

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 1998

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number: 0-24206

Penn National Gaming, Inc.  
(Exact name of Registrant as specified in its charter)

Pennsylvania  
(State or other jurisdiction of  
incorporation or organization)

23-2234473  
(I.R.S. Employer  
Identification No.)

Penn National Gaming, Inc.  
825 Berkshire Blvd., Suite 200  
Wyomissing, PA 19610  
(Address of principal executive offices)

610-373-2400  
(Registrant's telephone number including area code:)

Not applicable  
(Former name, former address, and former fiscal year,  
if changed since last report)

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  No

1

APPLICABLE ONLY TO REGISTRANTS INVOLVED IN BANKRUPTCY  
PROCEEDINGS DURING THE PRECEDING FIVE YEARS:

Indicate by check mark whether the registrant has filed all documents and  
reports required to be filed by Section 12, 13 or 15(d) of the Securities  
Exchange Act of 1934 subsequent to the distribution of securities under a plan  
confirmed by a court. Yes  No

(APPLICABLE ONLY TO CORPORATE REGISTRANTS)

Indicate the number of shares outstanding of each of the registrant's classes  
of common stock, as of the latest practicable date.

| Title                                | Outstanding as of August 12, 1998 |
|--------------------------------------|-----------------------------------|
| Common Stock par value .01 per share | 15,155,830                        |

This Report contains forward-looking statements that inherently involve risks  
and uncertainties. The Company's actual result could differ materially from  
those anticipated in these forward-looking statements as a result of certain  
factors, including those discussed in this Quarterly Report and those discussed  
in the Company's Annual Report on Form 10-K. References to "Penn National  
Gaming" or the "Company" include Penn National Gaming, Inc. and its  
subsidiaries.

2

INDEX

|   | Page  |
|---|-------|
| PART I - FINANCIAL INFORMATION  |       |
| Item 1 - Financial Statements   |       |
| Consolidated Balance Sheets -<br>June 30, 1998 (unaudited) and December 31, 1997                  | 4-5   |
| Consolidated Statements of Income -<br>Six Months Ended June 30, 1998<br>and 1997 (unaudited)     | 6-7   |
| Consolidated Statements of Income -<br>Three Months Ended June 30, 1998 and<br>1997 (unaudited)   | 8-9   |
| Consolidated Statement of Shareholders' Equity -<br>Six Months Ended June 30, 1998 (unaudited)    | 10    |
| Consolidated Statements of Cash Flow -<br>Six Months Ended June 30, 1998<br>and 1997 (unaudited)  | 11-12 |
| Notes to Consolidated Financial Statements  | 13-17 |
| Item 2 - Management's Discussion and Analysis of Financial<br>Condition and Results of Operations | 18-22 |
| Item 3 - Changes in information about Market Risk   | 22    |
| PART II - OTHER INFORMATION   |       |
| Item 1 - Legal Proceedings  | 22    |
| Item 6 - Exhibits and Reports on Form 8-K   | 23    |
| Signature Page  | 24    |
| Exhibit Index   | 25    |

Part I. Financial Information

Item 1. Financial Statements

PENN NATIONAL GAMING INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share data)

|   | June 30,<br>1998<br>(Unaudited)<br>----- | December 31,<br>1997<br>----- |
|---|--|-------------------------------|
| Assets  |  |                               |
| Current assets  |  |                               |
| Cash and cash equivalents   | \$ 23,492                                | \$ 21,854                     |
| Accounts receivable   | 4,060                                    | 2,257                         |
| Prepaid expenses and other current assets   | 2,109                                    | 1,441                         |
| Deferred income taxes   | 419                                      | 469                           |
| Prepaid income taxes  | 880                                      | 3,003                         |
|   | ---                                      | -----                         |
| Total current assets  | 30,960<br>-----                          | 29,024<br>-----               |
| Property, plant and equipment, at cost  |  |                               |
| Land and improvements   | 26,249                                   | 24,643                        |
| Building and improvements   | 66,845                                   | 56,298                        |
| Furniture, fixtures and equipment   | 16,006                                   | 13,847                        |
| Transportation equipment  | 479                                      | 490                           |
| Leasehold improvements  | 8,451                                    | 6,778                         |
| Leased equipment under capitalized lease  | 824                                      | 824                           |
| Construction in progress  | 230                                      | 11,288                        |
|   | ---                                      | -----                         |
|   | 119,084                                  | 114,168                       |
| Less accumulated depreciation and amortization  | 13,301<br>-----                          | 11,007<br>-----               |
| Net property, plant and equipment   | 105,783<br>-----                         | 103,161<br>-----              |
| Other assets  |  |                               |
| Excess of cost over fair market value of net assets acquired<br>(net of accumulated amortization<br>of \$1,695 and \$1,389, respectively) | 22,749                                   | 23,055                        |
| Deferred financing costs  | 2,896                                    | 3,014                         |
| Miscellaneous   | 837                                      | 624                           |
|   | ---                                      | -----                         |
| Total other assets  | 26,482<br>-----                          | 26,693<br>-----               |
|   | \$163,225<br>=====                       | \$158,878<br>=====            |

See accompanying notes to consolidated financial statement

PENN NATIONAL GAMING INC. AND SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
(In thousands, except share and per share data)

|   | June 30,<br>1998<br>(Unaudited)<br>----- | December 31,<br>1997<br>----- |
|---|--|-------------------------------|
| Liabilities and shareholders' equity  |  |                               |
| Current liabilities   |  |                               |
| Current maturities of long-term debt and capital lease obligations  | \$ 189                                   | \$ 204                        |
| Accounts payable  | 7,093                                    | 7,405                         |
| Purses due horsemen   | 1,423                                    | -                             |
| Uncashed pari-mutuel tickets  | 950                                      | 1,504                         |
| Accrued interest  | 334                                      | 326                           |
| Accrued expenses  | 1,848                                    | 2,427                         |
| Accrued salaries and wages  | 951                                      | 813                           |
| Customer deposits   | 703                                      | 470                           |
| Taxes, other than income taxes  | 806                                      | 649                           |
|   | ---                                      | ---                           |
| Total current liabilities   | 14,297<br>-----                          | 13,798<br>-----               |
| Long term liabilities   |  |                               |
| Long-term debt and capital lease obligations, net of current maturities   | 80,113                                   | 80,132                        |
| Deferred income taxes   | 11,264                                   | 11,092                        |
|   | -----                                    | -----                         |
| Total long-term liabilities   | 91,377<br>-----                          | 91,224<br>-----               |
| Commitments and contingencies   |  |                               |
| Shareholders' equity  |  |                               |
| Preferred stock, \$.01 par value, authorized 1,000,000 shares; none issued  | -  | -                             |
| Common stock, \$.01 par value, authorized 20,000,000 shares; 15,155,830 and 15,152,580 issued and outstanding, respectively | 152                                      | 152                           |
| Additional paid in capital  | 37,987                                   | 37,969                        |
| Retained earnings   | 19,412                                   | 15,735                        |
|   | -----                                    | -----                         |
| Total shareholders' equity  | 57,551<br>-----                          | 53,856<br>-----               |
|   | \$ 163,225<br>=====                      | \$ 158,878<br>=====           |

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share data)  
(Unaudited)

|  | Six Months Ended<br>June 30, |           |
|--|------------------------------|-----------|
|  | 1998                         | 1997      |
|  | -----                        |           |
| Revenues   |                              |           |
| Pari-mutuel revenues                                 |                              |           |
| Live races   | \$ 12,928                    | \$ 11,397 |
| Import simulcasting                                  | 34,114                       | 31,338    |
| Export simulcasting                                  | 2,828                        | 3,395     |
| Gaming revenue                                       | 16,160                       | -         |
| Admissions, programs and other racing revenue        | 4,427                        | 2,824     |
| Concession revenues                                  | 2,956                        | 3,450     |
|  | -----                        | -----     |
| Total revenues                                       | 73,413                       | 52,404    |
|  | -----                        | -----     |
| Operating expenses                                   |                              |           |
| Purses, stakes, and trophies                         | 13,946                       | 10,318    |
| Direct salaries, payroll taxes and employee benefits | 9,263                        | 7,420     |
| Simulcast expenses                                   | 6,896                        | 5,881     |
| Pari-mutuel taxes                                    | 4,589                        | 4,419     |
| Lottery taxes and administration                     | 6,302                        | -         |
| Other direct meet expenses                           | 11,564                       | 8,499     |
| Off-track wagering concession expenses               | 3,453                        | 2,640     |
| Other operating expenses                             | 5,021                        | 3,775     |
| Depreciation and amortization                        | 2,841                        | 1,660     |
|  | -----                        | -----     |
| Total operating expenses                             | 63,875                       | 44,612    |
|  | -----                        | -----     |
| Income from operations                               | 9,538                        | 7,792     |
|  | -----                        | -----     |
| Other income (expenses)                              |                              |           |
| Interest (expense)                                   | (4,243)                      | (1,675)   |
| Interest income                                      | 451                          | 158       |
| Other  | 30                           | (4)       |
|  | --                           | --        |
| Total other (expenses)                               | (3,762)                      | (1,521)   |
|  | -----                        | -----     |
| Income before income taxes and<br>extraordinary item | 5,776                        | 6,271     |
| Taxes on income                                      | 2,099                        | 2,573     |
|  | -----                        | -----     |

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except share data)  
(Unaudited)

|  | Six Months Ended<br>June 30, |          |
|--|------------------------------|----------|
|  | 1998                         | 1997     |
| Income before extraordinary item   | 3,677                        | 3,698    |
| Extraordinary Item   |                              |          |
| Loss of early extinguishment<br>of debt, net of income taxes<br>of \$264 | -                            | 383      |
|  | ----                         | ---      |
| Net income   | \$ 3,677                     | \$ 3,315 |
|  | =====                        | =====    |
| Per share data   |                              |          |
| Basic  |                              |          |
| Income per share before extraordinary item                               | \$0.24                       | \$0.24   |
| Extraordinary item   | -                            | 0.02     |
|  | ----                         | ---      |
| Net income per share   | \$0.24                       | \$0.22   |
|  | -----                        | -----    |
| Diluted  |                              |          |
| Income per share before extraordinary item                               | \$0.24                       | \$0.24   |
| Extraordinary item   | -                            | 0.02     |
|  | ----                         | ---      |
| Net income per share   | \$0.24                       | \$0.22   |
|  | -----                        | -----    |
| Weighted average shares outstanding                                      |                              |          |
| Basic  | 15,154                       | 15,126   |
|  | -----                        | -----    |
| Diluted  | 15,558                       | 15,319   |
|  | -----                        | -----    |

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except per share data)  
(Unaudited)

|  | Three Months Ended<br>June 30, |          |
|--|--------------------------------|----------|
|  | 1998                           | 1997     |
| Revenues   |                                |          |
| Pari-mutuel revenues                                 |                                |          |
| Live races   | \$ 7,623                       | \$ 7,028 |
| Import simulcasting                                  | 17,763                         | 16,541   |
| Export simulcasting                                  | 1,502                          | 2,272    |
| Gaming revenue                                       | 9,004                          | -        |
| Admissions, programs and other racing revenue        | 2,472                          | 1,566    |
| Concession revenues                                  | 1,694                          | 2,177    |
|  | -----                          | -----    |
| Total revenues                                       | 40,058                         | 29,584   |
|  | -----                          | -----    |
| Operating expenses                                   |                                |          |
| Purses, stakes, and trophies                         | 7,639                          | 6,116    |
| Direct salaries, payroll taxes and employee benefits | 4,904                          | 4,174    |
| Simulcast expenses                                   | 3,795                          | 3,045    |
| Pari-mutuel taxes                                    | 2,476                          | 2,462    |
| Lottery taxes and administration                     | 3,371                          | -        |
| Other direct meet expenses                           | 6,122                          | 5,121    |
| Off-track wagering concession expenses               | 1,948                          | 1,674    |
| Other operating expenses                             | 2,625                          | 1,933    |
| Depreciation and amortization                        | 1,422                          | 943      |
|  | -----                          | ---      |
| Total operating expenses                             | 34,302                         | 25,468   |
|  | -----                          | -----    |
| Income from operations                               | 5,756                          | 4,116    |
|  | -----                          | -----    |
| Other income (expenses)                              |                                |          |
| Interest (expense)                                   | (2,134)                        | (775)    |
| Interest income                                      | 250                            | 72       |
| Other  | 30                             | (4)      |
|  | --                             | --       |
| Total other (expenses)                               | (1,854)                        | (707)    |
|  | -----                          | -----    |
| Income before income taxes                           | 3,902                          | 3,409    |
| Taxes on income                                      | 1,435                          | 1,395    |
|  | -----                          | -----    |

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
(In thousands, except share data)  
(Unaudited)

|                                     | Three Months Ended<br>June 30, |                   |
|-------------------------------------|--------------------------------|-------------------|
|                                     | 1998                           | 1997              |
|                                     | -----                          |                   |
| Net income                          | \$ 2,467<br>=====              | \$ 2,014<br>===== |
| Per share data                      |                                |                   |
| Basic net income                    | \$0.16<br>-----                | \$0.13<br>-----   |
| Diluted net income                  | \$0.16<br>-----                | \$0.13<br>-----   |
| Weighted average shares outstanding |                                |                   |
| Basic                               | 15,156<br>-----                | 15,126<br>-----   |
| Diluted                             | 15,542<br>-----                | 15,717<br>-----   |

See accompanying notes to consolidated financial statements



PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
Six Months Ended June 30, 1998  
(In thousands, except share data)  
(Unaudited)

|  | Common Stock |         | Additional         | Retained  | Total     |
|--|--------------|---------|--------------------|-----------|-----------|
|  | Shares       | Amounts | Paid-In<br>Capital | Earnings  |           |
|  | -----        | -----   | -----              | -----     | -----     |
| Balance, January 1, 1998                             | 15,152,580   | \$ 152  | \$ 37,969          | \$ 15,735 | \$ 53,856 |
| Issuance of common stock                             | 3,250        | -       | 18                 | -         | 18        |
| Net income for the six months<br>ended June 30, 1998 | -            | -       | -                  | 3,677     | 3,677     |
|  | --           | --      | --                 | -----     | -----     |
| Balance, June 30, 1998                               | 15,155,830   | \$ 152  | \$ 37,987          | \$ 19,412 | \$ 57,551 |
|  | =====        | =====   | =====              | =====     | =====     |

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

|  | Six Months Ended<br>June 30, |          |
|--|------------------------------|----------|
|  | 1998                         | 1997     |
| Cash flows from operating activities   | \$ 3,677                     | \$ 3,315 |
| Net income   |                              |          |
| Adjustments to reconcile net income to net cash provided by operating activities |                              |          |
| Depreciation and amortization  | 2,841                        | 1,660    |
| Extraordinary item, loss on early extinguishment of debt, before tax benefit     | -                            | 647      |
| Deferred income taxes  | 222                          | 148      |
| Decrease (increase) in:  |                              |          |
| Accounts receivable  | (1,803)                      | 1,156    |
| Prepaid expenses and other current assets  | (668)                        | (2,286)  |
| Prepaid income taxes   | 2,123                        | 1,178    |
| Miscellaneous other assets   | (213)                        | (503)    |
| Increase (decrease) in:  |                              |          |
| Accounts payable   | (312)                        | 4,480    |
| Purses due horsemen  | 1,423                        | 458      |
| Uncashed pari-mutuel tickets   | (554)                        | (587)    |
| Accrued expenses   | (579)                        | (71)     |
| Accrued interest   | 8                            | (152)    |
| Accrued salaries and wages   | 138                          | 306      |
| Customers deposits   | 233                          | 261      |
| Taxes other than income taxes  | 157                          | (43)     |
|  | ---                          | ---      |
| Net cash provided by operating activities  | 6,693                        | 9,967    |
| Cash flows from investing activities   |                              |          |
| Expenditures for property, plant and equipment                                   | (4,932)                      | (15,450) |
| Acquisition of business  | -                            | (16,000) |
| Increase in prepaid acquisition costs  | -                            | (176)    |
|  | ---                          | ---      |
| Net cash (used in) investing activities  | (4,932)                      | (31,626) |

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(In thousands)  
(Unaudited)

|  | Six Months Ended<br>June 30, |          |
|--|------------------------------|----------|
|  | 1998                         | 1997     |
| Cash flows from financing activities                               |                              |          |
| Proceeds from sale of common stock                                 | 18                           | 23,082   |
| Tax benefit related to stock options exercised                     | -                            | 573      |
| Proceeds of long-term debt   | -                            | 16,500   |
| Principal payments on long-term debt and capital lease obligations | (34)                         | (19,136) |
| Increase in unamortized finance costs                              | (107)                        | (167)    |
|  | ----                         | ----     |
| Net cash provided by (used in) financing activities                | (123)                        | 20,852   |
|  | ----                         | -----    |
| Net increase (decrease) in cash and cash equivalents               | 1,638                        | (807)    |
| Cash and cash equivalents, at beginning of period                  | 21,854                       | 5,634    |
|  | -----                        | -----    |
| Cash and cash equivalents, at end of period                        | \$ 23,492                    | \$ 4,827 |
|  | =====                        | =====    |

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 (Unaudited)

1. Basis of Financial Statement Presentation

The accompanying consolidated financial statements are unaudited and include the accounts of Penn National Gaming, Inc., (Penn) and its wholly and majority owned subsidiaries, (collectively the "Company"). All significant intercompany transactions and balances have been eliminated. Certain prior year amounts have been reclassified to conform to current year presentation.

In the opinion of management, all adjustments (consisting of normal recurring accruals) have been made which are necessary to present fairly the financial position of the Company as of June 30, 1998 and the results of its operations for the six and three month periods ended June 30, 1998 and 1997. The results of operations experienced for the six month period ended June 30, 1998 are not necessarily indicative of the results to be experienced for the fiscal year ended December 31, 1998.

The statements and related notes herein have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been omitted pursuant to such rules and regulations. The accompanying notes should therefore be read in conjunction with the Company's December 31, 1997 annual financial statements.

2. Wagering Information (in thousands)

|  | Penn National | Three months ended June 30, 1998 |              | Total      |
|--|---------------|----------------------------------|--------------|------------|
|  |               | Pocono Downs                     | Charles Town |            |
| Pari-mutuel wagering in-state company live races               | \$ 21,605     | \$ 7,410                         | \$ 5,524     | \$ 34,539  |
| Pari-mutuel wagering on simulcasting:                          |               |                                  |              |            |
| Import simulcasting from other racetracks                      | 44,549        | 36,253                           | 11,877       | 92,679     |
| Export simulcasting to out of Pennsylvania wagering facilities | 42,964        | 7,188                            | -            | 50,152     |
|  | 87,513        | 43,441                           | 11,877       | 142,831    |
| Total pari-mutuel wagering                                     | \$ 109,118    | \$ 50,851                        | \$ 17,401    | \$ 177,370 |

|  | Three months ended June 30, 1997 |              |              | Total      |
|--|----------------------------------|--------------|--------------|------------|
|  | Penn National                    | Pocono Downs | Charles Town |            |
| Pari-mutuel wagering in-state company live races               | \$ 25,084                        | \$ 9,243     | \$ 4,640     | \$ 38,967  |
| Pari-mutuel wagering on simulcasting:                          |                                  |              |              |            |
| Import simulcasting from other racetracks                      | 42,603                           | 30,258       | 6,645        | 79,506     |
| Export simulcasting to out of Pennsylvania Wagering facilities | 38,930                           | 8,827        | -            | 47,757     |
|  | 81,533                           | 39,085       | 6,645        | 127,263    |
| Total pari-mutuel wagering                                     | \$ 106,617                       | \$ 48,328    | \$ 11,285    | \$ 166,230 |

|  | Six months ended June 30, 1998 |              |              | Total      |
|--|--------------------------------|--------------|--------------|------------|
|  | Penn National                  | Pocono Downs | Charles Town |            |
| Pari-mutuel wagering in-state company live races               | \$ 41,214                      | \$ 8,323     | \$ 9,643     | \$ 59,180  |
| Pari-mutuel wagering on simulcasting:                          |                                |              |              |            |
| Import simulcasting from other racetracks                      | 87,394                         | 67,318       | 22,029       | 176,741    |
| Export simulcasting to out of Pennsylvania Wagering facilities | 86,585                         | 7,763        | -            | 94,348     |
|  | 173,979                        | 75,081       | 22,029       | 271,089    |
| Total pari-mutuel wagering                                     | \$ 215,193                     | \$ 83,404    | \$ 31,672    | \$ 330,269 |

|  | Six months ended June 30, 1997 |              |              | Total      |
|--|--------------------------------|--------------|--------------|------------|
|  | Penn National                  | Pocono Downs | Charles Town |            |
| Pari-mutuel wagering in-state company live races               | \$ 47,574                      | \$ 9,243     | \$ 4,640     | \$ 61,457  |
| Pari-mutuel wagering on simulcasting:                          |                                |              |              |            |
| Import simulcasting from other racetracks                      | 85,843                         | 59,510       | 6,645        | 151,998    |
| Export simulcasting to out of Pennsylvania Wagering facilities | 76,361                         | 8,827        | -            | 85,188     |
|  | 162,204                        | 68,337       | 6,645        | 237,186    |
| Total pari-mutuel wagering                                     | \$ 209,778                     | \$ 77,580    | \$ 11,285    | \$ 298,643 |

### 3. Commitments

At June 30, 1998, the Company was contingently obligated under letters of credit with principal amounts aggregating \$2,041,000. The \$2,041,000 consists of \$1,786,000 for the horsemen's account balances, \$100,000 for Pennsylvania pari-mutuel taxes and \$155,000 for purses.

4. Supplemental Disclosures of Cash Flow Information

Cash paid during the six months ended June 30, 1998 and 1997 for interest was \$4,230,000 and \$2,051,000 respectively.

Cash paid during the six months ended June 30, 1998 and 1997 for income taxes was \$1,476,000 and \$629,000 respectively.

5. Potential Tennessee Development Project

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

In April 1998, the Tennessee Commission granted a contingent license to the Company which would expire on the earlier of (i) December 31, 2000 or (ii) the Tennessee Commission's term on June 30, 1998, if such term is not extended by the Tennessee legislature. On May 1, 1998, the Tennessee State Legislature voted against extending the life of the Tennessee Commission, allowing the Tennessee Commission's term to expire on June 30, 1998. The Tennessee Commission held a meeting on May 29, 1998, at which it rejected the Company's request: (i) to grant the Company an unconditional racing license; (ii) for racing days for the periods ending December 31, 2000; and (iii) to operate a temporary simulcast facility. On July 28, 1998, the Company filed for a preliminary injunction and a declaratory ruling on the legal status of racing in Memphis with the Chancery Court in Shelby County. As of August 12, 1998, the Company has invested approximately \$500,000 in the Tennessee Development Project. The Company intends to continue its efforts to obtain an unconditional racing license that would expire December 31, 2000. There can be no assurance that the Company's efforts to obtain an unconditional racing license will be successful.

6. Subsidiary Guarantors

Summarized financial information as of June 30, 1998 and for three and six months ended June 30, 1998 for Penn National Gaming, Inc. ("Parent"), the Subsidiary Guarantors and Subsidiary Nonguarantors is as follows:

|                       | June 30, 1998     |                          |                             |              |              |
|-----------------------|-------------------|--------------------------|-----------------------------|--------------|--------------|
|                       | Parent<br>Company | Subsidiary<br>Guarantors | Subsidiary<br>Nonguarantors | Eliminations | Consolidated |
| Current assets        | \$ 17,076         | \$ 8,753                 | \$ 5,598                    | \$ (467)     | \$ 30,960    |
| Net property          | 416               | 61,878                   | 43,489                      | -            | 105,783      |
| Other assets          | 102,353           | (306,342)                | 1,463                       | 229,008      | 26,482       |
| Total                 | 119,845           | (235,711)                | 50,550                      | 228,541      | 163,225      |
| Current liabilities   | 85                | 2,174                    | 3,855                       | 8,183        | 14,297       |
| Long-term liabilities | 80,024            | (156,002)                | 52,037                      | 115,318      | 91,377       |
| Shareholders' equity  | 39,736            | (81,883)                 | (5,342)                     | 105,040      | 57,551       |
| Total                 | \$ 119,845        | \$ (235,711)             | \$ 50,550                   | \$ 228,541   | \$ 163,225   |

|                            | Three months ended June 30, 1998 |           |           |        |           |
|----------------------------|----------------------------------|-----------|-----------|--------|-----------|
| Total revenues             | \$ 2,862                         | \$ 22,803 | \$ 13,697 | \$ 696 | \$ 40,058 |
| Total operating expenses   | 1,097                            | 20,420    | 12,089    | 696    | 34,302    |
| Income from operations     | 1,765                            | 2,383     | 1,608     | -      | 5,756     |
| Other income (expenses)    | (1,390)                          | 700       | (1,164)   | -      | (1,854)   |
| Income before income taxes | 375                              | 3,083     | 444       | -      | 3,902     |
| Taxes on income            | 94                               | 1,341     | -         | -      | 1,435     |
| Net income                 | \$ 281                           | \$ 1,742  | \$ 444    | \$ -   | \$ 2,467  |

|                            | Six months ended June 30, 1998 |           |           |          |           |
|----------------------------|--------------------------------|-----------|-----------|----------|-----------|
| Total revenues             | \$ 5,176                       | \$ 42,425 | \$ 24,667 | \$ 1,145 | \$ 73,413 |
| Total operating expenses   | 1,931                          | 37,996    | 22,803    | 1,145    | 63,875    |
| Income from operations     | 3,245                          | 4,429     | 1,864     | -        | 9,538     |
| Other income (expenses)    | (2,777)                        | 1,345     | (2,330)   | -        | (3,762)   |
| Income before income taxes | 468                            | 5,774     | (466)     | -        | 5,776     |
| Taxes on income            | 26                             | 2,073     | -         | -        | 2,099     |
| Net income                 | \$ 442                         | \$ 3,701  | \$ (466)  | \$ -     | \$ 3,677  |

Summarized financial information as of June 30, 1997 and for the three and six months ended June 30, 1997, have not been presented. Separate financial statements of the Subsidiary Guarantors and Subsidiary Nonguarantors are not presented because management does not believe such statements are material to investors.

7. Year 2000 Compliance

The Company is working directly and with its vendors to resolve the potential impact of the year 2000 on the ability of the Company's computerized information systems to accurately process information that may be date-sensitive. Any of the Company's programs that recognize a date using "00" as the year 1900 rather than the year 2000 could result in errors or system failures. The Company utilizes a number of computer programs across its entire operation. The Company has completed its assessment of the areas that must be addressed and currently believes that costs of addressing this issue will not have a material adverse impact on the Company's financial position. However, if the Company and vendors upon which it relies are unable to address any material issue in a timely manner, it would have a material financial impact on the Company. In order to assure that this does not occur, the Company plans to devote such resources as it deems necessary to resolve any significant year 2000 issues in a timely manner.

8. Subsequent Events

On July 7, 1998, the Company entered into an agreement with Ladbroke Racing Management - Pennsylvania (Ladbroke) to purchase their Johnstown, Pennsylvania OTW facility. The agreement provides for a purchase price of \$1,225,000 for the assignment of the facility lease and the sale of assets and is subject to numerous contingencies, including approval by the Pennsylvania State Racing Commission. Under the terms of the agreements, the Company will sub-lease the facility from Ladbroke and operate the facility from September 1, 1998, the effective date of the agreement, through January 4, 1999, the closing date of the agreement for \$12,500 per month, at which time the Company will assume full rights and ownership in the facility. The Johnstown facility will replace the Company's proposed Altoona, Pennsylvania OTW facility upon receipt of regulatory approval.



Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operation

Result of Operations

Three months ended June 30, 1998 compared to three months ended June 30, 1997

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Total revenue increased by approximately \$10.5 million or 35.4% from \$29.6 million for the three months ended June 30, 1997 to \$40.1 million for the three months ended June 30, 1998. Charles Town Races, which was purchased in January of 1997 and began racing operations on April 30, 1997 and video lottery machines operations on September 10, 1997, accounted for \$10.8 million (approximately \$1.8 million of pari-mutuel revenues and \$9.0 million of gaming revenues) of the increase. Revenues at Penn National Race Course and its OTW facilities decreased by approximately \$400,000 due to decreased wagering on Pennsylvania racing. Revenues at Pocono Downs and its OTW facilities increased by approximately \$100,000. The net increase was due to a full quarter of operations for the new facilities at Hazleton and Carbondale offset by a decrease in revenue at Allentown due to highway construction, a decrease in revenue at the Wilkes-Barre racetrack due to the opening of the two new OTW facilities and a decrease in revenue at the Erie OTW.

Total operating expenses increased by \$8.8 million or 34.7% from \$25.5 million for the three months ended June 30, 1997 to \$34.3 million for the three months ended June 30, 1998. Charles Town Races accounted for \$8.6 million of the increase due primarily to the video lottery operation and the opening of the racing simulcast center. Penn National Race Course and its OTW facilities had a decrease in operating expenses of approximately \$600,000 due to the decrease in revenues. Pocono Downs and its OTW facilities had an increase of approximately \$100,000 due to a full period of operations at Hazleton and Carbondale offset by decreases at its other facilities. Corporate expenses increased by \$158,000 due to the hiring of additional staff for OTW facility management, human resource management and the leasing of additional office space. Depreciation and amortization increased by \$479,000 or 50.1% from \$943,000 for the three months ended June 30, 1997 to \$1,422,000 for the three months ended June 30, 1998. The increase was due primarily to depreciation associated with new facilities for Charles Town Gaming (September 1997), Charles Town Simulcast Facility (January 1998), Hazleton OTW (March 1998) and Carbondale OTW (March 1998).

Income from operations increased by approximately \$1.6 million or 39.8% from \$4.1 million for the three months ended June 30, 1997 to \$5.8 million for the three months ended June 30, 1998 due to the factors described above.

Other expenses for the three months ended June 30, 1998 consisted of \$1.9 million in net interest expense (primarily due to the 10 5/8% Senior Notes issued December 1997) compared to \$.7 million in net interest expense for the three months ended June 30, 1997.

Income tax expense increased approximately \$40,000 or 2.9% from \$1,395,000 for the three months ended June 30, 1997 to \$1,435,000 for the three months ended June 30, 1998 due to the increase in net income for the period.

Net income increased approximately \$453,000 or 22.5% from \$2.0 million for the three months ended June 30, 1997 to \$2.5 million for the three months ended June 30, 1998 due to the factors described above.

Six months ended June 30, 1998 compared to six months ended June 30, 1997

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Total revenue increased by approximately \$21.0 million or 40.1% from \$52.4 million for the six months ended June 30, 1997 to \$73.4 million for the six months ended June 30, 1998. Charles Town Races, which was purchased in January, 1997 and began racing operations on April 30, 1997 and video lottery machines operations on September 10, 1997, accounted for \$21.7 million (approximately \$5.5 million of pari-mutuel revenues and \$16.2 million of gaming revenues) of the increase. Revenues at Penn National Race Course and its OTW facilities decreased by approximately \$1.1 million due to a decrease in revenues at its Chambersburg OTW facility resulting from the opening of the Charles Town Facility, competition in the Reading area from Philadelphia Park facility and decreased wagering on Pennsylvania racing. Revenue increased at the Williamsport OTW due to a full period of operations in 1998 compared to five months in 1997. Revenues at Pocono Downs and its OTW facilities increased by approximately \$300,000. This was due to the opening of new facilities in Hazleton and Carbondale offset by a decrease in revenue at Allentown caused by construction, a decrease in revenue at the Wilkes-Barre racetrack due to an opening of the two new OTW facilities and a decrease in revenue at the Erie OTW facility.

Total operating expenses increased by \$19.3 million or 43.2% from \$44.6 million for the six months ended June 30, 1997 to \$63.9 million for the six months ended June 30, 1998. Charles Town Races accounted for \$18.7 million of the increase due primarily to the video lottery operation and the opening of the racing simulcast center. Penn National Race Course and its OTW facilities had a decrease in operating expenses of approximately \$1.1 million due to the decrease in revenues. Pocono Downs and its OTW facilities had an increase of approximately \$200,000 due to three months of operations at Hazleton and Carbondale offset by decreases at its other facilities. Corporate expenses increased by \$282,000 due to the hiring of additional office staff for OTW facility management, human resource management and the leasing of additional office space. Depreciation and amortization increased by \$1.1 million or 71.1% from \$1.7 million for the six months ended June 30, 1997 to \$2.8 million for the six months ended June 30, 1998. The increase was due primarily to depreciation associated with new facilities for Charles Town Gaming (September 1997), Charles Town Simulcast Facility (January 1998), Hazleton OTW (March 1998) and Carbondale OTW (March 1998).

Income from operations increased by approximately \$1.7 million or 22.4% from \$7.8 million for the six months ended June 30, 1997 to \$9.5 million for the six months ended June 30, 1998 due to the factors described above.

Other expenses for the six months ended June 30, 1998 consisted of \$3.8 million in net interest expense (primarily due to the 10 5/8% Senior Notes issued December 1997) compared to \$1.5 million in net interest expense for the six months ended June 30, 1997.

Income tax expense decreased approximately \$474,000 or 18.4% from \$2,573,000 for the six months ended June 30, 1997 to \$2,099,000 for the six months ended June 30, 1998 due to the decrease in income for the period.

The extraordinary item in 1997 consisted of a loss on the early extinguishment of debt in the amount of \$383,000 net of income taxes. The Company used approximately \$19 million of the \$23 million in proceeds from the February 1997 equity offering to reduce long-term debt, resulting in a write-off of \$647,000 for fees associated with the early extinguishment of debt.

Net income increased approximately \$362,000 or 10.9% from \$3.3 million for the six months ended June 30, 1997 to \$3.7 million for the six months ended June 30, 1998 due to the factors described above.

#### Liquidity and Capital Resources

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

Net cash provided from operating activities for the six months ended June 30, 1998 (\$6.7 million) consisted of net income and non-cash expenses (\$6.7 million), an increase in purses due horsemen (\$1.4 million), income taxes payable (\$2.1 million), a decrease in accounts receivable (\$1.8 million) and a decrease in other changes in working capital (\$1.7 million).

Cash flows used in investing activities (\$4.9 million) consisted of renovation and refurbishment of the Charles Town facility and race track surface (\$1.1 million) and \$3.8 million in capital expenditures, including approximately \$3.2 million for the completion of the Hazleton and Carbondale OTW facilities.

Cash flows from financing activities (\$123,000) consisted principally of additional financing fees associated with the sale of Senior Notes in December 1997.

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. Such expenses may not be reimbursed by the four municipalities that are parties to the settlement agreement. The Company is unable to estimate the amount, if any, that it may be required to expend.

During the balance of 1998, the Company anticipates capital expenditures of approximately \$3.5 million to purchase the Johnstown OTW facility and the construction of one additional OTW facility. For the existing racetracks and OTW facilities at Penn National Race Course and Pocono Downs, the Company plans to spend an additional \$500,000 and \$350,000, respectively, on building improvements and equipment. The Company anticipates expending approximately \$5 million on the refurbishment of the Charles Town Entertainment Complex (excluding the cost of Gaming Machines). If approval of the Tennessee license beyond June 30, 1998 is ultimately received, the Company anticipates expending \$9.0 million to complete the first phase of the project.

The Company entered into a credit facility in December 1997 (the "Credit Facility") with Bankers Trust Company, as agent. The Credit Facility provides for, subject to certain terms and conditions, a \$12.0 million revolving credit facility and has a five-year term from its closing. The Credit Facility, under certain circumstances, requires the Company to make mandatory prepayments and commitment reductions and to comply with certain covenants, including financial ratios and maintenance tests. In addition, the Company may make optional prepayments and commitment reductions pursuant to the terms of the Credit Facility. Borrowings under the Credit Facility will accrue interest, at the option of the Company, at either a base rate plus an applicable margin of up to 2.0% or a eurodollar rate plus an applicable margin of up to 3.0%. The Credit Facility contains certain covenants that, among other things, restrict the ability of the Company and its subsidiaries to dispose of assets, incur additional indebtedness, incur guarantee obligations, repay indebtedness or amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restrict corporate activities. The Credit Facility is secured by the assets of the Company and certain of its subsidiaries and guaranteed by all subsidiaries, except the Charles Town Joint Venture. In addition, the Credit Facility requires the Company to comply with certain financial ratios and maintenance tests. As of December 31, 1997, the Company would not have been in compliance with certain covenants under the Credit Facility had the bank group not granted a waiver, through March 30, 1998, of certain defaults regarding minimum consolidated net worth, consolidated cash interest coverage ratio and minimum leverage ratio. At the end of the first quarter, the Company was in technical default of certain required ratios, which defaults were waived and ratios were adjusted. On June 30, 1998, the Company was in compliance with all applicable ratios. As of August 11, 1998, the Company had not drawn any portion of the Credit Facility (although a \$2.0 million letter of credit was issued against such Credit Facility) and had adequate capital resources even without consideration of the Credit Facility.

A portion of the net proceeds of the offering of the 10 5/8% Senior Notes was used to repay amounts outstanding immediately prior to the offering under a pre-existing credit facility. The Company currently estimates that excess proceeds from the offering, cash generated from operations and available borrowings under the Credit Facility will be sufficient to finance its current operations, planned capital expenditure requirements and the costs associated with the Tennessee development project. There can be no assurance, however, that the Company will not be required to seek additional capital through public or private financing, including equity financing, in addition to that available from the foregoing sources. There can be no assurance that adequate funding will be available as needed or, if available, on terms acceptable to the Company.

Item 3. Changes in Information About Market Risk

All of the Company's debt obligations at June 30, 1998, were fixed rate obligations and Management, therefore, does not believe that the Company has any material market risk from its debt obligations.

Part II. Other Information

Item 1. Legal Proceedings

In December 1997, Amtote International, Inc. ("Amtote"), filed an action against the Company and the Charles Town Joint Venture in the United States District Court for the Northern District of West Virginia. In its complaint, Amtote (i) states that the Company and the Charles Town Joint Venture allegedly breached certain contracts with Amtote and its affiliates when it entered into a wagering services contract with a third party (the "Third Party Wagering Services Contract"), and not with Amtote, effective January 1, 1998, (ii) sought preliminary and injunctive relief through a temporary restraining order seeking to prevent the Charles Town Joint Venture from (a) entering into a wagering services contract with a party other than Amtote and (b) having a third party provide such wagering services, (iii) seeks declaratory relief that certain contracts allegedly bind the Charles Town Joint Venture to retain Amtote for wagering services through September 2004 and (iv) seeks unspecified compensatory damages, legal fees and costs associated with the action and other legal and equitable relief as the Court deems just and appropriate. On December 24, 1997, a temporary restraining order was issued, which prescribes performance under the Third Party Wagering Contract. On January 14, 1998, a hearing was held to rule on whether a preliminary injunction should be issued or whether the temporary restraining order should be lifted. On February 20, 1998, the temporary restraining order was lifted by the court and the Company terminated Amtote Agreement and proceeded under the Third Party Wagering Services Contract. Amtote is continuing its litigation against the Company for monetary damages. The Company believes that this action, and any resolution thereof, will not have any material adverse impact upon its financial condition, results, or the operations of either the Charles Town Joint Venture or the Company.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.77 Purchase Agreement dated July 7, 1998, between  
Ladbroke Racing Management and Mountainview  
Thoroughbred Racing Association.

(b) Reports on Form 8-K

None

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Penn National Gaming, Inc.

August 14, 1998

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Date

By: /s/ Robert S. Ippolito

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Robert S. Ippolito,  
Chief Financial Officer,  
Secretary/Treasurer

EXHIBIT INDEX

| Exhibit Nos. | Description of Exhibits   | Page No. |
|--------------|---|----------|
|              | Purchase Agreement dated July 7, 1998, between<br>Ladbroke Racing Management and Mountainview<br>Thoroughbred Racing Association. | 26-39    |



## AGREEMENT

AGREEMENT (this "Agreement") made and entered to this 7th day of July, 1998, by and between LADBROKE RACING MANAGEMENT - PENNSYLVANIA, a Pennsylvania general partnership located in Washington County, Pennsylvania, (referred to herein as "LADBROKE") and MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION, a Pennsylvania corporation located in Grantville, Pennsylvania (referred to herein as "MOUNTAINVIEW"). LADBROKE and MOUNTAINVIEW are individually referred to herein as a "Party" and collectively as the "Parties".

## BACKGROUND

LADBROKE operates, pursuant to Section 218 of the Pennsylvania Racehorse Industry Reform Act of 1981, as amended (the "Act"), a non-primary facility located in Richland Township, Cambria County, Pennsylvania (the "Johnstown Facility") under a lease agreement dated October 14, 1991 between LADBROKE and University Park Associates (the "Landlord") pertaining to that certain premises located in Johnstown, Pennsylvania described in the lease agreement attached hereto as Exhibit "A" (the "Lease").

LADBROKE desires to transfer to MOUNTAINVIEW all of its right, title and interest in and to the lease agreement as well as all improvements, furniture, fixtures and equipment located thereon.

Effective September 1, 1998, or such later date as required by any regulatory authority (the "Effective Date"), LADBROKE will cease operating the Johnstown Facility and relinquish any rights it has to conduct pari-mutuel wagering at the facility pursuant to the Act. LADBROKE desires that MOUNTAINVIEW sublease from LADBROKE and operate the Johnstown Facility from the Effective Date until the Closing Date (hereinafter defined), pending the final closing of the transactions contemplated hereby.

MOUNTAINVIEW is authorized to conduct pari-mutuel wagering in Pennsylvania pursuant to the Act and to operate non-primary locations. MOUNTAINVIEW desires to operate the Johnstown Facility pursuant to the terms and provisions hereof and the Act.

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

## 1. The Assignment

1.1 LADBROKE agrees to assign and transfer to MOUNTAINVIEW as of and on the Closing Date all LADBROKE's right, benefit and interest in and under the Lease, including LADBROKE's leasehold estate, furniture, fixtures, equipment, inventories and leasehold improvements which are located on the premises described in the Lease and described on Schedule 1.1 attached hereto (collectively the "Assets") and all benefit and advantage to be derived therefrom, to have and to hold the same for its remaining term and all renewals thereof. MOUNTAINVIEW shall pay LADBROKE for all inventories, including food, beverages and paper supplies and excluding any other items such as small ware (which shall have been transferred to MOUNTAINVIEW on the Effective Date) within five business days after the Effective Date based on an inventory thereof taken by the Parties at the close of business on the day before the Effective Date and priced at the lower of cost or market.

1.2 MOUNTAINVIEW agrees to assume all of LADBROKE's obligations and liabilities under the Lease due or accruing on and after the Closing Date, including, without limitation, the prompt payment, performance, discharge and satisfaction, in accordance with its terms, of all covenants, obligations and liabilities of the tenant due or accruing on and after the Closing Date and, as of the Effective Date, those obligations set forth on Schedule 1.2 hereto accruing on and after the Effective Date.

25

1.3.1 As consideration for the assignment of the Lease and the sale of the Assets to MOUNTAINVIEW, MOUNTAINVIEW agrees to pay to LADBROKE, in immediately available funds, on the Closing Date (hereinafter defined) the sum of One Million Two Hundred Twenty Five Thousand (\$1,225,000) Dollars of which \$925,000 shall be paid from the Escrow Fund (described in the Escrow Agreement attached hereto as Exhibit "B" (the "Escrow Agreement")) and \$300,000 shall be paid on the Closing Date by check. LADBROKE and MOUNTAINVIEW agree to execute and deliver the Escrow Agreement by not later than the Effective Date and MOUNTAINVIEW shall deliver to the Escrow Agent (as defined in the Escrow Agreement) on the Effective Date the amount of \$925,000 to secure payment of such sum.

1.3.2 All real estate taxes, charges and assessments relating to the Johnstown Facility and payable by LADBROKE pursuant to the Lease shall be pro rated on a per diem basis as of midnight of the day before the Effective Date disregarding any discount or penalty and on the basis of the fiscal year of the authority levying the same. If any of the same have

not been finally assessed, as of such date, for the current fiscal year of the taxing authority, then the same shall be adjusted not later than thirty days after the Effective Date based upon the most recently issued bills therefor, and shall be readjusted immediately when and if final bills are issued; but if on the day before the Effective Date the Johnstown Facility shall be affected by any special assessment, then all installments of such assessment which are to become due and payable after the day before the Effective Date shall be paid and delivered by MOUNTAINVIEW. On the Effective Date, LADBROKE shall assign to MOUNTAINVIEW the deposit being held by the Landlord under the Lease and MOUNTAINVIEW shall pay the amount of such deposit to LADBROKE.

- 1.3.3 Charges for water, electricity, sewer rental, gas, and all other utilities relating to the Johnstown Facility and payable by LADBROKE pursuant to the Lease shall be pro rated on a per diem basis as of midnight of the day before the Effective Date, disregarding any discount or penalty on the basis of the fiscal year or billing period of the authority, utility or other person levying or charging for the same. If the consumption of any of the foregoing is measured by meters, then in lieu of apportionment as aforesaid, LADBROKE shall, not earlier than the day before the Effective Date obtain a reading of each such meter and LADBROKE (or the owner of the Johnstown Facility) shall pay all charges thereunder through the date of the meter readings. If there is no such meter or if the bills for any of the foregoing have not been issued prior to Effective Date, the charges therefor shall be adjusted not later than thirty days after the Effective Date on the basis of charges for the prior period for which bills were issued and shall be further adjusted when the bills for the current period are issued.

1.4 On the Effective Date and at the Closing, LADBROKE and MOUNTAINVIEW shall execute and deliver such instruments and documents as their respective counsel determine are reasonably necessary and appropriate in order to effect the transactions described in this Section 1.

1.5 LADBROKE represents and warrants to MOUNTAINVIEW as follows, which representations and warranties shall be true and correct on and as of the date hereof and, if applicable, on and as of the Effective Date and the Closing Date:

- 1.5.1 Washington Trotting Association, Inc. is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania. LADBROKE is a validly existing general partnership formed under the laws of the Commonwealth of Pennsylvania and of which Washington Trotting Association, Inc. and Mountain Laurel Racing, Inc. are the only partners.
- 1.5.2 LADBROKE has the full partnership power and authority to own, lease and operate its assets, property and business, and to carry on the business as and where such business is now conducted.
- 1.5.3 LADBROKE has the full legal right and power and all authority to enter into, execute, deliver and perform this Agreement, and all other instruments and documents executed and delivered pursuant hereto or thereto. The execution, delivery and performance of this Agreement (and all other documents required to effect the transactions contemplated hereby) and the consummation of the transactions contemplated herein have been duly authorized by all necessary action by LADBROKE. This Agreement and each document contemplated by this Agreement is and will be the valid and legally binding obligation of LADBROKE, enforceable against LADBROKE in accordance with its terms.
- 1.5.4 LADBROKE's operation of the Johnstown Facility complies in all material respects with all applicable laws (including, but not limited to, the Act and the rules and regulations thereunder), except where the failure to so comply would not have a material adverse effect on the operation of the Johnstown Facility.
- 1.5.5 Except as set forth in Schedule 1.5.5, LADBROKE has obtained, and maintains in full force and effect, all permits and licenses which are necessary for the conduct of the Johnstown Facility, including simulcasting operations, with pari-mutuel wagering with no restrictions not applying to all Pennsylvania licensees. Except as set forth in Schedule 1.5.5, LADBROKE knows of no basis to believe that LADBROKE is in material default, nor has received any notice of any claim of default, with respect to any such permit or license or any notice of any other claim relating to any such permit or license.
- 1.5.6 Except as set forth in Schedule 1.5.6, no consent is required in connection with the execution, delivery and performance by LADBROKE of this Agreement or the consummation of the transactions contemplated hereby.
- 1.5.7 LADBROKE is not a party to any contract pertaining to the Johnstown Facility (including the Lease) except as set forth on Schedule 1.5.7 hereto, a true and correct copy of each of which has been delivered to MOUNTAINVIEW. Each of such contracts which is to be assumed by MOUNTAINVIEW hereunder is in full force and effect, LADBROKE is not in breach of any material provision thereof nor has it received any notice from a party thereto that a breach will occur upon the happening of an event or the passage of time, and LADBROKE does not know of any material breach of any thereof by any other party thereto.

- 1.5.8 LADBROKE, alone, has a leasehold interest to the Johnstown Facility, pursuant to the Lease, free and clear of all mortgages, liens, claims, judgments, encumbrances, subleases, subtenancies, licenses, security interests, covenants, conditions, restrictions, right of way, easements, encroachments and any other matters affecting title, except only the items set forth in Schedule 1.5.8 attached hereto (together, the "Permitted Exceptions"). No default or breach exists under the Lease or, to LADBROKE's knowledge, under any of the covenants, conditions, restrictions, rights-of-way or easements, if any, affecting all or any portion of the Johnstown Facility. To LADBROKE's knowledge, there is no pending condemnation, expropriation, eminent domain, or similar proceeding affecting all or any portion of the Johnstown Facility. LADBROKE has not received any written notice of any of the same and has no knowledge that any such proceeding is contemplated.
- 1.5.9 The zoning classification for the Johnstown Facility is commercial and permits the use of the Johnstown Facility as a non-primary location with pari-mutuel wagering and food and beverage service, entertainment and appurtenant parking, and to LADBROKE's knowledge, the Johnstown Facility complies in all material respects with all relevant zoning laws and ordinances affecting the Johnstown Facility. No variance, special use permits or special exceptions were issued for the construction or present use of the Johnstown Facility by LADBROKE. To LADBROKE's knowledge, there are no existing material violations of, and LADBROKE has not received any written notice, request, violation, order, claim, citation, penalty assessment, investigation or proceeding under, any laws with respect to the Johnstown Facility.
- 1.5.10 Intentionally omitted
- 1.5.11 To LADBROKE's knowledge, no portion of the Johnstown Facility is subject to or is affected by any special assessment whether or not secured by a lien on the Johnstown Facility and, to LADBROKE's knowledge, no such assessment has been proposed.
- 1.5.12 With respect to the Johnstown Facility, since LADBROKE has been a tenant thereof, LADBROKE has not done or caused to be done nor does LADBROKE know of any of the following: (i) released, spilled, leaked, discharged, disposed of, pumped, poured, emitted, emptied, injected, leached, dumped or otherwise allowed to escape ("Released") any hazardous, toxic or polluting substances or wastes, including petroleum products and radioactive materials ("Hazardous Substances") at, upon, under or within the Johnstown Facility; (ii) installed any underground storage tanks, radon, asbestos materials, PCBs or urea formaldehyde insulation at the Johnstown Facility; (iii) used the Johnstown Facility for treatment, storage, recycling, or disposal of Hazardous Substances; and (iv) permitted any Hazardous Substances to be present at the Johnstown Facility excepting commercially reasonable quantities thereof in proper storage containers, as are necessary for the construction or operation of the Johnstown Facility ("Permitted Substances") in compliance with all laws.

1.5.13 The Johnstown Facility and the operations thereon are not the subject of any pending or to LADBROKE's knowledge threatened investigation, inquiry or proceeding by any governmental authority relating to environmental matters and except as set forth on Schedule 1.5.13 (true and correct copies of which have been provided to MOUNTAINVIEW), there have been no environmental inspections, reviews, studies, audits, tests or other analyses conducted by or on behalf of LADBROKE, or LADBROKE's knowledge by or on behalf of anyone else, of the Johnstown Facility or in connection with compliance with laws, rules, and regulations at the Johnstown Facility.

## 2. Lease and Operation of the Johnstown Facility

2.1 On the date hereof, effective as of the Effective Date, LADBROKE and MOUNTAINVIEW shall execute and deliver the Sublease Agreement in the form of Exhibit "C" attached hereto and the Equipment Lease Agreement in the form of Exhibit "D" attached hereto.

2.2 LADBROKE agrees to cease conducting operations at the Johnstown Facility on the Effective Date and MOUNTAINVIEW shall operate the Johnstown Facility under its own name and racing license from the Effective Date to the Closing Date pursuant to the Equipment Lease Agreement and Sublease Agreement. From and after the Effective Date, LADBROKE shall not direct market (by any form of communication) those customers of the Johnstown Facility listed on the customer list referenced in subsection 5.2.4 below. MOUNTAINVIEW will not use the Names "Ladbroke", "Triumphs" or "The Ultimate Sports Bar" in connection with the operation or marketing of the Johnstown Facility and will change, at MOUNTAINVIEW's cost, all signs or materials at the Johnstown Facility containing such names as follows:

2.2.1 On the Effective Date, change all exterior signs bearing the names "Ladbroke", "Triumphs", or "The Ultimate Sports Bar" and change all interior signs bearing "Ladbroke" or "Triumphs"; and

2.2.2 On or before the Closing Date, change all other interior signs.

2.3 MOUNTAINVIEW shall favorably consider hiring all employees of the Johnstown Facility presently employed there by LADBROKE as of the Effective Date (except the General Manager) and shall use its best efforts to hire such number of such employees so that the number not hired (laid off) does not exceed fifty.

2.4 From the Effective Date to the Closing Date, MOUNTAINVIEW shall perform the following obligations and duties at its costs and expense:

2.4.1 Supervision and maintenance of the operations of the Johnstown Facility, conduct of pari-mutuel wagering, food and beverage service, marketing, administrative and management information systems and procedures of the Johnstown Facility;

2.4.2 Providing all necessary employees and independent contractors, each of whom shall, if necessary, be licensed under the Act;

2.4.3 Compliance with all laws and regulations affecting the operations of the Johnstown Facility including preparation and filing of required regulatory reports;

- 2.4.4 Placement and maintenance of insurance on such risks incident to the operations of the Johnstown Facility as appropriate; and
- 2.4.5 Providing all necessary agreements from its horsemen required to conduct pari-mutuel wagering, intrastate simulcasting and interstate simulcasting at the Johnstown Facility.

2.5 MOUNTAINVIEW agrees that, except as otherwise consented to in writing by LADBROKE, which consent shall not be unreasonably withheld, MOUNTAINVIEW shall:

- 2.5.1 Operate the business of the Johnstown Facility in all material respects only in the ordinary and usual course;
- 2.5.2 Use its best efforts to maintain the fixtures and improvements on the Johnstown Facility owned or leased by LADBROKE; and
- 2.5.3 Use its best efforts to preserve intact the goodwill of the Johnstown Facility and maintain satisfactory relationships with patrons and others having business relationships with the Johnstown Facility.

2.6 The parties shall file all applications or other documents, and shall cooperate in taking all actions, necessary to transfer effective as of the Effective Date, the Liquor License presently issued to LADBROKE for use at the Johnstown Facility to MOUNTAINVIEW or, if agreeable to the Parties, to issue to MOUNTAINVIEW a new Liquor License, effective as of the Effective Date, for use at the Johnstown Facility.

2.7 So long as MOUNTAINVIEW operates the Johnstown Facility, MOUNTAINVIEW shall be responsible for paying for all of the expenses (including payments due under the Lease) incurred by it with respect to the operation of the Johnstown Facility and MOUNTAINVIEW shall receive all proceeds from the conduct of pari-mutuel wagering, admission charges, parking charges, food and beverage services charges and other revenues developed at or with respect to the Johnstown Facility from the Effective Date until the Closing Date or termination of this Agreement.

To the extent any of the provisions of this Section 2 are inconsistent with the provisions of the Sublease Agreement or the Equipment Lease Agreement, the provisions of the latter two agreements shall prevail and control.

3. MOUNTAINVIEW represents, warrants and covenants to LADBROKE as of the date hereof and the Closing Date as follows:

3.1 Mountainview Thoroughbred Racing Association is a corporation duly organized, validly existing and in good standing under the laws of the Commonwealth of Pennsylvania and MOUNTAINVIEW has the full corporate power and authority to own its assets, conduct its business as and where such business is presently conducted, and to enter into this Agreement and the transactions contemplated thereby.

3.2 MOUNTAINVIEW's execution, delivery and performance of this Agreement, and the consummation by MOUNTAINVIEW of the transactions contemplated hereby, (a) have been duly authorized by all necessary corporate action of MOUNTAINVIEW, (b) do not constitute a violation of or default under MOUNTAINVIEW's Articles of Incorporation or bylaws or any material contract or agreement to which MOUNTAINVIEW is a party or by which MOUNTAINVIEW is bound, (c) do not constitute a violation of any law, rule or regulation, or judgment or order, applicable to MOUNTAINVIEW, and (d) do not require the consent of, notice to or filing with any person except as set forth on Schedule 3.2 hereof. This Agreement constitutes the valid and legally binding agreement of MOUNTAINVIEW, enforceable against MOUNTAINVIEW in accordance with its terms.

4. Closing. The final consummation of the transactions contemplated by Section 1 of this Agreement (the "Closing") shall take place on the "Closing Date". The term "Closing Date" shall mean January 4, 1999 or such other date as the Parties may agree in writing. The Closing shall take place at the offices of Eckert Seamans Cherin & Mellott, LLC, 600 Grant Street, 42nd Floor, Pittsburgh, Pennsylvania, commencing at 10:00 a.m., on the Closing Date, or at such other time or place as the parties may agree in writing.

5. MOUNTAINVIEW's Conditions to Closing. Each and every obligation of MOUNTAINVIEW to complete the Closing is subject to the satisfaction of the following conditions (any one or more of which may be waived in writing by MOUNTAINVIEW):

5.1 MOUNTAINVIEW shall have received, at its expense, a marked-up title insurance commitment issued by a title insurer selected by MOUNTAINVIEW and licensed to do business in the Commonwealth of Pennsylvania, on ALTA Owner's Policy Form B, as amended from time to time (containing a non-imputation endorsement), requiring the title insurer to insure LADBROKE's leasehold interest to the Johnstown Facility and the assignment thereof to MOUNTAINVIEW free of any exception which could materially interfere with MOUNTAINVIEW's ability to operate the Johnstown Facility as it is now operated.

5.2 LADBROKE shall have delivered to MOUNTAINVIEW, on or before the Closing Date (or Effective Date if so indicated below), the following, which shall be in form and substance acceptable to MOUNTAINVIEW and MOUNTAINVIEW's counsel:

- 5.2.1 Assignment and Assumption of Lease Agreement substantially in the form of Exhibit "E" hereto (the "Assignment of Lease")
- 5.2.2 Nondisturbance Agreement from the Mortgagee of the Landlord and Estoppel Certificate from the Landlord, each in customary form and to the extent required by the Lease;
- 5.2.3 Consent to Sublease from the Landlord (prior to the Effective Date);
- 5.2.4 List of all customers of the Johnstown Facility maintained by LADBROKE (prior to the Effective Date);
- 5.2.5 Prior to the Effective Date, all consents of the Pennsylvania Horse Racing Commission and Harness Racing Commission required under the Act, and from the Pennsylvania Liquor Control Board. MOUNTAINVIEW agrees to cooperate with LADBROKE to obtain such consents as soon as practicable after the date hereof;
- 5.2.6 Payment of \$300,000 to compensate MOUNTAINVIEW for costs incurred by it in its Altoona non-primary facility which MOUNTAINVIEW is terminating, and
- 5.2.7 All such further instruments and documents which may be reasonably requested by MOUNTAINVIEW or its counsel to effectuate and carry out any provision of this Agreement and the transactions contemplated hereby.

5.3 No proceeding shall have been instituted or threatened and be pending in writing to restrain or prevent the carrying out of the transactions contemplated hereby or to seek material damages in connection with such transactions, or would have a material adverse affect on the Johnstown Facility.

6. LADBROKE's Conditions to Closing. Each and every obligation of LADBROKE to complete the Closing is subject to the satisfaction of the following conditions (any one or more of which may be waived in writing by LADBROKE):

6.1 Proceedings. No proceeding shall have been instituted or threatened in writing, and be pending, to restrain or prevent the carrying out of the transactions contemplated hereby.

6.2 Delivery of Documents. MOUNTAINVIEW shall have executed and/or delivered to LADBROKE on or before the Closing Date (or Effective Date, if so indicated below):

- 6.2.1 The consideration provided in Sections 1.3.1 hereof;
- 6.2.2 An Assignment of Lease;
- 6.2.3 Prior to the Effective Date, all consents of the Pennsylvania Horse Racing Commission and Harness Racing Commission required under the Act and from the Pennsylvania Liquor Control Board. LADBROKE agrees to cooperate with MOUNTAINVIEW to obtain such consents as soon as practicable after the date hereof; and
- 6.2.4 All such further documents that may be reasonably requested by LADBROKE or their counsel, in order to effectuate and carry out any provision of this Agreement and the transaction provided herein.

## 7. Indemnification

7.1 LADBROKE shall indemnify and hold harmless MOUNTAINVIEW (and its respective successors, assigns, directors and officers) from and against any and all losses, costs (including reasonable legal fees and related expenses), damages, claims and liabilities arising out of or caused by, directly or indirectly, any or all of the following:

- 7.1.1 Any misrepresentations, breach or failure of any warranty, representation or certification made by LADBROKE in this Agreement or pursuant hereto;
- 7.1.2 Any failure or refusal by LADBROKE to satisfy or perform any term or condition of this Agreement to be satisfied or performed by LADBROKE;
- 7.1.3 Any obligation relating to the operation of the Johnstown Facility imposed upon, or collected from, MOUNTAINVIEW with respect to any period ending before the Effective Date. Any such deficiency or adjustment shall be subject to indemnification under this section 7.1 notwithstanding that the same may be assessed against, imposed upon or collected from MOUNTAINVIEW; and
- 7.1.4 Any liability or obligation of LADBROKE not disclosed in this Agreement (including the Schedules and Exhibits hereto) and any liability incurred by LADBROKE with respect to the Johnstown Facility, or the operation thereof, and not required to be assumed by MOUNTAINVIEW hereunder, after the Effective Date with respect to period prior to the Effective Date.

7.2 MOUNTAINVIEW shall indemnify and hold harmless LADBROKE (and its respective successors, assigns, directors and officers) from and against any and all losses, costs (including reasonable legal fees and related expenses), damages, claims and liabilities arising out of or caused by, directly or indirectly, any or all of the following:



- 7.2.1 Any misrepresentations, breach or failure of any warranty, representation or certification made by MOUNTAINVIEW in this Agreement or pursuant hereto;
- 7.2.2 Any failure or refusal by MOUNTAINVIEW to satisfy or perform any term or condition of this Agreement to be satisfied or performed by MOUNTAINVIEW; and
- 7.2.3 Any obligation relating to the operation of the Johnstown Facility imposed upon, or collected from LADBROKE with respect to any period ending after the Effective Date (unless this Agreement is terminated pursuant to Section 9 hereof, in which event such period shall end on the date of such termination) unless such obligation is not assumed by MOUNTAINVIEW hereunder. Any such deficiency or adjustment shall be subject to indemnification under this Section notwithstanding that the same may be assessed against, imposed upon or collected from LADBROKE.

7.3 All claims for indemnification hereunder shall be writing and shall set forth in reasonable detail the basis for the claim. Claims for indemnification shall be made no later than eighteen months after the Closing Date.

7.4 An indemnified party under Section 7.1 or 7.2 hereof shall give prompt written notice to the indemnifying party (when and to the extent that the indemnified party has actual knowledge thereof) of any condition, event or occurrence or the commencement of any action, suit or proceeding for which indemnification may be sought, and the indemnifying party, through counsel reasonable satisfactory to the indemnified party, shall assume the defense thereof or other indemnification obligation with respect thereto; provided, however, that any indemnified party shall be entitled to participate in any such action, suit or proceeding with counsel of its own choice but at its own expense. In any event, if the indemnifying party fails to assume the defense within a reasonable time, the indemnified party may assume such defense or other indemnification obligation and the reasonable fees and expenses of its attorneys will be covered by the indemnity provided for in Section 7.1 and 7.2 hereof, as the case may be. No action, suit or proceeding for which indemnification may be sought shall be compromised or settled in any manner which might adversely affect the interests of the indemnified party without the prior written consent of such indemnified party (which shall not be unreasonably withheld). Notwithstanding anything in this Section 7.4 to the contrary, the indemnifying party shall not, without the written consent of the indemnified party, (i) settle or compromise any action, suit or proceeding or consent to the entry of any judgment which does not include as an unconditional term thereof the delivery by the claimant or plaintiff to the indemnified party of a written release from all liability in respect of such action, suit or proceeding, or (ii) settle or compromise any action, suit or proceeding in any manner that may materially and adversely affect the indemnified party other than as a result of money damages or other money payments. The provisions of this Section 7 shall survive termination of this Agreement.

7.5 No indemnification shall be sought under this Section 7 unless and until losses suffered by the Party seeking indemnification exceed \$10,000 and then only for the amount in excess of such amount. The amount payable by either Party as indemnification under this Section 7 shall not exceed \$925,000.

8. Covenants and Agreements. The parties hereto covenant and agree as follows:

8.1 LADBROKE, for itself and any of its affiliates, agrees not to establish, own, lease, manage or operate, directly or indirectly, any non-primary location (as defined in the Act) for a period of 14 years from the Effective Date within thirty five air miles of (1) the Johnstown Facility, (2) MOUNTAINVIEW's proposed Altoona, Pennsylvania non-primary facility or (3) the existing Erie, Pennsylvania non-primary location operated by an affiliate of MOUNTAINVIEW. Notwithstanding the foregoing and without being in violation or breach thereof, LADBROKE may continue to operate its existing Greensburg, Pennsylvania non-primary location (the "Greensburg Facility") at its present place of operation or relocate the Greensburg Facility within four miles of its present place of operation. In addition, LADBROKE agrees, for a period of 14 years from the Effective Date, not to establish the non-primary location made available to it upon the transfer of the Johnstown Facility hereunder at or on a site east of Greensburg, Pennsylvania. Except as expressly provided herein, this Agreement shall not be construed to otherwise prohibit or restrict the establishment, ownership, leasing, management, operation or relocation of a LADBROKE non-primary location.

8.2 MOUNTAINVIEW, for itself and any of its affiliates, agrees not to establish, own, lease, manage or operate, directly or indirectly, any non-primary location (as defined in the Act) for a period of 14 years from the Effective Date within thirty five air miles of LADBROKE's (1) existing New Castle, Pennsylvania non-primary location or (2) proposed Seven Springs, Pennsylvania non-primary location but only, in the case of Seven Springs, if a phase one application for such facility has been approved by the Pennsylvania Harness Racing Commission with eighteen months of the Effective Date. Notwithstanding the foregoing and without being in violation or breach thereof, MOUNTAINVIEW may operate the Johnstown Facility at its present place of operation or relocate the Johnstown Facility within four miles of its present place of operation. Except as expressly provided herein, this Agreement shall not be construed to otherwise prohibit or restrict the establishment, ownership, leasing, management, operation or relocation of a MOUNTAINVIEW non-primary location.

8.3 There are attached hereto as Exhibit "F" a series of maps which identify, with particularity, the restrictions set forth in Sections 8.1 and 8.2 above. If the maps are inconsistent with the provisions of subsections 8.1 and 8.2 above, the provisions of such subsections shall prevail and control.

8.4 From the date hereof through the Effective Date, LADBROKE shall allow, during normal business hours, the employees, attorneys, accountants, and other representatives of MOUNTAINVIEW free and full access to the files, books and records of LADBROKE pertaining to the operation of the Johnstown Facility, including, without limitation, title documents, leases, insurance policies, accounts, financial statements, employee files, and all other relevant operating data. The employees of MOUNTAINVIEW may interview and meet with management and other employees of LADBROKE and shall have access to the operating properties of the Johnstown Facility upon coordination of the same with the general manager of the Johnstown Facility. MOUNTAINVIEW's investigation shall not affect, limit, eliminate or modify the warranties and representations of LADBROKE hereunder.

8.5 LADBROKE shall promptly notify MOUNTAINVIEW of any proceedings, which, after the date hereof and on or prior to the Effective Date, are threatened or commenced against LADBROKE, against any officer, partner, employee, consultant, agent or shareholder with respect to the affairs of LADBROKE, and in each case which in any way could affect the operation of the Johnstown Facility.

8.6 LADBROKE and MOUNTAINVIEW, and their respective officers and directors, will use their best efforts to ensure that all closing conditions are satisfied.

8.7 Between the date hereof and the Closing Date, neither Party shall issue any press release concerning this Agreement, or divulge the existence or provisions hereof to any person (except their respective officers, directors, employees and consultants) without the prior written permission from the Chairman or CFO of MOUNTAINVIEW in the case of LADBROKE or a Vice President of LADBROKE in the case of MOUNTAINVIEW, except as shall be required by law or necessary to obtain the consents or approvals required to consummate the transactions contemplated hereby.

9. Termination. This Agreement shall be terminated:

9.1 At any time by the written agreement of the Parties;

9.2 By MOUNTAINVIEW or LADBROKE at any time, and upon five day's prior notice, in its sole and absolute discretion, if the Closing is not completed on or before January 4, 1999 and such failure is not the fault of the Party seeking to terminate; or

9.3 If either Pennsylvania Racing Commission finally determines that it will not grant a consent necessary to consummate the transaction contemplated hereby or the Pennsylvania Liquor Control Board denies the transfer of the liquor license or the grant of a new liquor license as described in Section 2.6 hereof.

10. Miscellaneous.

10.1 Any notice or other communication required or which may be given hereunder shall be in writing and either delivered personally to the addressee, telecopied to the addressee or mailed, certified or registered mail or express mail; postage prepaid, or sent by a nationally recognized courier service (which provides a receipt of delivery), services charges prepaid, and shall be deemed given if delivered personally or telecopied, when so delivered personally or telecopied, if by certified or registered mail, four days after the date of mailing or if express mailed or sent by a nationally recognized courier service, two days after the date of mailing, as follows:

If to MOUNTAINVIEW:

Peter M. Carlino  
Chairman and Chief Executive Officer  
Penn National Gaming, Inc.  
825 Berkshire Boulevard, Suite 200  
Wyomissing, PA 19610  
Facsimile No.: (610) 376-2842

With a copy to:

Robert P. Krauss, Esquire  
Mesirov Gelman Jaffe Cramer & Jamieson, LLP  
1735 Market Street  
Philadelphia, PA 19103  
Facsimile No.: (215) 994-1111

If to LADBROKE:

Randy Edmonds  
General Manager  
Ladbroke Racing Pennsylvania, Inc.  
P.O. Box 499  
Meadow Lands, PA 15347  
Facsimile No.: (724) 225-9347

With a copy to:

Stuart A. Williams, Esquire  
Eckert Seamans Cherin & Mellott, LLC  
600 Grant Street  
42nd Floor  
Pittsburgh, PA 15219  
Facsimile No.: (412) 566-6099

and to such other address or addresses as MOUNTAINVIEW or LADBROKE, as the case may be, may designate to the other by notice as set forth above.

10.2 This Agreement may be amended, modified, superseded, canceled, renewed or extended, and the terms and conditions hereof may be waived, only by a written instrument signed by all the parties or, in the case of a waiver, by the party waiving compliance. No delay on the part of any party in exercising any right, power or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party of any right, power or privilege hereunder, preclude any other or further exercise thereof or the exercise of any other right, power or privilege hereunder. The rights and remedies herein provided are cumulative and are not exclusive of any rights or remedies which any party may otherwise have at law or in equity. The rights and remedies of any party arising out of or otherwise in respect of any inaccuracy in or breach of any representation, warranty, covenant or agreement contained in this Agreement shall in no way be limited by the fact that the act, omission, occurrence, or other state of facts upon which any claim of any such inaccuracy or breach is based may also be the subject matter of any other representation, warranty, covenant or agreement contained in this Agreement (or in any other agreement between the parties) as to which there is no inaccuracy or breach.

10.3 All of the terms and provisions of this Agreement shall be binding upon, inure to the benefit of and be enforceable by each of the parties hereto and their respective successors and permitted assigns. This Agreement, together with the Schedules and Exhibits hereto, contains the entire agreement and understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to such subject matter.

10.4 This Agreement and the rights and obligations of the parties hereto shall not be assigned by any party to any one or more Person, except MOUNTAINVIEW may assign and/or delegate any or all of its rights and obligations hereunder to an Affiliate (as defined in the Securities Exchange Act of 1934, as amended) of MOUNTAINVIEW; provided that no such assignment and/or delegation shall relieve MOUNTAINVIEW from any of MOUNTAINVIEW's liability hereunder. Nothing in this Agreement, unless otherwise expressly provided, is intended to confer upon any Person, other than the parties hereto and their successors and permitted assigns, any rights or remedies under or by reason of this Agreement.

10.5 If any provision of this Agreement shall be determined by a court of competent jurisdiction to be invalid or unenforceable, such determination shall not affect the remaining provisions of this Agreement, all of which shall remain in full force and effect.

10.6 Other than for claims seeking equitable relief, any claim, controversy, demand, dispute or difference between or among the parties hereto arising out of, or by virtue of, or in connection with, or relating to this Agreement shall be submitted and settled by arbitration before the American Arbitration Association in Harrisburg, Pennsylvania. The parties agree to bear joint and equal responsibility for all fees, abide by any decision rendered as final and binding, and waive the right to submit any dispute to a public tribunal for a jury or non-jury trial. Judgments upon any award may be entered in any court of competent jurisdiction.

10.7 This Agreement shall be governed and construed in accordance with the laws of the Commonwealth of Pennsylvania applicable to agreements made, delivered and to be performed entirely within the Commonwealth of Pennsylvania.

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

10.9 In the event of any default hereunder by LADBROKE or MOUNTAINVIEW, in addition to all other remedies available at law or in equity, the remedy of specific performance shall be available.

10.10 Whether or not the transactions contemplated by this Agreement shall be consummated, each party shall pay its own expenses incident to preparing for, entering into and carrying into effect this Agreement and the transactions contemplated hereby.

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

Ladbroke Racing Management-Pennsylvania

By: Mountain Laurel Racing, Inc.  
General Partner

By:/s/ John Swiatek  
-----  
John Swiatek, Vice President

and

By: Washington Trotting Association, Inc.

By:/s/ John Swiatek  
-----  
John Swiatek, Vice President

Mountainview Thoroughbred Racing  
Association

By:/s/ William J. Bork  
-----  
William J. Bork, Vice President

Mountain Laurel Racing, Inc. and Washington Trotting Association, Inc. hereby join this Agreement for the sole and limited purpose of performing the provisions of Sections 1.1., 2.6, 5.2.4, 5.2.5, and 6.2.3 hereof, to the extent applicable to either or both of them.

Mountain Laurel Racing, Inc.

Washington Trotting Association, Inc.

By:/s/ John Swiatek  
-----  
John Swiatek, Vice President

By:/s/ John Swiatek  
-----  
John Swiatek, Vice President

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