William Newby, Managing Director
Telecopier: (213) 228-3145
Telephone: (213) 228-2438

FIRST UNION NATIONAL BANK

Pro Rata Share $10,000,000 (50%)

By: _____

Title: _____

Address for notices:

==========
- ----------
Attn:
Telephone:
Telecopier:

SECURITY AGREEMENT

This SECURITY AGREEMENT ("Agreement"), dated as of December 13, 1999, is made by Penn National Gaming of West Virginia, Inc., a West Virginia corporation ("Grantor"), whose address is 825 Berkshire Blvd., Suite 200, Wyomissing, Pennsylvania 19610, in favor of Bank of America, N.A., whose address is 555 South Flower St., Los Angeles, California 90071, as Administrative Agent under the Loan Agreement hereafter referred to, and in favor of each of the Lenders therein named (collectively referred to herein as "Secured Party"), with reference to the following facts:

RECITALS

A. Pursuant to the Senior Secured Multiple Draw Term Loan Agreement of even date herewith by and among Grantor, Penn National Gaming, Inc., a Pennsylvania corporation, as Guarantor, the lenders from time to time party thereto (collectively, the "Lenders" and individually, a "Lender"), and the Administrative Agent (as such agreement may from time to time be amended, extended, renewed, supplemented or otherwise modified, the "Loan Agreement"), the Lenders have agreed to extend certain credit facilities to Grantor.

A. The Loan Agreement provides, as a condition of the availability of such credit facilities, that Grantor shall enter into this Agreement and shall grant security interests to Secured Party as herein provided.

AGREEMENT

NOW, THEREFORE, in order to induce the Lenders to extend the aforementioned credit facilities, and for other good and valuable consideration, the receipt and adequacy of which hereby is acknowledged, Grantor hereby represents, warrants, covenants, agrees, assigns and grants as follows:

1. Definitions. This Agreement is the Security Agreement referred to in the Loan Agreement. This Agreement is one of the "Loan Documents" referred to in the Loan Agreement. Terms defined in the Loan Agreement and not otherwise defined in this Agreement shall have the meanings defined for those terms in the Loan Agreement. Terms defined in the California Uniform Commercial Code and not otherwise defined in this Agreement or in the Loan Agreement shall have the meanings defined for those terms in the California Uniform Commercial Code. As used in this Agreement, the following terms shall have the meanings respectively set forth after each:

2.

"Agreement" means this Security Agreement, and any extensions, modifications, renewals, restatements, supplements or amendments hereof.

"Collateral" means and includes all present and future right, title and interest of Grantor in or to the following Property:

(a) the equipment and other property described on Schedule 1.1 and Schedule 1.2 hereto, and all the video lottery terminals, slot machines, and other gaming equipment, lights, chairs, rails, and related support equipment and all fixtures related to any such equipment and located at the Charles Town Facility;

(b) all rights of Grantor under that certain Master Lease Agreement of even date herewith between Grantor and PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company, including all rights to receive the payment of rent thereunder (the "Lease");

(c) any and all equipment, fixtures and other property which may hereafter become subject to the Lease by delivery of additional lease schedules thereunder (it being understood that concurrently with the delivery of any such lease schedule to the Administrative Agent by Borrower in connection with any Request for Loan under the Loan Agreement, such additional equipment, fixtures and other property will automatically and without further action by Borrower or any other Person become Collateral subject to the Lien of this Security Agreement);

(d) all present and future books and records related to the Collateral, including, without limitation, books of account and ledgers of every kind and nature, all electronically recorded data relating to the Collateral, all receptacles and containers for such records, and all files and correspondence;

(e) all present and future accessions, appurtenances, components, repairs, repair parts, spare parts, replacements, substitutions, additions, issue and/or improvements to or of or with respect to any of the foregoing;

(f) all rights, remedies, powers and/or privileges of Grantor with respect to any of the foregoing; and

(g) any and all proceeds and products of any of the foregoing, including, without limitation, all money, accounts, general intangibles, deposit accounts, documents, instruments, chattel paper, goods, insurance proceeds, and any other tangible or intangible property received upon the sale or disposition of any of the foregoing.

"Secured Obligations" means any and all present and future Obligations of every kind or nature of Grantor at any time and from time to time owed to Secured Party or any one or more of them, under any one or more of the Loan Documents, whether due or to become due, matured or unmatured, liquidated or unliquidated, or contingent or noncontingent, including Obligations of performance as well as Obligations of payment, and including interest that

accrues after the commencement of any proceeding under any Debtor Relief Law by or against Grantor.

1. Further Assurances. At any time and from time to time at the request of Secured Party, Grantor shall execute and deliver to Secured Party all such financing statements and other instruments and documents in form and substance satisfactory to Secured Party as shall be necessary or desirable to fully perfect, when filed and/or recorded, Secured Party's security interests granted pursuant to Section 3 of this Agreement. At any time and from time to time, Secured Party shall be entitled to file and/or record any or all such financing statements, instruments and documents held by it, and any or all such further financing statements, documents and instruments, and to take all such other actions, as Secured Party may deem appropriate to perfect and to maintain perfected the security interests granted in Section 3 of this Agreement. Before and after the occurrence of any Event of Default, at Secured Party's request, Grantor shall execute all such further financing statements, instruments and documents, and shall do all such further acts and things, as may be deemed necessary or desirable by Secured Party to create and perfect, and to continue and preserve, an indefeasible security interest in the Collateral in favor of Secured Party, or the priority thereof. With respect to any Collateral consisting of instruments, documents, certificates of title or the like, as to which Secured Party's security interest need be perfected by, or the priority thereof need be assured by, possession of such Collateral, Grantor will upon demand of Secured Party deliver possession of same in pledge to Secured Party. With respect to any Collateral consisting of securities, instruments, partnership or joint venture interests or the like, Grantor hereby consents and agrees that the issuers of, or obligors on, any such Collateral, or any registrar or transfer agent or trustee for any such Collateral, shall be entitled to accept the provisions of this Agreement as conclusive evidence of the right of Secured Party to effect any transfer or exercise any right hereunder or with respect to any such Collateral, notwithstanding any other notice or direction to the contrary heretofore or hereafter given by Grantor or any other Person to such issuers or such obligors or to any such registrar or transfer agent or trustee. 2.

3. Security Agreement. For valuable consideration, Grantor hereby assigns and pledges to Secured Party, and grants to Secured Party a security interest in, all presently existing and hereafter acquired Collateral, as security for the timely payment and performance of the Secured Obligations, and each of them. This Agreement is a continuing and irrevocable agreement and all the rights, powers, privileges and remedies hereunder shall apply to any and all Secured Obligations, including those arising under successive transactions which shall either continue the Secured Obligations, increase or decrease them, or from time to time create new Secured Obligations after all or any prior Secured Obligations have been satisfied, and notwithstanding the bankruptcy of Grantor or any other Person or any other event or proceeding affecting any Person.

4.

5. Grantor's Representations, Warranties and Agreements. Except as otherwise disclosed to Secured Party in writing concurrently herewith, Grantor represents, warrants and agrees that: (a) Grantor will pay, prior to delinquency, all taxes, charges, Liens and assessments against the Collateral, except such as are timely

contested in good faith, and upon its failure to pay or so contest such taxes, charges, Liens and assessments, Secured Party at its option may pay any of them, and Secured Party shall be the sole judge of the legality or validity thereof and the amount necessary to discharge the same; (b) the Collateral will not be used for any unlawful purpose or in material violation of any Law, regulation or ordinance, nor used in any way that will void or impair any insurance required to be carried in connection therewith; (c) Grantor will, to the extent consistent with good business practice, keep the Collateral in reasonably good repair, working order and condition, and from time to time make all needful and proper repairs, renewals, replacements, additions and improvements thereto and, as appropriate and applicable, will otherwise deal with the Collateral in all such ways as are considered good practice by owners of like Property; (d) Grantor will take all reasonable steps to preserve and protect the Collateral; (e) Grantor will maintain, with responsible insurance companies, insurance covering the Collateral against such insurable losses as is required by the Loan Agreement and as is consistent with sound business practice, and will cause Secured Party to be designated as an additional insured and loss payee with respect to all insurance (whether or not required by the Loan Agreement), will obtain the written agreement of the insurers that such insurance shall not be canceled, terminated or materially modified to the detriment of Secured Party without at least 30 days prior written notice to Secured Party, and will furnish copies of such insurance policies or certificates to Secured Party promptly upon request therefor; (f) Grantor will promptly notify Secured Party in writing in the event of any substantial or material damage to the Collateral from any source whatsoever, and, except for the disposition of collections and other proceeds of the Collateral permitted by Section 6 hereof, Grantor will not remove or permit to be removed any part of the Collateral from the Charles Town Facility, without the prior written consent of Secured Party, except for such items of the Collateral as are removed in the ordinary course of business or in connection with any transaction or disposition otherwise permitted by the Loan Documents; and (g) in the event Grantor changes its name or its address as either are set forth herein or in the Loan Agreement, Grantor will notify Secured Party of such name and/or address change promptly, but in any event, within thirty days.

6.

7. Secured Party's Rights Re Collateral. Without limitation upon the inspection and audit rights granted to Secured Party under the Loan Agreement, if an Event of Default has occurred and remains continuing, then at any time without notice or demand and at the sole expense of Grantor, Secured Party may, to the extent it may be necessary or desirable to protect the security hereunder, but Secured Party shall not be obligated to: (a) enter upon any premises on which Collateral is situated and examine the same or (b) perform any obligation of Grantor under this Agreement or any obligation of any other Person under the Loan Documents. At any time and from time to time, at the expense of Grantor, Secured Party may, to the extent it may be necessary or desirable to protect the security hereunder, but Secured Party shall not be obligated to: (i) notify obligors on the Collateral that the Collateral has been assigned to Secured Party; (ii) at any time and from time to time request from obligors on the Collateral, in the name of Grantor or in the name of Secured Party, information concerning the

Collateral and the amounts owing thereon; and (iii) while an Event of Default is continuing cause the Collateral to be registered in the name of Secured Party, as legal owner. Grantor shall at any time at Secured Party's request mark the Collateral and/or Grantor's ledger cards, books of account and other records relating to the Collateral with appropriate notations satisfactory to Secured Party disclosing that they are subject to Secured Party's security interests. Secured Party shall be under no duty or obligation whatsoever to take any action to protect or preserve the Collateral or any rights of Grantor therein, or to make collections or enforce payment thereon, or to participate in any foreclosure or other proceeding in connection therewith.

8.

9. Collections on the Collateral. Except as otherwise provided in any Loan Document, Grantor shall have the right to use and to continue to make collections on and receive dividends and other proceeds of all of the Collateral in the ordinary course of business so long as no Event of Default shall have occurred and be continuing. Upon the occurrence and during the continuance of an Event of Default, at the option of Secured Party, Grantor's right to make collections on and receive dividends and other proceeds of the Collateral and to use or dispose of such collections and proceeds shall terminate, and any and all dividends, proceeds and collections, including all partial or total prepayments, then held or thereafter received on or on account of the Collateral will be held or received by Grantor in trust for Secured Party and immediately delivered in kind to Secured Party. Any remittance received by Grantor from any Person shall be presumed to relate to the Collateral and to be subject to Secured Party's security interests. Upon the occurrence and during the continuance of an Event of Default, Secured Party shall have the right at all times to receive, receipt for, endorse, assign, deposit and deliver, in the name of Secured Party or in the name of Grantor, any and all checks, notes, drafts and other instruments for the payment of money constituting proceeds of or otherwise relating to the Collateral; and Grantor hereby authorizes Secured Party to affix, by facsimile signature or otherwise, the general or special endorsement of it, in such manner as Secured Party shall deem advisable, to any such instrument in the event the same has been delivered to or obtained by Secured Party without appropriate endorsement, and Secured Party and any collecting bank are hereby authorized to consider such endorsement to be a sufficient, valid and effective endorsement by Grantor, to the same extent as though it were manually executed by the duly authorized officer of Grantor, regardless of by whom or under what circumstances or by what authority such facsimile signature or other endorsement actually is affixed, without duty of inquiry or responsibility as to such matters, and Grantor hereby expressly waives demand, presentment, protest and notice of protest or dishonor and all other notices of every kind and nature with respect to any such instrument.

10.

11. Possession of Collateral by Secured Party. Any or all of the Collateral delivered to Secured Party consisting of Cash shall be held in an interest-bearing account and, when an Event of Default exists, Secured Party may, in its discretion, apply any such interest to payment of the Secured Obligations. Nothing herein shall obligate Secured Party to invest any Collateral or obtain any particular return thereon. Upon the occurrence and during the continuance of an Event of Default, whenever any of the Collateral is in Secured Party's possession, custody or control, Secured Party may use, operate and consume the Collateral, whether for the purpose of preserving and/or protecting the Collateral or for the purpose of performing any of Grantor's obligations with respect thereto. Secured Party may at any time deliver or

redeliver the Collateral or any part thereof to Grantor, and the receipt of any of the same by Grantor shall be complete and full acquittance for the Collateral so delivered, and Secured Party thereafter shall be discharged from any liability or responsibility therefor. So long as Secured Party exercises reasonable care with respect to any Collateral in its possession, custody or control, Secured Party shall have no liability for any loss of or damage to such Collateral, and in no event shall Secured Party have liability for any diminution in value of Collateral occasioned by economic or market conditions or events. Secured Party shall be deemed to have exercised reasonable care within the meaning of the preceding sentence if the Collateral in the possession, custody or control of Secured Party is accorded treatment substantially equal to that which Secured Party accords its own property, it being understood that Secured Party shall not have any responsibility for (a) ascertaining or taking action with respect to calls, conversions, exchanges, maturities, tenders or other matters relating to any Collateral, whether or not Secured Party has or is deemed to have knowledge of such matters, or (b) taking any necessary steps to preserve rights against any Person with respect to any Collateral.

12.

13. Rights Upon Event of Default. Upon the occurrence and during the continuance of an Event of Default, Secured Party shall have, in any jurisdiction where enforcement hereof is sought, in addition to all other rights and remedies that Secured Party may have under applicable Law or in equity or under this Agreement (including, without limitation, all rights set forth in Section 6 hereof) or under any other Loan Document, all rights and remedies of a secured party under the Uniform Commercial Code as enacted in any jurisdiction, and, in addition, the following rights and remedies, all of which may be exercised with or without notice to Grantor and without affecting the Obligations of Grantor hereunder or under any other Loan Document, or the enforceability of the Liens and security interests created hereby: (a) to foreclose the Liens and security interests created hereunder or under any other agreement relating to any Collateral by any available judicial procedure or without judicial process; (b) to enter any premises where any Collateral may be located for the purpose of securing, protecting, inventorying, appraising, inspecting, repairing, preserving, storing, preparing, processing, taking possession of or removing the same; (c) to sell, assign, lease or otherwise dispose of any Collateral or any part thereof, either at public or private sale or at any broker's board, in lot or in bulk, for cash, on credit or otherwise, with or without representations or warranties and upon such terms as shall be acceptable to Secured Party; (d) to notify obligors on the Collateral that the Collateral has been assigned to Secured Party and that all payments thereon are to be made directly and exclusively to Secured Party; (e) to collect by legal proceedings or otherwise all dividends, distributions, interest, principal or other sums now or hereafter payable upon or on account of the Collateral; (f) to cause the Collateral to be registered in the name of Secured Party, as legal owner; (g) to enter into any extension, reorganization, deposit, merger or consolidation agreement, or any other agreement relating to or affecting the Collateral, and in connection therewith Secured Party may deposit or surrender control of the Collateral and/or accept other Property in exchange for the Collateral; (h) to settle,

compromise or release, on terms acceptable to Secured Party, in whole or in part, any amounts owing on the Collateral and/or any disputes with respect thereto; (i) to extend the time of payment, make allowances and adjustments and issue credits in connection with the Collateral in the name of Secured Party or in the name of Grantor; (j) to enforce payment and prosecute any action or proceeding with respect to any or all of the Collateral and take or bring, in the name of Secured Party or in the name of Grantor, any and all steps, actions, suits or proceedings deemed by Secured Party necessary or desirable to effect collection of or to realize upon the Collateral, including any judicial or nonjudicial foreclosure thereof or thereon, and Grantor specifically consents to any nonjudicial foreclosure of any or all of the Collateral or any other action taken by Secured Party which may release any obligor from personal liability on any of the Collateral, and Grantor waives any right not expressly provided for in this Agreement to receive notice of any public or private judicial or nonjudicial sale or foreclosure of any security or any of the Collateral; and any money or other property received by Secured Party in exchange for or on account of the Collateral, whether representing collections or proceeds of Collateral, and whether resulting from voluntary payments or foreclosure proceedings or other legal action taken by Secured Party or Grantor may be applied by Secured Party without notice to Grantor to the Secured Obligations in such order and manner as Secured Party in its sole discretion shall determine; (k) to insure, process and preserve the Collateral; (l) to exercise all rights, remedies, powers or privileges provided under any of the Loan Documents; (m) to remove, from any premises where the same may be located, the Collateral and any and all documents, instruments, files and records, and any receptacles and cabinets containing the same, relating to the Collateral, and Secured Party may, at the cost and expense of Grantor, use such of its supplies, equipment, facilities and space at its places of business as may be necessary or appropriate to properly administer, process, store, control, prepare for sale or disposition and/or sell or dispose of the Collateral or to properly administer and control the handling of collections and realizations thereon, and Secured Party shall be deemed to have a rent-free tenancy of premises of Grantor for such purposes and for such periods of time as reasonably required by Secured Party; (n) to receive, open and dispose of all mail addressed to Grantor and notify postal authorities to change the address for delivery thereof to such address as Secured Party may designate; provided that Secured Party agrees that it will promptly deliver over to Grantor such opened mail as does not relate to the Collateral; and (o) to exercise all other rights, powers, privileges and remedies of an owner of the Collateral; all at Secured Party's sole option and as Secured Party in its sole discretion may deem advisable. Grantor will, at Secured Party's request, assemble the Collateral and make it available to Secured Party at places which Secured Party may designate, whether at the premises of Grantor or elsewhere, and will make available to Secured Party, free of cost, all premises, equipment and facilities of Grantor for the purpose of Secured Party's taking possession of the Collateral or storing same or removing or putting the Collateral in salable form or selling or disposing of same.

14.

15. Upon the occurrence and during the continuance of an Event of Default, Secured Party also shall have the right, without notice or demand, either in person, by agent or by a receiver to be appointed by a court (and Grantor hereby expressly consents upon the occurrence and during the continuance of an Event of Default to the appointment of such a receiver), and without regard to the adequacy of any security for the Secured Obligations, to take possession of the Collateral or any part thereof and to collect and receive the rents, issues, profits, income and proceeds thereof. Taking possession of the Collateral shall

not cure or waive any Event of Default or notice thereof or invalidate any act done pursuant to such notice. The rights, remedies and powers of any receiver appointed by a court shall be as ordered by said court.

16.

17. Any public or private sale or other disposition of the Collateral may be held at any office of Secured Party, or at Grantor's places of business, or at any other place permitted by applicable Law, and without the necessity of the Collateral's being within the view of prospective purchasers. Secured Party may direct the order and manner of sale of the Collateral, or portions thereof, as it in its sole and absolute discretion may determine, and Grantor expressly waives any right to direct the order and manner of sale of any Collateral. Secured Party or any Person on Secured Party's behalf may bid and purchase at any such sale or other disposition. The net cash proceeds resulting from the collection, liquidation, sale, lease or other disposition of the Collateral shall be applied, first, to the expenses (including reasonable attorneys' fees and disbursements) of retaking, holding, storing, processing and preparing for sale or lease, selling, leasing, collecting, liquidating and the like, and then to the satisfaction of the Secured Obligations in such order as shall be determined by Secured Party in its sole and absolute discretion. Grantor and any other Person then obligated therefor shall pay to Secured Party on demand any deficiency with regard thereto which may remain after such sale, disposition, collection or liquidation of the Collateral. Any surplus held by the Secured Party and remaining after payment in full of all the Secured Obligations shall immediately be reassigned and redelivered to Grantor, or to the person or persons otherwise legally entitled thereto.

18.

19. Unless the Collateral is perishable or threatens to decline speedily in value or is of a type customarily sold on a recognized market, Secured Party will send or otherwise make available to Grantor reasonable notice of the time and place of any public sale thereof or of the time on or after which any private sale thereof is to be made. The requirement of sending reasonable notice conclusively shall be met if such notice is mailed, first class mail, postage prepaid, to Grantor at its address set forth in the Loan Agreement, or delivered or otherwise sent to Grantor, at least five days before the date of the sale. Grantor expressly waives any right to receive notice of any public or private sale of any Collateral or other security for the Secured Obligations except as expressly provided for in this paragraph.

20.

1.

Upon consummation of any sale of Collateral hereunder, Secured Party shall have the right to assign, transfer and deliver to the purchaser or purchasers thereof the Collateral so sold. Each such purchaser at any such sale shall hold the Collateral so sold absolutely free from any claim or right upon the part of Grantor or any other Person, and Grantor hereby waives (to the extent permitted by applicable Laws) all rights of redemption, stay and appraisal which it now has or may at any time in the future have under any rule of Law or statute now existing or hereafter enacted. If the sale of all or any part of the Collateral is made on credit or for future delivery, Secured Party shall not be required to apply any portion of the sale price to the Secured Obligations until such amount actually is received by Secured Party, and any Collateral so sold may be retained by Secured Party until the sale price is paid in full by the purchaser or purchasers thereof. Secured Party shall not incur any liability in case any such purchaser or purchasers shall fail to pay for the Collateral so sold, and, in case of any such failure, the Collateral may be sold again.

10. Attorney-in-Fact. Grantor hereby irrevocably nominates and appoints Secured Party as its attorney-in-fact for the following purposes: (a) upon the occurrence and during the continuance of an Event of Default, to preserve, process, develop, maintain and protect the Collateral; (b) upon the occurrence and during the continuance of an Event of Default, to do any and every act which Grantor is obligated to do under this Agreement, at the expense of Grantor and without any obligation to do so; (c) to prepare, sign, file and/or record, for Grantor, in the name of Grantor, any financing statement, application for registration, or like paper, and to take any other action deemed by Secured Party necessary or desirable in order to perfect or maintain perfected the security interests granted hereby; and (d) upon the occurrence and during the continuance of an Event of Default, to execute any and all papers and instruments and do all other things necessary or desirable to preserve and protect the Collateral and to protect Secured Party's security interests therein; provided, however, that Secured Party shall be under no obligation whatsoever to take any of the foregoing actions, and, absent bad faith or actual malice, Secured Party shall have no liability or responsibility for any act taken or omission with respect thereto.

11.

12. Statute of Limitations and Other Laws. Until the Secured Obligations shall have been paid and performed in full, the power of sale and all other rights, privileges, powers and remedies granted to Secured Party hereunder shall continue to exist and may be exercised by Secured Party at any time and from time to time irrespective of the fact that any of the Secured Obligations may have become barred by any statute of limitations. Grantor expressly waives the benefit of any and all statutes of limitation, and any and all Laws providing for exemption of property from execution or for valuation and appraisal upon foreclosure, to the maximum extent permitted by applicable Law.

13.

14. Other Agreements. Nothing herein shall in any way modify or limit the effect of terms or conditions set forth in any other security or other agreement executed by Grantor or in connection with the Secured Obligations, but each and every term and condition hereof shall be in addition thereto. All provisions contained in the Loan Agreement or any other Loan Document that apply to Loan Documents generally are fully applicable to this Agreement and are incorporated herein by this reference. 15.

16.

Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original ---------- and all of which, taken together, shall constitute one and the same agreement. 17. 18. GOVERNING LAW. THIS AGREEMENT SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS ---------- OF THE STATE OF CALIFORNIA WITHOUT REGARD TO THE CONFLICTS OF LAWS PROVISIONS THEREOF.

IN WITNESS WHEREOF, Grantor has executed this Agreement by its duly authorized officer as of the date first written above.

"Grantor"

PENN NATIONAL GAMING OF WEST VIRGINIA, INC., a West Virginia corporation

By: _____

[Printed name and title]

ACCEPTED AND AGREED
AS OF THE DATE FIRST
ABOVE WRITTEN:

"Secured Party"

BANK OF AMERICA , N.A.,
as Administrative Agent, and
for and on behalf of the Lenders

By: _____

[Printed name and title]

SUBORDINATION AGREEMENT

This Subordination Agreement ("Agreement") is entered into as of December 13, 1999 by and among Bank of America, N.A., as Administrative Agent for the Lenders under the Senior Secured Multiple Draw Term Loan Agreement described below ("Agent"), Penn National Gaming of West Virginia, Inc., a West Virginia corporation ("Lessor") and PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company ("Lessee").

R E C I T A L S

WHEREAS, pursuant to a Senior Secured Multiple Draw Term Loan Agreement dated as of December 13, 1999 among Lessor, Penn National Gaming, Inc., as Guarantor, the Lenders named therein, and Agent, the Lenders have made certain credit facilities available to Lessor (as such agreement may from time to time be amended, extended, renewed, supplemented or otherwise modified, the "Loan Agreement"). Capitalized terms used but not defined in this Agreement have the meanings set forth for those terms in the Loan Agreement.

WHEREAS, Lessor's obligations under the Loan Agreement are secured by a Security Agreement made by Lessor in favor of Agent and the Lenders (as such agreement may from time to time be amended, extended, renewed, supplemented or otherwise modified, the "Security Agreement") in which Lessor gave a security interest to Agent and the Lenders (collectively, "Secured Party") in the personal property of Lessor described on Exhibit A attached hereto and made a part hereof ("Assets").

WHEREAS, Lessor proposes to lease the Assets to Lessee pursuant to the terms, conditions and agreements contained in the Master Lease Agreement of even date herewith between Lessor and Lessee (as such agreement may from time to time be amended, extended, renewed, supplemented or otherwise modified, the "Lease").

WHEREAS, it is a condition to the making of the Loans under the Loan Agreement and to Lessor's purchase of the Assets that the Lessee subordinate its right to the Assets under the Lease to the Lien of Secured Party under the Security Agreement on the terms and conditions in this Agreement.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agent and Lessee acknowledge, represent and agree for the benefit of the other, with knowledge that the other is fully relying thereon, as follows:

1. Agent consents to the Lease between Lessor and Lessee.
2.

3. 2. Lessee acknowledges that the Lease is an operating lease and that title to the Assets at all times during the term of the Lease shall remain with Lessor and that Lessee shall only have the rights of a lessee of the Assets. All rights and interests of Lessee in and to the Assets pursuant to the Lease shall be subject and subordinate to the lien of the Security Agreement and to any renewals, modifications, consolidations, replacements and extensions of the Security Agreement to the full extent of the principal sum secured by the Security Agreement including any interest. In the event of any assertion by Secured Party of its Lien under the Security Agreement, Lessee shall immediately surrender possession of the Assets to Agent or its designee, notwithstanding the Lease, or shall attorn to the Agent or its designee in accordance with Section 3 hereof, as elected by the Agent. 4.

5. 3. If Lessor's interest is transferred to and owned by Secured Party or any successor of Secured Party or their designee ("Acquiring Party") because of foreclosure or other proceedings brought by Secured Party, or by any other manner and Secured Party succeeds to Lessor's interest under the Lease, Lessee shall be bound to the Acquiring Party until such time as Acquiring Party or Lessee shall choose to terminate the Lease, or the Lease otherwise terminates, pursuant to the terms thereof, with the same effect as if Acquiring Party were Lessor under the Lease. Lessee agrees to attorn to Acquiring Party as the Lessor during the term of the Lease, with the attornment being effective and self-operable immediately upon Acquiring Party succeeding to the interest of Lessor under the Lease, all without the execution by the parties of any further instruments. The respective rights and obligations of Lessee and Acquiring Party upon attornment, to the extent of the then remaining balance of the term of the Lease, shall be the same as in the Lease.

6.

7. 4. Immediately upon request by Acquiring Party, Lessee and Acquiring Party shall enter into a new written lease for the remainder of the original term of the Lease on the same terms and conditions as the Lease, except for any non-material changes made necessary because of the substitution of Acquiring Party in place of Lessor.

8.

9. 5. The term "Agent" or any similar term shall include Agent and any agents, successors, or assigns of Agent and the term "Lenders" or any similar term shall include Lenders and any agents, successors, or assigns of Lenders, including in each case any party that succeeds to Lessor's interest by foreclosure of the Security Agreement or by any other proceeding. The term "Lessor" shall include Lessor and the successors, assigns, and sublessors of Lessor. The term "Lessee" shall include Lessee and the successors, assigns, and sublessees of Lessee.

10.

11. 6. Lessor and Lessee agree not to change, alter, amend, or otherwise modify the Lease without the prior written consent of Agent which shall not be unreasonably withheld, conditioned or delayed. Any change, alteration, amendment, or other modification to the Lease without the prior written consent of Agent shall be void as to Secured Party, but shall not otherwise affect the terms of this Agreement.

12.

13. 7. Lessee agrees that it shall not make any prepayment of rent under the Lease more than one calendar month in advance of the date when due without the prior written consent of the Agent, and that any prepayment made prior to such date or without the written consent of the Agent shall not be binding upon Secured Party or any Acquiring Party. 14. 15. 8. This Agreement may not be modified other than by an agreement in writing signed by the parties or by their respective successors in interest. 16. 17. 9. If any party commences any action against any other party based on this Agreement, the prevailing party shall be entitled to recover reasonable attorney fees, expenses, and costs of suit. 18. 10. In this Agreement, wherever it is required or permitted that notice and demand be given by any party to another party, that notice or demand shall be given in writing and personally delivered or sent by certified mail or nationally recognized overnight courier addressed as follows: 19.

20. For Lessor: Penn National Gaming of West Virginia, Inc.
21. _____
22. _____
23. Attn: _____
24.

For Agent: Bank of America, N.A.
Agency Management
#20529
Bank of America, N.A.
555 South Flower Street, 11th Floor
Los Angeles, California 90071
Attn: Janice Hammond

For Lessee: PNGI Charles Town Gaming Limited Liability Company

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Attn: _____

Any party may change an address given for notice by giving written notice of that change by notice as herein provided to all other parties.

11. This Agreement shall be binding on and inure to the benefit of the parties and their respective successors and assigns.

12. This Agreement may be executed in one or more counterparts, each of which is an original, but all of which shall constitute one and the same instrument.

13. This Agreement shall be construed in accordance with and governed by California law.

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

AGENT:

BANK OF AMERICA, N.A.,
as Administrative Agent for the Lenders

By:_____
Name: _____
Title: _____

LESSEE:

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY,
a West Virginia limited liability company

By:_____
Name: _____
Title: _____

LESSOR:

PENN NATIONAL GAMING OF WEST VIRGINIA, INC.,
a West Virginia corporation

By:_____
Name: _____
Title: _____

GUARANTY

This GUARANTY ("Guaranty"), dated as of December 13, 1999, is made by Penn National Gaming, Inc., a Pennsylvania corporation ("Guarantor") in favor of Bank of America, N.A., as Administrative Agent for the benefit of the Banks that are party to the Loan Agreement referred to below (collectively with the Lenders, "Lender"), with reference to the following facts:

RECITALS

A. Pursuant to the Senior Secured Multiple Draw Term Loan Agreement dated as of December 13, 1999 by and among Penn National Gaming of West Virginia, Inc., a West Virginia corporation (the "Borrower"), Guarantor, the lenders from time to time party thereto (collectively, the "Banks" and individually, a "Bank"), and Bank of America, N.A., as Administrative Agent (as such agreement may from time to time be extended, modified, renewed, restated, supplemented or amended, the "Loan Agreement"), the Banks are making certain credit facilities available to Borrower.

A. As a condition to the availability of such credit facilities, Guarantor is required to enter into this Guaranty and to guaranty the Guarantied Obligations as hereinafter provided. B. C. Guarantor expects to realize direct and indirect benefits as the result of the availability of the aforementioned credit facilities to Borrower.

AGREEMENT

NOW, THEREFORE, in order to induce the Banks to continue to extend the aforementioned credit facilities, and for other good and valuable consideration, the receipt and adequacy of which hereby are acknowledged, Guarantor hereby represents, warrants, covenants, agrees and guaranties as follows:

1. Definitions. This Guaranty is the PNGI Guaranty referred to in the Loan Agreement and is one of the Loan Documents. Terms defined in the Loan Agreement and not otherwise defined in this Guaranty shall have the meanings given those terms in the Loan Agreement when used herein and such definitions are incorporated herein as though set forth in full. In addition, as used herein, the following terms shall have the meanings respectively set forth after each:

2.

"Guarantied Obligations" means all present and future Obligations of every kind or nature of Borrower at any time and from time to time owed to Lender under any one or more of the Loan Documents, whether due or to become due,

matured or unmatured, liquidated or unliquidated, or contingent or noncontingent, including Obligations of performance as well as Obligations of payment, and including interest that accrues after the commencement of any proceeding under any Debtor Relief Law by or against Guarantor, Borrower, any Subsidiary or Affiliate of Borrower or any other Person.

"Guarantor" means Penn National Gaming, Inc., a Pennsylvania corporation.

"Guaranty" means this Guaranty, and any extensions, modifications, renewals, restatements, reaffirmations, supplements or amendments hereof.

"Lender" means the Administrative Agent (acting as the Administrative Agent and/or on behalf of the Banks), and the Banks, and each of them, and any one or more of them. Subject to the terms of the Loan Agreement, any right, remedy, privilege or power of Lender may be exercised by the Administrative Agent, or by the Requisite Lenders, or by any Bank acting with the consent of the Requisite Lenders.

1. Guaranty of Guarantied Obligations. Guarantor hereby irrevocably, unconditionally guaranties and promises to pay and perform on demand the Guarantied Obligations and each and every one of them, including all amendments, modifications, supplements, renewals or extensions of any of them, whether such amendments, modifications, supplements, renewals or extensions are evidenced by new or additional instruments, documents or agreements or change the rate of interest on any Guarantied Obligation or the security therefor, or otherwise.

2.

3. Nature of Guaranty. This Guaranty is irrevocable and continuing in nature and relates to any Guarantied ---------- Obligations now existing or hereafter arising. This Guaranty is a guaranty of prompt and punctual payment and performance and is not merely a guaranty of collection. 4.

5. Relationship to Other Agreements. Nothing herein shall in any way modify or limit the effect of terms or conditions set forth in any other document, instrument or agreement executed by Guarantor or in connection with the Guarantied Obligations, but each and every term and condition hereof shall be in addition thereto. All provisions contained in the Loan Agreement or any other Loan Document that apply to Loan Documents generally are fully applicable to this Guaranty and are incorporated herein by this reference.

1. Subordination of Indebtedness of Borrower to Guarantor to the Guarantied Obligations. Guarantor agrees that: 2.

(a) Any indebtedness of Borrower now or hereafter owed to Guarantor hereby is subordinated to the Guarantied Obligations.

(a) If Lender so requests, upon the occurrence and during the continuance of any Event of Default, any such indebtedness of Borrower now or hereafter owed to Guarantor shall be collected, enforced and received by Guarantor as trustee for Lender and shall be paid over to Lender in kind on account of the Guarantied Obligations, but without reducing or affecting in any manner the obligations of Guarantor under the other provisions of this Guaranty.

(a) Should Guarantor fail to collect or enforce any such indebtedness of Borrower now or hereafter owed to Guarantor and pay the proceeds thereof to Lender in accordance with Section 5(b) hereof, Lender as Guarantor's attorney-in-fact may do such acts and sign such documents in Guarantor's name as Lender considers necessary or desirable to effect such collection, enforcement and/or payment.

1. Statutes of Limitations and Other Laws. Until the Guarantied Obligations shall have been paid and performed in full, all the rights, privileges, powers and remedies granted to Lender hereunder shall continue to exist and may be exercised by Lender at any time and from time to time irrespective of the fact that any of the Guarantied Obligations may have become barred by any statute of limitations. Guarantor expressly waives the benefit of any and all statutes of limitation, and any and all Laws providing for exemption of property from execution or for evaluation and appraisal upon foreclosure, to the maximum extent permitted by applicable Laws.

2.

3. Waivers and Consents. Guarantor acknowledges that the obligations undertaken herein involve the guaranty of obligations of Persons other than Guarantor and, in full recognition of that fact, consents and agrees that Lender may, at any time and from time to time, without notice or demand, and without affecting the enforceability or continuing effectiveness hereof: (a) supplement, modify, amend, extend, renew, accelerate or otherwise change the time for payment or the terms of the Guarantied Obligations or any part thereof, including any increase or decrease of the rate(s) of interest thereon; (b) supplement, modify, amend or waive, or enter into or give any agreement, approval or consent with respect to, the Guarantied Obligations or any part thereof, or any of the Loan Documents to which Guarantor is not a party or any additional security or guaranties, or any condition, covenant, default, remedy, right, representation or term thereof or thereunder; (c) accept new or additional instruments, documents or agreements in exchange for or relative to any of the Loan Documents or the Guarantied Obligations or any part thereof; (d) accept partial payments on the Guarantied Obligations; (e) receive and hold additional security or guaranties for the Guarantied Obligations or any part thereof; (f) release, reconvey, terminate,

waive, abandon, fail to perfect, subordinate, exchange, substitute, transfer and/or enforce any security or guaranties, and apply any security and direct the order or manner of sale thereof as Lender in its sole and absolute discretion may determine; (g) release any Person from any personal liability with respect to the Guarantied Obligations or any part thereof; (h) settle, release on terms satisfactory to Lender or by operation of applicable Laws or otherwise liquidate or enforce any Guarantied Obligations and any security or guaranty therefor in any manner, consent to the transfer of any security and bid and purchase at any sale; and/or (i) consent to the merger, change or any other restructuring or termination of the corporate existence of Borrower, Guarantor or any other Person, and correspondingly restructure the Guarantied Obligations, and any such merger, change, restructuring or termination shall not affect the liability of Guarantor or the continuing effectiveness hereof, or the enforceability hereof with respect to all or any part of the Guarantied Obligations.

4.

5. Upon the occurrence and during the continuance of any Event of Default, Lender may enforce this Guaranty independently as to Guarantor and independently of any other remedy or security Lender at any time may have or hold in connection with the Guarantied Obligations. Guarantor expressly waives any right to require Lender to marshal assets in favor of Guarantor, and agrees that Lender may proceed against Borrower or any other Person, or upon or against any security or remedy, before proceeding to enforce this Guaranty, in such order as it shall determine in its sole and absolute discretion. Lender may file a separate action or actions against Borrower or any other Person and/or Guarantor without respect to whether action is brought or prosecuted with respect to any security or against any other Person, or whether any other Person is joined in any such action or actions. Guarantor agrees that Lender, Borrower and any Affiliates of Borrower may deal with each other in connection with the Guarantied Obligations or otherwise, or alter any contracts or agreements now or hereafter existing between any of them, in any manner whatsoever, all without in any way altering or affecting the security of this Guaranty. Lender's rights hereunder shall be reinstated and revived, and the enforceability of this Guaranty shall continue, with respect to any amount at any time paid on account of the Guarantied Obligations which thereafter shall be required to be restored or returned by Lender upon the bankruptcy, insolvency or reorganization of Borrower or any other Person, or otherwise, all as though such amount had not been paid. The rights of Lender created or granted herein and the enforceability of this Guaranty with respect to Guarantor at all times shall remain effective to guaranty the full amount of all the Guarantied Obligations even though the Guarantied Obligations, or any part thereof, or any security or guaranty therefor, may be or hereafter may become invalid or otherwise unenforceable as against Borrower or any other guarantor or surety and whether or not Borrower shall have any personal liability with respect thereto. To the maximum extent permitted by law, Guarantor expressly waives any and all defenses now or hereafter arising or asserted by reason of (a) any disability or other defense of Borrower with respect to the Guarantied Obligations, (b) the unenforceability or invalidity of any security or guaranty for the Guarantied Obligations or the lack of perfection or continuing perfection or failure of priority of any security for the Guarantied Obligations, (c) the cessation for any cause whatsoever of the liability of Borrower (other than by reason of the full payment and performance of all Guarantied Obligations), (d) any failure of Lender to marshal assets in favor of Borrower or any other Person, (e) except as otherwise provided in this Guaranty, any failure of Lender to give notice of sale or other disposition of Collateral to Guarantor or any other Person or any defect in any notice that may be given in connection with any sale or disposition of Collateral, (f) any failure of Lender to comply with applicable Laws in connection with the sale or other disposition of any Collateral or other security for any Guarantied Obligation, including without limitation, any failure of Lender to conduct a commercially reasonable sale or other disposition of any Collateral or other security for any Guarantied Obligation, (g) any act or omission of Lender or others that directly or indirectly results in or aids

the discharge or release of Borrower or the Guarantied Obligations or any security or guaranty therefor by operation of law or otherwise, (h) any Law which provides that the obligation of a surety or guarantor must neither be larger in amount nor in other respects more burdensome than that of the principal or which reduces a surety's or guarantor's obligation in proportion to the principal obligation, (i) any failure of Lender to file or enforce a claim in any bankruptcy or other proceeding with respect to any Person, (j) the election by Lender, in any bankruptcy proceeding of any Person, of the application or non-application of Section 1111(b)(2) of the United States Bankruptcy Code, (k) any extension of credit or the grant of any Lien under Section 364 of the United States Bankruptcy Code, (l) any use of cash collateral under Section 363 of the United States Bankruptcy Code, (m) any agreement or stipulation with respect to the provision of adequate protection in any bankruptcy proceeding of any Person, (n) the avoidance of any Lien in favor of Lender for any reason, (o) any bankruptcy, insolvency, reorganization, arrangement, readjustment of debt, liquidation or dissolution proceeding commenced by or against any Person, including any discharge of, or bar or stay against collecting, all or any of the Guarantied Obligations (or any interest thereon) in or as a result of any such proceeding, (p) to the extent permitted, the benefits of any form of one-action rule, or (q) any action taken by Lender that is authorized by this Section or any other provision of any Loan Document. Guarantor expressly waives all setoffs and counterclaims and all presentments, demands for payment or performance, notices of nonpayment or nonperformance, protests, notices of protest, notices of dishonor and all other notices or demands of any kind or nature whatsoever with respect to the Guarantied Obligations, and all notices of acceptance of this Guaranty or of the existence, creation or incurrence of new or additional Guarantied Obligations.

6.

7. Condition of Borrower and Borrower's Subsidiaries. Guarantor represents and warrants to Lender that Guarantor has established adequate means of obtaining from Borrower and Borrower's Subsidiaries, on a continuing basis, financial and other information pertaining to the businesses, operations and condition (financial and otherwise) of Borrower and Borrower's Subsidiaries and their Properties, and Guarantor now is and hereafter will be completely familiar with the businesses, operations and condition (financial and otherwise) of Borrower and Borrower's Subsidiaries and their Properties. Guarantor hereby expressly waives and relinquishes any duty on the part of Lender (should any such duty exist) to disclose to Guarantor any matter, fact or thing related to the businesses, operations or condition (financial or otherwise) of Borrower or Borrower's Subsidiaries or their Properties, whether now known or hereafter known by Lender during the life of this Guaranty. With respect to any of the Guarantied Obligations, Lender need not inquire into the powers of Borrower or any Subsidiaries thereof or the officers or employees acting or purporting to act on their behalf, and all Guarantied Obligations made or created in good faith reliance upon the professed exercise of such powers shall be secured hereby.

8.

9. Liens on Real Property. In the event that all or any part of the Guarantied Obligations at any time are secured by any one or more deeds of trust or mortgages or other instruments creating or granting Liens on any interests in real Property, Guarantor authorizes Lender, upon the occurrence of and during the continuance of any Event of Default, at its sole option, without notice or demand and without affecting any Obligations of Guarantor, the enforceability of this Guaranty, or the validity or enforceability of any Liens of Lender on any Collateral, to foreclose any or all of such deeds of trust or mortgages or other instruments by judicial or nonjudicial sale. Guarantor expressly waives any defenses to the enforcement of this Guaranty or any rights of Lender created or granted hereby or to the recovery by Lender against Borrower or any other Person liable therefor of any deficiency after a judicial or nonjudicial foreclosure or sale because all or any part of the Guarantied Obligations is secured by real Property. This means, among other things: (1) Lender may collect from Guarantor without first foreclosing on any real or personal Property collateral pledged by Borrower, and (2) If the Lender forecloses on any real Property collateral pledged by Borrower: (A) The amount of the Guarantied Obligations may be reduced only by the price for which that collateral is sold at the foreclosure sale, even if the collateral is worth more than the sale price, and (B) The Lender may collect from Guarantor even if the Lender, by foreclosing on the real Property collateral, has destroyed any right Guarantor may have to collect from Borrower. This is an unconditional and irrevocable waiver of any rights and defenses Guarantor may have because all or any part of the Guarantied Obligations is secured by real Property. Guarantor expressly waives any defenses or benefits that may be derived from California Code of Civil Procedure ss.ss. 580a, 580b, 580d or 726, or comparable provisions of the Laws of any other jurisdiction, and all other suretyship defenses it otherwise might or would have under California Law or other applicable Law. Guarantor expressly waives any right to receive notice of any judicial or nonjudicial foreclosure or sale of any real Property or interest therein subject to any such deeds of trust or mortgages or other instruments and Guarantor's or any other Person's failure to receive any such notice shall not impair or affect Guarantor's Obligations or the enforceability of this Guaranty or any rights of Lender created or granted hereunder.

10.

11. Waiver of Rights of Subrogation. Notwithstanding anything to the contrary elsewhere contained herein or in any other Loan Document to which Guarantor is a party, unless and until all Obligations have been paid and performed in full, Guarantor hereby expressly waives with respect to Borrower and its successors and assigns (including any surety) and any other Person which is directly or indirectly a creditor of Borrower or any surety for Borrower, any and all rights at Law or in equity to subrogation, to reimbursement, to exoneration, to contribution, to setoff or to any other rights that could accrue to a surety against a principal, to a guarantor against a maker or obligor, to an accommodation party against the party accommodated, or to a holder or transferee against a maker, and which Guarantor may have or hereafter acquire against Borrower or any other such Person in connection with or as a result of Guarantor's execution, delivery and/or performance of this Guaranty or any other

Loan Document to which Guarantor is a party. Guarantor agrees that it shall not have or assert any such rights against Borrower or its successors and assigns or any other Person (including any surety) which is directly or indirectly a creditor of Borrower or any surety for Borrower, either directly or as an attempted setoff to any action commenced against Guarantor by Borrower (as borrower or in any other capacity), Lender or any other such Person unless and until all Obligations have been paid and performed in full. Guarantor hereby acknowledges and agrees that this waiver is intended to benefit Borrower and Lender and shall not limit or otherwise affect Guarantor's liability hereunder, under any other Loan Document to which Guarantor is a party, or the enforceability hereof or thereof. 12.

13. Understandings With Respect to Waivers and Consents. Guarantor warrants and agrees that each of the waivers and consents set forth herein are made with full knowledge of their significance and consequences, with the understanding that events giving rise to any defense or right waived may diminish, destroy or otherwise adversely affect rights which Guarantor otherwise may have against Borrower, Lender or others, or against any Collateral, and that, under the circumstances, the waivers and consents herein given are reasonable and not contrary to public policy or Law. Guarantor acknowledges that it has either consulted with legal counsel regarding the effect of this Guaranty and the waivers and consents set forth herein, or has made an informed decision not to do so. If this Guaranty or any of the waivers or consents herein are determined to be unenforceable under or in violation of applicable Law, this Guaranty and such waivers and consents shall be effective to the maximum extent permitted by Law. 14.

15. Representations and Warranties. Guarantor hereby makes each and every representation and warranty ---------- applicable to Guarantor set forth in Article 4 of the Loan Agreement as if set forth in full herein. ---------
16.
17. Costs and Expenses. Guarantor agrees to pay to Lender all costs and expenses (including, without limitation, reasonable attorneys' fees and disbursements) incurred by Lender in the enforcement or attempted enforcement of this Guaranty, whether or not an action is filed in connection therewith, and in connection with any waiver or amendment of any term or provision hereof. All advances, charges, costs and expenses, including reasonable attorneys' fees and disbursements (including the reasonably allocated cost of legal counsel employed by Lender), incurred or paid by Lender in exercising any right, privilege, power or remedy conferred by this Guaranty, or in the enforcement or attempted enforcement thereof, shall be subject hereto and shall become a part of the Guarantor's Obligations and shall be paid to Lender by Guarantor, immediately upon demand, together with interest thereon at the rate(s) provided for under the Loan Agreement.

18.

19. Liability. Notwithstanding anything to the contrary elsewhere contained herein or in any Loan Document to which Guarantor is a party, the aggregate liability of Guarantor hereunder for payment and performance of the Guarantied Obligations shall not exceed an amount which, in the aggregate, is $1.00 less than that amount which if so paid or performed would constitute or result in a "fraudulent transfer", "fraudulent conveyance", or terms of similar import, under applicable state or federal Law, including without limitation, Section 548 of the United States Bankruptcy Code. The liability of Guarantor hereunder is independent of any other guaranties at any time in effect with respect to all or any part of the Guarantied Obligations, and Guarantor's liability hereunder may be enforced regardless of the existence of any such guaranties. Any termination

by or release of any guarantor in whole or in part shall not affect the continuing liability of Guarantor hereunder, and no notice of any such termination or release shall be required. The execution hereof by Guarantor is not founded upon an expectation or understanding that there will be any other guarantor of the Guarantied Obligations.

20.

21. WAIVER OF JURY TRIAL. GUARANTOR AND LENDER EXPRESSLY WAIVE THEIR RESPECTIVE RIGHTS TO A TRIAL BY JURY OF ANY CLAIM, DEMAND, ACTION OR CAUSE OF ACTION BASED UPON OR ARISING OUT OF OR RELATED TO THIS GUARANTY, THE LOAN AGREEMENT, THE OTHER LOAN DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY IN ANY ACTION, PROCEEDING OR OTHER LITIGATION OF ANY TYPE BROUGHT BY ANY OF THE PARTIES AGAINST ANY OTHER PARTY OR PARTIES, WHETHER NOW EXISTING OR HEREAFTER ARISING AND WHETHER WITH RESPECT TO CONTRACT CLAIMS, TORT CLAIMS, OR OTHERWISE. GUARANTOR AND LENDER AGREE THAT ANY SUCH CLAIM, DEMAND, ACTION OR CAUSE OF ACTION SHALL BE TRIED BY A COURT TRIAL WITHOUT A JURY. WITHOUT LIMITING THE FOREGOING, THE PARTIES FURTHER AGREE THAT THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY IS WAIVED BY OPERATION OF THIS SECTION AS TO ANY ACTION, COUNTERCLAIM OR OTHER PROCEEDING WHICH SEEKS, IN WHOLE OR IN PART, TO CHALLENGE THE VALIDITY OR ENFORCEABILITY OF THIS GUARANTY, THE LOAN AGREEMENT OR THE OTHER LOAN DOCUMENTS OR ANY PROVISION HEREOF OR THEREOF. THIS WAIVER SHALL APPLY TO ANY SUBSEQUENT AMENDMENTS, RENEWALS, SUPPLEMENTS OR MODIFICATIONS TO THIS GUARANTY, THE LOAN AGREEMENT AND THE OTHER LOAN DOCUMENTS. ANY PARTY HERETO MAY FILE AN ORIGINAL COUNTERPART OR A COPY OF THIS SECTION WITH ANY COURT AS WRITTEN EVIDENCE OF THE CONSENT OF GUARANTOR AND LENDER TO THE WAIVER OF THEIR RIGHT TO TRIAL BY JURY.
22.

23.
THIS GUARANTY SHALL BE GOVERNED BY, AND SHALL BE CONSTRUED AND ENFORCED IN ACCORDANCE WITH, THE LAWS OF

THE STATE OF CALIFORNIA WITHOUT REFERENCE TO THE CONFLICT OF LAWS OR CHOICE OF LAW PRINCIPLES THEREOF.

IN WITNESS WHEREOF, Guarantor has executed this Guaranty by its duly authorized officer as of the date first written above.

"Guarantor"

PENN NATIONAL GAMING, INC.,
a Pennsylvania corporation

By:_____

[Printed Name and Title]

Address:
==========
Telephone: _____

NOTE

$10,000,000 December 13, 1999

Los Angeles, California

FOR VALUE RECEIVED, the undersigned promises to pay to the order of BANK OF AMERICA, N.A. ("Lender"), the principal amount of TEN MILLION AND NO/00 DOLLARS ($10,000,000) or such lesser aggregate amount of Advances as may be made by the Lender with respect to the Commitment under the Loan Agreement referred to below, together with interest on the principal amount of each Advance made hereunder and remaining unpaid from time to time from the date of each such Advance until the date of payment in full, payable as hereinafter set forth.

Reference is made to the Senior Secured Multiple Draw Term Loan Agreement dated as of December 13, 1999, by and among the undersigned, as Borrower, Penn National Gaming, Inc., a Pennsylvania corporation, as Guarantor, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent (the "Loan Agreement"). Terms defined in the Loan Agreement and not otherwise defined herein are used herein with the meanings defined for those terms in the Loan Agreement. This is one of the Notes referred to in the Loan Agreement, and any holder hereof is entitled to all of the rights, remedies, benefits and privileges provided for in the Loan Agreement as originally executed or as it may from time to time be supplemented, modified or amended. The Loan Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events upon the terms and conditions therein specified.

The principal indebtedness evidenced by this Note shall be payable as provided in the Loan Agreement and in any event on the Maturity Date.

Interest shall be payable on the outstanding daily unpaid principal amount of Advances from the date of each such Advance until payment in full and shall accrue and be payable at the rates and on the dates set forth in the Loan Agreement both before and after default and before and after maturity and judgment, with interest on overdue principal and interest to bear interest at the rate set forth in Section 3.6 of the Loan Agreement, to the fullest extent permitted by applicable Law.

Each payment hereunder shall be made to the Administrative Agent at the Administrative Agent's Office for the account of the Lender in immediately available funds not later than 11:00 a.m. on the day of payment (which must be a Business Day). All payments received after 11:00 a.m. on any

Business Day shall be deemed received on the next succeeding Business Day. All payments shall be made in lawful money of the United States of America.

The Lender shall use its best efforts to keep a record of Advances made by it and payments received by it with respect to this Note, and such record shall be presumptive evidence of the amounts owing under this Note.

The undersigned hereby promises to pay all costs and expenses of any holder hereof incurred in collecting the undersigned's obligations hereunder or in enforcing or attempting to enforce any of such holder's rights hereunder, including reasonable attorneys' fees and disbursements, whether or not an action is filed in connection therewith.

The undersigned hereby waives presentment, demand for payment, dishonor, notice of dishonor, protest, notice of protest and any other notice or formality, to the fullest extent permitted by applicable Laws.

This Note shall be delivered to and accepted by the Lender in the State of California, and shall be governed by, and construed and enforced in accordance with, the local Laws thereof.

PENN NATIONAL GAMING OF WEST VIRGINIA, INC.,
a West Virginia corporation

By: _____

[Printed Name and Title]

SCHEDULE OF COMMITTED ADVANCES AND

PAYMENTS OF PRINCIPAL

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Date	Amount of Advance	Interest Period	Amount of Principal Paid	Unpaid Principal Balance	Notation Made by

NOTE

$10,000,000 December 13, 1999
Los Angeles, California

FOR VALUE RECEIVED, the undersigned promises to pay to the order of FIRST UNION NATIONAL BANK ("Lender"), the principal amount of TEN MILLION AND NO/00 DOLLARS ($10,000,000) or such lesser aggregate amount of Advances as may be made by the Lender with respect to the Commitment under the Loan Agreement referred to below, together with interest on the principal amount of each Advance made hereunder and remaining unpaid from time to time from the date of each such Advance until the date of payment in full, payable as hereinafter set forth.

Reference is made to the Senior Secured Multiple Draw Term Loan Agreement dated as of December 13, 1999, by and among the undersigned, as Borrower, Penn National Gaming, Inc., a Pennsylvania corporation, as Guarantor, the lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent (the "Loan Agreement"). Terms defined in the Loan Agreement and not otherwise defined herein are used herein with the meanings defined for those terms in the Loan Agreement. This is one of the Notes referred to in the Loan Agreement, and any holder hereof is entitled to all of the rights, remedies, benefits and privileges provided for in the Loan Agreement as originally executed or as it may from time to time be supplemented, modified or amended. The Loan Agreement, among other things, contains provisions for acceleration of the maturity hereof upon the happening of certain stated events upon the terms and conditions therein specified.

The principal indebtedness evidenced by this Note shall be payable as provided in the Loan Agreement and in any event on the Maturity Date.

Interest shall be payable on the outstanding daily unpaid principal amount of Advances from the date of each such Advance until payment in full and shall accrue and be payable at the rates and on the dates set forth in the Loan Agreement both before and after default and before and after maturity and judgment, with interest on overdue principal and interest to bear interest at the rate set forth in Section 3.6 of the Loan Agreement, to the fullest extent permitted by applicable Law.

Each payment hereunder shall be made to the Administrative Agent at the Administrative Agent's Office for the account of the Lender in immediately available funds not later than 11:00 a.m. on the day of payment

(which must be a Business Day). All payments received after 11:00 a.m. on any Business Day shall be deemed received on the next succeeding Business Day. All payments shall be made in lawful money of the United States of America.

The Lender shall use its best efforts to keep a record of Advances made by it and payments received by it with respect to this Note, and such record shall be presumptive evidence of the amounts owing under this Note.

The undersigned hereby promises to pay all costs and expenses of any holder hereof incurred in collecting the undersigned's obligations hereunder or in enforcing or attempting to enforce any of such holder's rights hereunder, including reasonable attorneys' fees and disbursements, whether or not an action is filed in connection therewith.

The undersigned hereby waives presentment, demand for payment, dishonor, notice of dishonor, protest, notice of protest and any other notice or formality, to the fullest extent permitted by applicable Laws.

This Note shall be delivered to and accepted by the Lender in the State of California, and shall be governed by, and construed and enforced in accordance with, the local Laws thereof.

PENN NATIONAL GAMING OF WEST VIRGINIA, INC.,
a West Virginia corporation

By: _____

[Printed Name and Title]

SCHEDULE OF COMMITTED ADVANCES AND

PAYMENTS OF PRINCIPAL

187

Date	Amount of Advance	Interest Period	Amount of Principal Paid	Unpaid Principal Balance	Notation Made by

Telecopier: _____

AMENDMENT NO. 3 TO AND CONSENT AND WAIVER UNDER

SECOND AMENDED AND RESTATED CREDIT AGREEMENT

THIS AMENDMENT NO. 3 TO AND CONSENT AND WAIVER UNDER SECOND AMENDED AND RESTATED CREDIT AGREEMENT (this "Amendment No. 3") is made this 13th day of December, 1999 by and among PENN NATIONAL GAMING, INC., a Pennsylvania corporation ("Borrower"); FIRST UNION NATIONAL BANK, a national banking association (for itself and in its capacity as agent hereunder, "Agent"); and the banks signatory to this Amendment No. 3 (together with the Agent, each individually a "Bank" and individually and collectively, the "Banks").

BACKGROUND

Borrower and Banks entered into a Second Amended and Restated Credit Agreement dated January 28, 1999, as amended by Amendment No. 1 to Second Amended and Restated Credit Agreement and Joinder of Subsidiary Guarantor dated July 22, 1999 and Amendment No. 2 to and Consent under Second Amended and Restated Credit Agreement dated July 29, 1999 (as amended hereby and as may be further amended from time to time, the "Credit Agreement") for the purposes of providing a revolving credit facility, for the financing of a loan from Borrower to FR Park Racing L.P., the refinancing of certain existing indebtedness of Borrower, the issuance of letters of credit for the benefit of Borrower, and for the working capital needs and general corporate purposes of the Borrower.

Borrower has informed Agent and Banks of the intent of Penn National Gaming of West Virginia, Inc.

("PNGWV"), a subsidiary of Borrower, to enter into a three year senior secured multiple draw term credit facility (the "Bank of America Facility") in the original principal amount of $20,000,000 with Bank of America, N.A., as Administrative Agent ("BA"), and lenders to be determined. The Bank of America Facility will be used solely to finance or refinance the purchase by Borrower and/or PNGWV of gaming equipment through: (i) the refinancing of the Term Loan under the Credit Agreement and (ii) the payment of the purchase price for additional gaming equipment and gaming-related fixtures and furniture for use at the Charles Town Race Track, together with related construction and improvements. The obligations of PNGWV under the Bank of America Facility will be: (i) guaranteed by the Borrower, under a guaranty of payment in favor of BA, for the benefit of lenders under the Bank of America Facility (the "Bank of America Guaranty") and (ii) secured by a grant to BA, for the benefit of all lenders under the Bank of America Facility of: (A) a first priority security interest in all gaming equipment and gaming-related fixtures and furniture located at the Charles Town Race Track, including without limitation the Charles Town Video Lottery Terminals (the "West Virginia Assets"), and (B) a pledge of PNGWV's lessor interest under the operating lease (the "West Virginia Lease") of such gaming equipment to the Charles Town Joint Venture,

For approximately $200,000,000 Borrower, through a Mississippi subsidiary, will acquire the operating assets and operations of Casino Magic Bay St. Louis and Boomtown Casino in Biloxi. The price is subject to adjustment. The assets include approximately 590 acres of land in Bay St. Louis, Mississippi. Contained thereon is a casino, 200 room hotel, 18 hole golf course, river park and marina. Boomtown is a leasehold interest improved with approximately 33,000 square feet of casino space, a theatre, restaurants and other amenities. These facilities are currently licensed and operated by Hollywood Park, Inc. Borrower will pay a $5,000,000 deposit for such transaction (collectively the "Hollywood Park Transaction").

Borrower and Banks have agreed to make certain amendments to the Credit Agreement, and Banks have agreed to permit Borrower to enter into the Bank of America Facility, all as set forth herein and subject to the terms and conditions hereof.

In consideration of the foregoing and the premises and the agreements hereinafter set forth, and intending to be legally bound hereby, the parties hereto agree as follows:

Definitions

General Rule. Unless otherwise defined herein, terms used herein which are defined in the Credit ---------- Agreement shall have the meanings assigned to them in the Credit Agreement.

Additional Definitions. The following definitions are hereby added to Section 10 of the Credit ---------- Agreement to read in their entirety as follows:

"Amendment No. 3" means the Amendment No. 3 to and Consent and Waiver under Second Amended and ---------- Restated Credit Agreement by and among Borrowers and Banks dated December 13, 1999.

"Amendment No. 3 Effective Date" means the date on which the conditions set forth in Paragraph 5 ---------- of Amendment No. 3 have been satisfied.

"Bank of America Security Agreement" means the Security Agreement dated the date hereof by Penn National

Gaming of West Virginia, Inc. in favor of Bank of America, N.A, as administrative agent for the benefit of the lenders under the Bank of America Term Loan Agreement.

"Bank of America Term Loan Agreement" means the Senior Secured Multiple Draw Term Loan Agreement dated the date hereof by and among Penn National Gaming of West Virginia, Inc., as borrower; Borrower, as guarantor; the lenders referred to therein and Bank of America, N.A, as administrative agent.

"Hollywood Park Transaction" shall have the meaning set forth - ------------------------- in the recitals of Amendment No. 3.

Amended Definition. The following definition found in Section 10 of the Credit Agreement is hereby amended ------------------ and restated in its entirety

"Asset Sale" shall mean any sale, transfer or other disposition by the Borrower or any Credit Party to any Person (including by-way-of redemption of such Person) other than to the Borrower or a Wholly-Owned Subsidiary of the Borrower of any asset (including, without limitation, any capital stock or other securities of, or equity interests in, another Person) if: (i) such asset constitutes Collateral under (and as defined in) the Security Agreement or Collateral under (and as defined in) the Pledge Agreement and (ii) such asset does not constitute Collateral under the Bank of America Security Agreement. The term "Asset Sale" shall not include sales of assets permitted pursuant to Sections 8.02(v) (sales of inventory in the ordinary course), (vi) (sales of obsolete items), (vii) (certain leases) or (viii) (certain licenses) hereof.

. Acknowledgment by Banks. On the Amendment No. 3 Effective Date, Banks acknowledge:

That the $5,000,000 deposit required under the Hollywood Park Transaction to be paid on or before December 15, 1999 may be borrowed under the Revolving Loans Commitment.

That the Borrowers may sell the Premises (as defined in the Agreement of Sale for Real Estate dated September 20, 1999 by and between The Downs Racing, Inc. and Chester M. Burns, Trustee for Chester E. Burns Trust, the "Burns Agreement") as provided in the Burns Agreement for $154,000, and further that no mandatory prepayment under the Credit Agreement shall be required in connection with such Transaction.

Consents, Waivers and Amendments.

The security PNGWV will grant to BA to secure the Bank of America Facility on the West Virginia

Assets will include a Lien on assets with a value exceeding $250,000, and because such security extends beyond a Lien on the West Virginia Assets to include an assignment of PNGWV's rights under the West Virginia Lease, BA's Lien on the West Virginia Assets is not permitted by the exception set forth in Section 8.01(viii) of the Credit Agreement and is not otherwise permitted by the Credit Agreement. Banks hereby consent to PNGWV's grant of a security interest to BA in the West Virginia Assets.

BA's Lien on the West Virginia Assets is not permitted by the exception set forth in Section 8.01(viii) of the Credit Agreement, and therefore, by cross-reference, the West Virginia Indebtedness is not purchase money indebtedness permitted by Section 8.04(iv) of the Credit Agreement. Banks hereby consent to the Borrower's incurrence of the West Virginia Indebtedness.

The security PNGWV will grant to BA for the West Virginia Assets (including without limitation the

Charles Town Video Lottery Terminals) is broader than a Lien on the West Virginia Assets and includes, inter alia, an assignment of PNGWV's rights under the West Virginia Lease, BA's Lien on the Charles Town Video Lottery Terminals is not permitted by the exceptions set forth in Section 8.01(xiv) of the Credit Agreement and is not otherwise permitted by the Credit Agreement. Banks hereby consent to Borrower's grant of a Lien and negative pledge to BA on the Charles Town Video Lottery Terminals to the extent set forth in the documents evidencing the Bank of America Facility as in effect on the date of this Amendment No. 3.

PNGWV's pledge to BA of its lessor interest under the West Virginia Lease is not permitted due to Section 8.01 of the Credit Agreement. Banks hereby consent to PNGWV's pledge of its rights under the West Virginia Lease to BA.

The sale of the Charles Town Video Lottery Terminals must be in compliance with Sections 8.02 and

8.06 of the Credit Agreement. Banks hereby consent to the Borrower's sale of the Charles Town Video Lottery Terminals to PNGWV free and clear of any liens; provided, however, that Borrower complies with the provisions of Sections 8.02(x) and (y) of the Credit Agreement and Section 8.06 of the Credit Agreement.

. Sections 8.04 and 8.16 of the Credit Agreement prohibit the Borrower from entering into the Bank of America Guaranty. Banks hereby consent to Borrower's entering into the Bank of America Guaranty.

Banks hereby waive any mandatory prepayment which may be due to Banks under Sections 3.03(b) or (c) of the Credit Agreement in connection with Borrower's entering into the Bank of America Facility or the West Virginia Lease or the Borrower's sale of the Charles Town Video Lottery Terminals to PNGWV, respectively.

Section 8.07 of the Credit Agreement (Leases) is hereby amended so that the final word in the section is "$1,600,000" instead of "$1,400,000."

Section 8.08 of the Credit Agreement (Capital Expenditures) is hereby amended so that the penultimate word in clause (a)(x) is "$10,000,000" and not "$9,000,000"; and pursuant to clause (a)(y) of Section 8.08 of the Credit Agreement, the Required Banks hereby approve $17,000,000 as permitted Capital Expenditures for the fiscal year 2000.

a. The Banks hereby acknowledge that borrowings under the Revolving Credit Commitment may be used by the Borrowers to finance deposits for acquisitions of assets.

1. Representations and Warranties. Borrowers hereby represent and warrant to Banks as follows: ----------

a. Representations. The representations and warranties set forth in Section 6 of the Credit ---------- Agreement are true and correct in all material respects as of the date hereof; there is no Event of Default or Default under the Credit Agreement, as amended hereby; and there has been no material adverse change in the financial condition or business of Borrower or any Subsidiary from the date on which Borrower last delivered financial statements to Banks.

b. Power and Authority. Borrower and each Subsidiary has the power and authority under the laws of
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each of their states of incorporation or formation and under their articles or certificates of incorporation and bylaws or other formation documents or other formation documents to enter into and perform this Amendment No. 3 and the other documents and agreements required hereunder (collectively, the "Amendment Documents"); all actions (corporate or otherwise) necessary or appropriate for the execution and performance by Borrower and each Subsidiary of the Amendment Documents have been taken; and the Amendment Documents and the Credit Agreement, as amended, each constitute the valid and binding obligations of Borrower and each Subsidiary, enforceable in accordance with their respective terms.

c. No Violations of Law or Agreements. The making and performance of the Amendment Documents by ---------- Borrower and each Subsidiary will not (i) violate any provisions of any law or regulation, federal, state or local, or the articles or certificates of incorporation or bylaws or other formation documents of any Borrower or Subsidiary or (ii) result in any breach or violation of, or constitute a default or require the obtaining of any consent under, any agreement or instrument by which any Borrower or Subsidiary or its property may be bound.

2. Conditions to Effectiveness of Amendment. This Amendment No. 3 shall be effective upon Agent's receipt of
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the following, each in form and substance satisfactory to Agent:

a. Amendment No. 3. This Amendment No. 3 duly executed by Borrower, Agent, Banks and Subsidiary
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Guarantors.

b. Bank of America Facility; Security Documents. (i) An executed copy of the Bank of America
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Facility; (ii) an executed copy of the security agreement to be entered into by PNGWV in favor of BA (the "BA Security Agreement"); and (iii) copies of all UCC-1 financing statements to be filed by BA to perfect the security interest granted to it under the BA Security Agreement.

c. Opinion Letter. An opinion letter from counsel to Borrower, which may be addressed to BA, but on
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which Agent and Banks may rely, which includes an opinion, in form and substance satisfactory to Agent, that the terms of the Bank of America Facility do not conflict with, or constitute a default under, the Senior Note Indenture, the Senior Notes, or any document in connection therewith.

d. Payoff of Term Loan. Payment in full of the Obligations outstanding under the Term Loan pursuant
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to the payoff letter dated December 10, 1999 from the Agent to the Borrower (the "Payoff Letter").

e. Waiver Fee. Payment of a waiver fee for the benefit of Banks of one-eighth of one percent (1/8%) of each Bank's Commitment, to be shared between the Banks on a pro rata basis.

f. Other Documents. Such additional documents as Agent may reasonably request.

3. Limited Release of Banks' and First Union's Security Interest. Upon the effectiveness of this Amendment and the receipt by the Agent of all amounts due pursuant to the Payoff Letter: (i) First Union will release, relinquish and no longer claim to hold a security interest in or a lien on the Charles Town Video Lottery Terminals and all of the Security Agreement Term Loan Collateral; (ii) Agent and Banks will release, relinquish and not claim to hold a security interest in or a lien on any of the West Virginia Assets and (iii) Agent and First Union will deliver all documents reasonably requested by BA to evidence the payoff of the Term Loan and the release of First Union's security interest in the Charles Town Video Lottery Terminals, the other Security Agreement Term Loan Collateral, and the West Virginia Assets, which includes without limitation the equipment listed on Schedules 1.1 and 1.2 attached hereto.

4. Affirmations. Borrower hereby: (i) affirms all the provisions of the Credit Agreement, Security Agreement, Pledge Agreement and Contribution and Indemnification Agreement, as amended or modified by this Amendment No. 3 (including without limitation Paragraph 6 hereof), and (ii) agrees that the terms and conditions of the Credit Agreement, Security Agreement, Pledge Agreement and Contribution and Indemnification Agreement shall continue in full force and effect as modified, supplemented or amended by this Amendment No. 3 (including without limitation Paragraph 6 hereof).

5. Miscellaneous.

a. Borrower agrees to pay or reimburse Agent for all reasonable fees and expenses (including without limitation reasonable fees and expenses of counsel) incurred by Agent in connection with the preparation, execution and delivery of this Amendment No. 3.

b. This Amendment No. 3 shall be governed by and construed in accordance with the laws of the Commonwealth of Pennsylvania.

c. All terms and provisions of this Amendment No. 3 shall be for the benefit of and be binding upon and enforceable by the respective successors and assigns of the parties hereto.

d. This Amendment No. 3 may be executed in any number of counterparts with the same effect as if all the signatures on such counterparts appeared on one document and each such counterpart shall be deemed an original.

e. Except as expressly set forth herein, neither the execution, delivery and performance of this Amendment No. 3, any of the Banks' consents or waivers set forth herein, nor anything contained herein shall be construed as or shall operate as a consent to or waiver of any further provision of, or any right, power or remedy of Banks under the Credit

Agreement and the agreements and documents executed in connection therewith. The consents and waivers granted hereby are limited to the matters set forth herein.

IN WITNESS WHEREOF, the undersigned have executed this Amendment No. 3 the day and year first above written.

PENN NATIONAL GAMING, INC.

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito

Title: Chief Financial Officer

FIRST UNION NATIONAL BANK, as Agent

By: _/s/Lynn b. Eagleson_____
Name: Lynn B. Eagleson
Title: Vice President

SUMMIT BANK

By: _/s/Scott A. Wickel_____
Name: Scott A. Wickel

Title: Regional Vice President

Accepted and Agreed:
- ------------------

MOUNTAINVIEW THOROUGHBRED
RACING ASSOCIATION, as a Subsidiary
Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary/Treasurer

[EXECUTIONS CONTINUED]

PENNSYLVANIA NATIONAL TURF
CLUB, INC., as a Subsidiary Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary

PENN NATIONAL SPEEDWAY,
INC., as a Subsidiary Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary

STERLING AVIATION, INC.,
as a Subsidiary Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary

PENN NATIONAL HOLDING
COMPANY, as a Subsidiary
Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary

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

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary

[EXECUTIONS CONTINUED]

PNGI POCONO, INC.,
as a Subsidiary Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary/Treasurer

TENNESSEE DOWNS, INC.,
as a Subsidiary Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary

THE DOWNS RACING, INC.,
as a Subsidiary Guarantor

By: /s/Joseph A. Lashinger_____
Name: Joseph A. Lashinger
Title:

NORTHEAST CONCESSIONS, INC.,
as a Subsidiary Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary

BACKSIDE, INC.,
as a Subsidiary Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary

[EXECUTIONS CONTINUED]

MILL CREEK LAND, INC.,
as a Subsidiary Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Assistant Secretary

WILKES BARRE DOWNS, INC.,
as a Subsidiary Guarantor

By: /s/ Robert E. Abraham_____
Name: Robert E. Abraham
Title: President

PENN NATIONAL GSFR, INC.,
as a Subsidiary Guarantor

By: _/s/Robert S. Ippolito_____
Name: Robert S. Ippolito
Title: Secretary

AGREEMENT BETWEEN THE DOWNS RACING, INC. AND

PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION, INC.

THIS AGREEMENT is made and entered into on the 17 day of December, 1999, by and between THE DOWNS RACING, INC. (hereinafter called "The Downs") and THE PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION, INC., a Pennsylvania Corporation (hereinafter called "PHHA") and,

WITNESSETH THAT: WHEREAS, The Downs is licensed to conduct and is engaged in the business of conducting harness racing meetings, simulcasting and account wagering of races to and from other locations, at, to and from The Downs, and

WHEREAS, PHHA's membership consists of owners, trainers, and drivers of harness horses participating in harness race meetings at The Downs and elsewhere in the United States and Canada, and PHHA has been organized and exists for the purpose of promoting the sport of harness racing; improving the lot of owners, trainers, drivers, breeders and grooms of harness racing horses participating in race meetings; establishing health, welfare and insurance programs for drivers, trainers and grooms of harness racing horses; negotiating with harness racing tracks on behalf of owners, trainers, drivers and grooms of harness racing horses; and generally rendering assistance to them whenever and wherever possible; and

WHEREAS, the parties hereto believe that the amount of pari-mutuel wagering at The Downs is the best basis upon which to fix the financial arrangements between the parties, and

WHEREAS, the parties have agreed that all existing agreements shall remain in full force and effect until the effective date of this agreement (January 16, 2000 - 12:01 AM).

NOW, THEREFORE, in consideration of the promises and covenants contained herein, it is agreed as follows:

1. TERM OF AGREEMENT

The provisions of this Agreement shall apply to and govern every harness racing meeting and all simulcasting conducted at, from or to The Downs from 12:00 AM on January 16, 2000 (Effective Date) through 12:00AM January 15, 2003.

2. PURSE DISTRIBUTION

A. The parties hereto have agreed that The Downs shall pay to the PHHA

horsemen's account a fixed percentage of 4.25% (for the term through January 15, 2002 with the sum elevating to 4.3% for the balance of the term beginning January 15, 2002 through January 15, 2003) of total system handle. Total system handle shall mean all wagering conducted at the primary location, all non-primary locations and all telephone wagering.

(1) Interactive Wagering - All interactive wagering conducted via an authorized personal computer connection to The Downs (eBetUSA or its equivalent) will be handled.

Separately from the formula for total system handle. The parties hereto agree that net commissions for this purpose will also be less host fees paid to other tracks or trade organizations and less any service charges from an interactive company. For this section only, The Downs agrees to pay PHHA purses equal to the following percentages of the net commissions for this product:

Year 1 - 32%
Year II - 32 2/3%
Year III - 33 1/3%

B. RACES CONDUCTED AT POCONO DOWNS RACETRACK

Throughout the Term of this Agreement, The Downs shall distribute to the PHHA purse account fifty percent (50%) of breakage from wagering at The Downs on live races conducted at The Downs.

(1) Each Contract Year, (12:00 AM January 16, 2000 through 12:00AM on January 15, 2003) during the Term of this Agreement, The Downs shall pay to the PHHA the sum of Three Hundred Sixty Thousand Dollars ($360,000) to be used for

the purposes described in paragraph 5 below.

(2) Each Contract Year, the balance of the amounts determined under paragraph 2A, after deducting the amounts payable under (1) above, shall be paid in racing purses.

(3) The amount due to the PHHA annually shall be accrued at the rate of Thirty Thousand Dollars ($30,000) per month every Contract year. Payment shall be made in equal monthly payments to the PHHA to be used for purposes described in paragraph 5 below and shall not exceed the amounts stated in (1) above. At the written request of

the PHHA, The Downs shall make direct payments for insurance or for other purposes allowed under paragraph 5 below, or shall make direct payment to the PHHA up to any amount payable to the PHHA. However, the total amount paid out in any Contract Year to or on behalf of the PHHA for purposes described in paragraph 5 below may, by mutual agreement of the parties hereto, exceed Three Hundred Sixty Thousand Dollars ($360,000).

(4) A maximum of three percent (3%) of the total overnight purse payments in each Contract Year may be paid out in racing purses for early and late closing events and stake events. Stake events requiring funding exceeding the three percent (3%) limit herein may be scheduled if agreed to by both parties.

C. INTERSTATE SIMULCASTING

(1) In addition to the amounts otherwise provided for in this Agreement, The Downs shall distribute in racing purses during each Contract Year throughout the Term of this Agreement, 1% of the first Twelve Million Dollars ($12,000,000) in fees earned by The Downs for live programs simulcast to wagering locations outside Pennsylvania (export signal) and 50% of any amount over Twelve Million Dollars ($12,000,000).

(2) It is also specifically understood and agreed that if the host track (e.g. the track from which the live racing is being broadcast) requires written agreement or permission from PHHA for receipt of a simulcast for any race(s), then PHHA will normally automatically and immediately provide its written agreement and/or permission (whichever is required) on the forms required. The PHHA's granting of such agreement or permission or its prompt execution of the forms supplied to it, as referenced above, will not be unreasonably withheld or delayed. If The Downs believes that PHHA has unreasonably withheld or delayed such agreement or permission or execution, then it shall have the right to initiate an immediate expedited arbitration to resolve such dispute.

D. INTRASTATE SIMULCASTING

In addition to the amount (s) otherwise provided for in Paragraph 2, The Downs shall distribute in racing purses the following amounts based upon handle on racing conducted within Pennsylvania and simulcast to Primary Locations within Pennsylvania.

(1) Two and one-half (2 1/2%) percent of the total handle on The Downs live races simulcast to the Primary Location of another Pennsylvania Racetrack shall be distributed, throughout the entire Term of this Agreement.

E. NON-PRIMARY LOCATIONS

The percentage to be applied to the purses from wagering at other Pennsylvania Racing Associations Non-Primary Locations is as provided by applicable Pennsylvania statute.

3. MINIMUM PURSES/MAXIMUM PURSES

A. During the Term of this Agreement the minimum purse payable by The Downs for any pari-mutuel betting race shall be One Thousand Two Hundred Dollars ($1,200.00) unless circumstances warrant a change which shall be mutually agreeable to both parties.

B. During the Term of this Agreement, the maximum purse payable by The Downs for any overnight pari-mutuel race from the purse account created by this Agreement shall be Ten Thousand Dollars ($10,000.00) unless circumstances warrant a change which shall be mutually agreed upon by both parties.

4. RACING SCHEDULE

A. The Downs will schedule a minimum of one hundred thirty-five (135) race days and one thousand three hundred fifty (1,350) live overnight races at The Downs during each race season during the Term of this Agreement, subject however to conditions beyond its control. The PHHA membership waives the provisions of the Race Horse Industry Reform Act to require more than one thousand three hundred fifty (1,350) live overnight races

annually. The PHHA membership also waives the provisions of the Race Horse Industry Reform Act to require more than one hundred thirty-five (135) race days annually.

The parties hereto agree that said waiver shall continue for the life of this Contract only and agreed upon extensions scheduling a minimum of one hundred thirty-five (135) race days and one thousand three hundred fifty (1,350) live overnight races at The Downs in accordance with this Sub- paragraph A of Paragraph 4 of this Agreement.

B. The Downs management will prepare a weekly schedule showing the number of live races and simulcast races to be presented each day during a given week. That schedule will be presented to the PHHA at least two weeks prior to the first racing day of the scheduled week. If the live overnight races do not fill, then his will be considered a condition beyond the control of The Downs and the minimum number of 1,350 live overnight races will be reduced by the number of races not filled.

5. ARRANGEMENTS WITH PHHA

A. As per Paragraph 2 (B) (3) of this Agreement said amounts shall be used for:

(1) To defray PHHA's operating expenses;
(2) To pay PHHA's dues to any national organization of horsemen to which it belongs;
(3) To pay premiums for a group health and medical insurance policy for drivers, trainers and grooms;
(4) To pay premiums for an accident and disability insurance policy which covers trainers and drivers that are involved in accidents while training or racing;

B. The Downs shall provide an office for the use of the PHHA representative on its racing grounds.

C. Representatives of The Downs and PHHA will be available to consult with each other at reasonably convenient times concerning any matters pertaining to the operation of race meetings of The Downs or the provisions of this Agreement. Specifically, representatives of The

Downs and PHHA shall meet before each racing season and

throughout the same on a bi-weekly basis whenever possible to discuss and agree on racing dates, purse structures and races offered on the condition sheet and qualifying standards.

6. STALL ASSIGNMENTS

Nothing in this Agreement shall be deemed to limit or restrict in any manner the absolute discretion of The Downs to assign stalls to owners and trainers whether or not members of PHHA, except that stall space shall not be denied by reason of membership in, or activity on behalf of, PHHA or duly constituted horsemen's committees, or as otherwise prohibited or restricted by law.

7. RACING APPLICATION

Each owner and/or trainer having horses racing at The Downs shall be required to complete a racing application that details the complete inventory of horses in that owner's or trainer's racing stable. Such form may be required to be updated on a monthly basis.

8. PENNSYLVANIA-OWNED AND/OR SIRED RACES OR HORSES WHO HAVE RACED A NUMBER OF TIMES AT THE MEET

A. At the request of PHHA, The Downs shall offer on each weekly condition sheet up to six (6) Pennsylvania-Owned and/or Sired Races or races for horses that have started a certain number of times at the meet per live race week during the Term of this Agreement. Pennsylvania- Owned or Sired Races shall carry a purse enhancement of a minimum of ten percent (10%) over the base purse for such condition or claiming race.

"Pennsylvania-Owned Races" when used above means races restricted to horses which are (a) wholly owned and declared by Pennsylvania resident (s) or (b) wholly owned by Pennsylvania resident (s) and declared by a Pennsylvania resident lessee of the horse.

"Pennsylvania Sired Races": Pennsylvania Harness Racing Commission Regulations/definitions shall govern.

"Pennsylvania Residence" shall be established by presentation, on request of The Downs and/or PHHA representative, of (a) a valid Pennsylvania

Vehicle Registration and a valid Pennsylvania Driver's License or (b) Pennsylvania State Income Tax Return showing permanent domicile in Pennsylvania.

9. INDEMNITY AND COOPERATION - HOLD HARMLESS

A. PHHA hereby agrees to indemnify and hold The Downs harmless of, from and against any and all claims, losses, expenses, judgments, penalties or extra distributions imposed upon or suffered by The Downs arising from claims made by another organization that represents the horsemen participating in any meeting of The Downs and is entitled to receive some or all of the payments previously provided to PHHA, or in connection with, the payment provided in Paragraphs 2 and 5 above. In the event any other organization shall claim to represent the horsemen participating in any meeting of The Downs during the Term of this Agreement, The Downs and PHHA shall there upon take all necessary and proper steps to cooperate with and support each other in sustaining and preserving the effectiveness of this Agreement.

B. The PHHA agrees to indemnify and save and hold The Downs harmless from any liability for bodily injury or property damage to any owner, driver, trainer or his property, arising out of or related to practicing for or participating in harness racing at The Downs except where such damage or injury is the result of gross negligence on the part of The Downs.

10. CONTROLLING LAW AND REGULATIONS: ARBITRATION

A. The interpretation of the provisions of this Agreement shall be governed by the laws of Pennsylvania.

B. The performance and operation of this Agreement, during the entire term hereof, shall be subject in all respects to the provisions of the Pennsylvania Race Horse Industry Reform Act, all the Commonwealth's rules and regulations, and subject to the approval of the Pennsylvania State Harness Racing Commission.

C. This is the entire agreement between the parties. Any modification or amendment to this Agreement must be in writing and signed by the parties or their duly authorized representatives.

D. Any and all disputes between the parties hereto arising out of or relating to this Agreement or any breach thereof shall be resolved by arbitration to be held in Wilkes-Barre, Pennsylvania, in accordance with the Rules of the American Arbitration Association then in effect. Any award rendered by the arbitrator (s) may be entered in any court having jurisdiction thereof. The costs of such arbitration shall be borne equally by the parties hereof.

11. ASSIGNMENT, TRANSFER, ADOPTION OF AGREEMENT

Any assignment of all the rights and obligations of The Downs or transfer or adoption of this Agreement shall not require PHHA's consent and upon such assignment, transfer or adoption, such assignee of transferee shall be substituted as a party to this Agreement.

12. NINE HORSE FIELDS

Nine horse or larger fields with one or more horse trailers may be permitted in any overnight, early or late closer or stake race only with the permission of the PHHA. The purse for a nine horses overnight race field shall carry a ten percent (10%) increase on the base purse. There will be no nine horse fields for maidens or non- winners of two (2) pari-mutuel races lifetime.

13. NEW INCOME SOURCES

If The Downs becomes aware of a new source of wagering or simulcasting income not addressed in this Agreement, The Downs will notify the PHHA of such income source and PHHA will enter negotiations concerning such income source.

IN WITNESS WHEREOF, with the intention of being legally bound, the parties by their respective chief officers who are authorized and empowered to bind the respective parties, have caused this Agreement to be duly executed as of this _17____ day of December 1999.

[Next Page is Signature Page Only]

SETTLEMENT AGREEMENT

This settlement agreement ("Agreement") is entered into this 11th day of February, 2000 among AMTOTE INTERNATIONAL, INC. ("AmTote"), PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY ("PNGI"), and PENN NATIONAL GAMING, INC. ("Penn National").

RECITAL

A. AmTote sued PNGI and Penn National in the United States District Court for the Northern District of West Virginia for claims arising out of certain contracts relating to the Charles Town Race Track, ("the Litigation"). Judgment ("Judgment") was awarded in AmTote's favor.

B. PNGI and Penn National have filed an appeal ("the Appeal") of that Judgment in the United States Court of Appeals for the Fourth Circuit. C. AmTote, PNGI and Penn National have reached an agreement with respect to all of their disputes arising from or relating to the Litigation, the Judgment and Appeal and/or to operations at the Charles Town Race Track.

NOW THEREFORE, in consideration of the mutual promises contained herein and other good an valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties hereto agree as follows:

1. Penn National and PNGI shall pay AmTote in full satisfaction of the Judgment the sum of $1,500,000.00 on or before the close of business on February 25, 2000 by wire transfer to such account as shall have been designated by AmTote.

2. PNGI and Penn National agree to dismiss with prejudice the Appeal, with each party to bear its own costs.

3. AmTote, on behalf of itself, its predecessors, successors, and assignees has released and discharged and by these presents does hereby remise, release, acquit, quit claim and forever discharge PNGI and Penn National, their predecessors, trustees, directors, officers, agents, representatives, employees, shareholders, attorneys, successors and assigns, as well as their parents, subsidiaries and affiliates of and from any and all claims, demands, causes of action, suits in law or in equity, judgments, obligations, debts, agreements, covenants, liens, damages, expenses, losses and liabilities of whatever kind and nature, whether known or unknown, which AmTote now owns or holds or has at any other time previously owned or held or had which refer, relate or otherwise pertain to the Litigation, the Judgment, the Appeal or to Charles Town Race Track.

4. PNGI and Penn National on behalf of their predecessors, trustees, directors, officers, agents, representatives, employees, shareholders, attorneys, successors and assigns, as well as their parents, subsidiaries and affiliates have released and discharged and by these presents does hereby remise, release, acquit, quit claim and forever discharge AmTote, its predecessors, successors, and assignees of and from any and all claims, demands, causes of action, suits in law or in equity, judgments, obligations, debts, agreements, covenants, liens, damages, expenses, losses and liabilities of whatever kind and nature, whether known or unknown, which AmTote now owns or holds or has at any other time previously owned or held or had which refer, relate or otherwise pertain to the Litigation, the Judgment, the Appeal or to Charles Town Race Track.

5. This Agreement represents a compromise of disputed claims and shall not in any way be considered an admission of liability by any person or entity named or described herein.

6. This Agreement is entered into without reliance upon any statement, representation, promise, inducement or agreement not expressly contained herein, and constitutes the entire agreement between the parties, and supersedes all prior oral or written agreements concerning the settlement of claims among them.

7. This Agreement shall binding upon and inure to the benefit of the parties, their respective, heirs, beneficiaries, successors and assigns.

8. This Agreement may not be amended, modified or supplemented except by an instrument in writing signed by the parties hereto. 9. Each party agrees to execute such further and additional documents, instruments or writings as may be necessary, proper, required, desirable or convenient for the purpose of fully effecting the terms and provisions of this agreement, including but not limited to a paper dismissing with prejudice the Appeal.

10. This Agreement shall be governed and construed in accordance with the laws of the State of Maryland.

AMTOTE INTERNATIONAL, INC.

By: /s/Edmund T. Mudge

Edmund T. Mudge, IV, President

PNGI CHARLES TOWN GAMING, LIMITED LIABILITY COMPANY,

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

By: /s/William J. Bork

William J. Bork, Vice President

PENN NATIONAL GAMING, INC.

By: /s/William J. Bork

William J. Bork

President and Chief Operating Officer

THE DOWNS, INC.	PENNSYLVANIA HARNESS HORSEMEN'S ASSOCIATION, INC.
By: __/s/Joseph A. Lashinger Jr. Joseph A. Lashinger, Jr., Esq.	By: _____ President
By: _____ Secretary	By: _____ Secretary
(Corporate Seal)	(Corporate Seal)
Attest: _____	Attest: _____

February 24, 2000

Mr. William Bork, Sr.
President
Penn National Gaming, Inc.
825 Berkshire Blvd.
Wyomissing, PA 19610

Dear Bill,

I refer to the contract dated May 7, 1997 between and among PNGI Charles Town Gaming, LLC and the Charles Town HBPA, Inc. The term of this contract is in full force until December 31, 2000 (initial term). There are two one-year rollover terms called first and second extension terms. Notice to terminate, must be given, by either party, prior to September 30, 2000 or September 30, 2001, whichever is applicable.

The Charles Town HBPA, Inc. hereby waives it's right to terminate this contract either the first or second extension term. This waiver is irrevocable and thus to insure understanding the Charles Town HBPA, Inc. agrees to abide by the provisions of aforesaid contract until the end of the second extension period.

Sincerely,

/s/Richard C. Watson

Richard C. Watson
President

Charles Town HBPA, Inc.

RCW/pe
cc: Jim Buchanan
Richard L. Moore

Joint Venture Agreement

Between: eBet Limited

(ACN 056 210 774)
Level 4, 500 Pacific Highway
St Leonards NSW 2065
Australia; and

TrackPower, Inc

580 Granite Court
Pickering Ontario L1W3Z4
Canada; and

Penn National Gaming, Inc

825 Berkshire Boulevard
Wyomissing Pennsylvania 19610
USA

1. Background:

1.1 eBet Limited ("eBet") and certain of its subsidiaries ("eBet Group") develop, operate and market interactive gaming & wagering systems ("eBet System") to facilitate, among other things, the online distribution of race wagering products and services via the Internet and other distribution networks ("eBet Race Wagering Business"). For the avoidance of doubt eBet group does not include eBet subsidiaries not involved in development, operation and marketing of interactive gaming and wagering systems.

1.2 eBet Group holds copyright, title and proprietary rights to the eBet System and its interfaces to various gaming & wagering systems.

1.3 eBet Group is a party to a contract with New Zealand TAB ("NZ TAB Contract") to distribute the NZ TAB's pari-mutuel race betting and fixed-odds sports betting products on an agency basis.

1.4 eBet Group owns various Internet domain names including, among others, eBetRacing.com and eBet USA.com ("eBet Racing Domains").

1.5 eBet Group is in negotiations with various international race betting operators to provide various services and/or act as an agent on their behalf ("eBet Race Negotiations")

1.6 eBet Group is a party to a license agreement with Penn National Gaming, Inc ("Penn") to establish an operating entity to be known as eBet USA Inc ("eBetUSA Contract") to offer Internet wagering on racing events hubbed by Penn.

1.7 TrackPower, Inc ("TrackPower") is a NASDAQ OTCBB ("OTCBB") listed company that, among other things, operates a satellite broadcast business, which broadcasts horseracing to subscribers of the US-based Dish Network ("Dish") ("TrackPower Business").

1.8 TrackPower is a party to various contracts ("TrackPower Contracts") with racetracks, broadcasters, technology developers, satellite operators and Penn which facilitate the operation of the TrackPower Business.

1.9 TrackPower owns various Internet domain names including, among others, TrackPower.com ("TrackPower Domains").

1.10 Penn holds a license ("Wagering License") to operate, among other things, telephone wagering services whereby it facilitates the placing of wagers by customers ("Penn Customers") via the telephone ("Penn Phone Wagering Business").

2. Establishment of TrackPower Joint Venture

2.1 eBet Group, TrackPower and Penn ("The Parties") intend to consolidate the TrackPower Business, the management and operation of the Penn Phone Wagering Business, the eBetUSA Contract, the NZ TAB Contract in part and the eBet Race Wagering Business ("Consolidation").

2.2 To facilitate Consolidation, by way of the issue of its shares and warrants, TrackPower will acquire various assets, interests, contracts and licenses from eBet Group and Penn. Specifically, TrackPower will acquire, directly or indirectly, subject to the provisions of this Agreement and on an on-going basis relevant regulatory, horsemen and shareholder approvals ("Approvals"):

2.2.1 From eBet Group:

a) Subject to any necessary shareholder approvals, an exclusive, perpetual worldwide license to operate the eBet System for pari-mutuel race wagering applications and on a non-exclusive

basis, fixed odds race wagering applications ("eBet System License"); and

b) subject to the approval of NZ TAB, all rights and obligations of the NZ TAB contract with respect to race wagering; and

c) the eBet Race Wagering Business and eBet Racing Domains; and

d) rights and obligations in other contracts and eBet Race Negotiations necessary and relevant to the operation of the eBet Race Wagering Business,

in consideration of the issue of 18,000,000 fully paid common shares in the capital of TrackPower, and 5,000,000 warrants to acquire shares in the capital of TrackPower at an exercise price of US$1.00 per share exercisable at any time for a period of two years from the date of this Agreement issued on terms, and with rights, no less favourable than any other TrackPower shares or warrants on issue at the time of this Agreement.

eBet Group is not obliged to transfer to TrackPower:

e) any interest in any fixed odds race wagering business conducted by eBet Group as principal using the eBet System; or

f) any interest eBet Group has in any contract relating to any fixed odds race wagering or sports betting conducted by New Zealand TAB using the eBet System.

g) for the avoidance of doubt the eBet System License is a perpetual license to use, develop and sub-license the source code necessary

to conduct the eBet Race Wagering Business ("eBet Race Wagering System"). TrackPower acquires no right, title or interest in the intellectual property rights to the source code, object code or any other part of the technology necessary to conduct the eBet Race Wagering System except as provided for by this Agreement.

2.2.2 From Penn:

a) Subject to any on-going necessary horsemen or regulatory approvals, a worldwide, perpetual license and management contract ("Management Contract") to manage the Penn Phone Wagering Business, whereby TrackPower will assume the management, marketing and operation of all facets of the Penn Phone Wagering Business on an exclusive basis in accordance with the Wagering License,

in consideration for the issue of 18,000,000 fully paid common shares in the capital of TrackPower; and 1,000,000 warrants to acquire shares in the capital of TrackPower at an exercise price of US$1.00, exercisable at any time for a period of one year from the date of this Agreement and issued on terms, and with rights, no less favourable than any other TrackPower shares or warrants on issue at the time of this Agreement.

b) For the avoidance of doubt, Penn must make available to TrackPower all information relating to the customers of and suppliers to Penn and its affiliates relating to the Penn Phone Wagering Business to enable TrackPower to manage all aspects of that business. TrackPower is entitled to all revenue and profits ("Revenues") derived from the conduct of that business.

For the avoidance of doubt Revenues to TrackPower will be net of horsemen percentages, simulcast fees, taxes, and any source market fees or TrackPower will be obligated to pay such fees and taxes.

c) This Management Contract will be on terms customary for management of gaming operations. Penn must, at its own expense, provide to TrackPower all necessary equipment and facilities currently in place and necessary for the operation of the Penn Phone Wagering Business. TrackPower will meet all capital expenditure and working capital requirements in respect of the Penn Phone Wagering Business from the date of execution of the Long Form Agreements referred to below.

d) The Management Contract may be terminated by Penn if an insolvency event occurs with respect to TrackPower, TrackPower fails to operate in a manner so as to preserve licenses held by Penn to conduct the Penn Phone Wagering Business or otherwise fails to use its best efforts to promote and manage that business. In return for its appointment of TrackPower as manager, Penn will be entitled to a fee ("Account Wagering Fee") that will be:

(i) the first US$150,000 per month of Revenues.

For the avoidance of doubt, the maximum annual account wagering fee payable shall be US$1,800,000 per annum.

2.2.3 TrackPower.

For the avoidance of doubt TrackPower will retain and must preserve:

a) the TrackPower Business; and

b) all rights and obligation in the TrackPower Contracts, including, but not limited to, those with Dish and Penn; and

c) other such contracts and negotiations relevant to the operation of the TrackPower Business; and

d) the TrackPower Domain Names.

2.3 It is the intention of the Parties that the terms of this Agreement be reflected in long form agreements ("Long Form Agreements") which will set out the relationship between the Parties in greater detail. The Parties will negotiate in good faith to agree the terms of Long Form Agreements as soon as possible and in any event within 90 days of the date of this Agreement. However, until such Long Form Agreements are executed, this Agreement is legally binding on the Parties. If the Long Form Agreements are not executed within this timeframe or should all necessary shareholder, regulatory, Horsemen, contractual or other approvals not be gained within the same timeframe, unless otherwise agreed by the Parties, this Agreement terminates and each Party is released from all obligations under this agreement. Any such release is without prejudice to any rights a party may have against another in respect of any breach that occurs prior to termination. The confidentiality undertakings set out in Part 8 survive termination of this Term Sheet.

2.3.1 The Parties must negotiate in good faith to settle the terms of the Long Form Agreements within 90 days of execution of this Agreement including, but not limited to providing access to due diligence material as customary in completion of transactions of the nature contemplated by this Agreement.

2.4 Each Party must not and must ensure that none of its affiliates do not provide any information to a third party in relation to encouraging, soliciting, negotiating or otherwise being involved in any transaction that may in any way prejudice its ability to complete the transactions contemplated by this Agreement.

2.5 No Party may be involved in and must procure that its affiliates are not involved in any way (including without limitation, as shareholder, unit holder, principal, agent, manager, consultant, service provider or adviser) in any race wagering business similar to that conducted by TrackPower anywhere in the world from the date of completion of the transfers under Clause 2.2 until the date 2 years after that Party ceases to hold at least 10% of the issued share capital of TrackPower.

This restriction does not restrict eBet Group from:

a) conducting a fixed odds race wagering business as principal using the Bet System; or

b) eBet Group making the eBet System available to the New Zealand TAB to enable it to conduct a fixed odds race wagering business under the NZ TAB Contract.

3. TrackPower Management

3.1 The board of directors of TrackPower ("TrackPower Board") will be comprised of initially six members("Initial Board") during the period between this Agreement and execution of the Long Form Agreement or ninety (90) days whichever occurs earlier, and when the New Board, referred to below, is constituted, seven members.

3.2 eBet Group and Penn will have the right to nominate a representative to the TrackPower Board and TrackPower must secure requisite resignations and/or approvals to facilitate this so as such appointments coincide with the execution of the Long Form Agreements.

3.2.1 Upon execution of the Long Form Agreements, unless otherwise agreed by eBet and Penn, all of the TrackPower Board other than John Simmonds, and the nominees of eBet and TrackPower referred to above, must tender their resignations for consideration by the remaining board members to facilitate the formation of a new TrackPower board ("New Board"), with the nominees to be agreed by the parties.

3.2.2 Upon formation, the New Board will:

a) elect a chairman by unanimous vote; and

b) the independent nominees will by unanimous vote elect a further independent director; and

c) determine the terms, conditions and timing of the Secondary Offering and NASDAQ Listing referred to below.

3.2.3 Until formation of the New Board TrackPower agrees not to:

a) issue any securities including, without limitation, options to acquire any shares in the capital of TrackPower; or

b) pay any dividend or undertake any other distribution; or

c) dispose of any material asset or grant any security or other third party interest over any asset; or

d) permit the amendment of the constituent documents of TrackPower; or

e) proceed with the Secondary Offering or NASDAQ Listing, referred to below,

without the written consent of eBet and Penn.

3.3 The Parties will each nominate an executive management representative to the executive management team of TrackPower ("TrackPower Executive") with such nominations to be confirmed by the TrackPower Board and CEO. For the avoidance of doubt, Penn shall nominate a suitably qualified North American racing executive: the identity of each executive nominee must be approved by all the parties.

3.3.1 The TrackPower Executive will be responsible for, among other things:

a) the development and coordination of the Long Form Agreements; and

b) the development and coordination of the Business Plan, referred to below in 5.3; and

c) the coordination and management of the Secondary Offering and NASDAQ listing; and

d) other such duties as are customary in the operation of a company such as TrackPower and as agreed between the Parties and/or as directed by the TrackPower Board .

3.3.2 TrackPower will be headed by the TrackPower Chief Executive Officer ("CEO"), who shall report directly to the TrackPower Board.

3.3.3 eBet Group shall appoint the CEO on terms reasonably acceptable to the Parties. The identity of the CEO must be approved by all the Parties.

4. Secondary Offering and NASDAQ Listing

4.1 It is the intention of the Parties to secure an underwriting or sponsorship agreement ("Underwriting Agreement") from an investment bank/s satisfactory to all Parties in preparation for a secondary offering of securities in TrackPower to raise capital ("Secondary Offering") and NASDAQ listing or listing on an alternative exchange, by way of application to the relevant exchange and/or regulatory bodies, to give effect to a transference of TrackPower's OTCBB listing..

4.2 The Long Form Agreements to give effect to this Agreement, and without limitation, the parts of Clause 2 of this Agreement, shall be conditional upon the TrackPower Board [and, if necessary, TrackPower Shareholder,] passing any and all necessary resolutions to give effect to the Secondary Offering and NASDAQ listing on terms acceptable to the Parties.

5. Current Operations and Business Plan

5.1 Prior to execution of the Long Form Agreements the Parties:

a) will continue to operate their business activities, referred to in the parts of Clause 2 of this Agreement, using prudent business practices and their best endeavours to maximize growth opportunities and ensure compliance with contracts, regulations, and legislation relevant to those business activities; and

b) the current contractual arrangements between the Parties shall remain enforceable until the execution of the Long Form Agreements or upon termination of this Agreement if termination is in accordance with the terms of this Agreement.

5.2 Each Party agrees that their respective employees are critical to the day to day operation of their businesses. Given this, the Parties agree to avoid any discussions concerning the hiring of the other's employees. Any contact or discussions concerning an offer of employment to the other Party's employee/s shall have the prior approval of an officer of that employee's employer.

5.3 The Parties intend that TrackPower will be operated in accordance with a business plan ("Business Plan") that will address, among other things, corporate and business development, financing, operations, marketing, expenditure and revenue budgeting, compliance and staffing.

5.4 The Parties will use their best endeavours to develop and agree to the terms of the Business Plan within 60 days of this Agreement. This Business Plan will form an exhibit to the Long Form Agreements representing the agreed Business Plan for TrackPower.

6. No Assignment

6.1 The rights of the Parties under this Agreement may not be assigned or otherwise made available to any third party except as expressly provided for by this Agreement with the written consent of the other parties such to not be unreasonably withheld.

7. Representations and Warranties

7.1 Each Party will grant the other customary representations and warranties. Without limitation, each Party represents and warrants to the other as follows:

a) it has the full power, right and authority to enter into this Agreement and to perform its obligations under this Agreement;

b) this Agreement has been duly authorized by all requisite corporate action and is a valid and legally binding obligation of that Party;

c) it has no prior commitments, arrangements or agreements with any other person, entity or corporation which might interfere with or preclude it from carrying out its obligations;

(d) it is able to pay its debts as and when they fall due;

(e) it holds all necessary assets to perform its obligations in accordance with this Agreement;

(f) the audited financial statements in respect of it which it has provided to the other Parties provide a true and fair view of its financial position as at the balance date referable to those accounts; and

(g) other than as has been disclosed to another party or has been disclosed to the securities exchange on which its securities are traded, there has been no material adverse change in the financial circumstances of the Party since the balance date for the last financial statements referred to in Clause 7.1(f).

8. Confidential Information

8.1 The Parties acknowledge all information relating to the other Parties and their respective businesses, including, without limitation, each others' business plans, operations, contracts, negotiations, and technology not in the public domain and all information in the public domain which has been made public by a Party in breach of this Part 8 ("Confidential Information") is confidential. Each Party will be required to make available such Confidential Information for, among other things, the development of the Business Plan and the due diligence enquiries of each of the other Parties.

8.2 Each Party will use its best endeavours to ensure that Confidential Information is maintained in confidence. A Party need not comply with clause 8.2 to the extent that:

(a) disclosure is required by applicable law; or

(b) disclosure is made to an employee, agent, consultant or adviser provided such disclosure is limited to disclosure required on a "need-to-know" basis and that third party undertakes to be bound by the confidentiality undertakings under this Part 8.

8.2.1 Notwithstanding Clause 8.2 a), the parties must use their best endeavours to provide advance notice to the other parties as to any disclosure, and the form of such disclosure, required by applicable law prior to its release.

8.3 Each recognizes that the other is obliged by the listing rules of the stock exchange on which its shares are traded ("Listing Rules") and other applicable law to disclose material information relevant to its business.

8.4 If a Party is required by applicable law or the Listing Rules of the exchange on which its shares are quoted to disclose any Confidential Information, it must consult fully with the other Parties with respect to the form, content and timing of that disclosure. Any Party so required to disclose Confidential Information must in good faith have regard to the reasonable requests of the others regarding the form, content and timing of the release of that Confidential Information. In relation to the form, content and timing of that disclosure, however, the determination of the Party obliged to make disclosure will be final.

9. Governing Law

9.1 This Term Sheet is governed by the laws of the State of Wyoming, United States of America and the Federal laws in force in that State.

Executed as an Agreement

Dated this.....6..... Day of.....March, 2000.....

Signed for and on behalf of: Signed for and on behalf of:

EBET LIMITED TRACKPOWER, INC
(ACN 056 210 774)

Signature /s/Keith R. Cullen Signature /s/John G. Simmonds

NAME: Keith R. Cullen NAME: John G. Simmonds

POSITION: Managing Director.....POSITION:...Chairman/CEO.....

In the presence of: In the presence of:

Signature ..... Signature

Signed for and on behalf of:

PENN NATIONAL GAMING, INC

Signature .../s/Joseph A. Lashinger

NAME: Joseph A. Lashinger In the Presence of:

POSITION: .Vice President/General Counsel.....
Signature .../s/Colleen A. Kline.....
Witness

Schedule 21

Penn National Gaming, Inc.
Mountainview Thoroughbred Racing Association
Pennsylvania National Turf Club
Penn National Holding Company
Penn National Gaming of West Virginia, Inc.
PNGI Charles Town Gaming, Limited Liability Company.
PNGI Charles Town Food & Beverage, LLC.
Tennessee Downs, Inc.
Penn National GSFR, Inc.
PNGI Pocono, Inc.
The Downs Racing, Inc.
Northeast Concessions, Inc.
Mill Creek Land, Inc.
Backside, Inc.
Wilkes Barre Downs, Inc.
Casino Holding, Inc.
BSL, Inc.
BTN, Inc.
eBetUSA.com, Inc.
Penn National Speedway, Inc.
Sterling Aviation, Inc.

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