FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 1996

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 in its charter)

Pennsylvania 23-2234473
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

Penn National Gaming, Inc.
825 Berkshire Blvd. Suite 203
Wyomissing, PA 19610
610-373-2400
(Address of Principal Executive Offices)

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

(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 of Each Class	Outstanding Shares as of November 13, 1996
Common Stock par value .01 per share	6,665,145

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES

INDEX

Part I. Financial Information

Item 1. Financial Statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE DATA)

	September 30, 1996	December 31, 1995
	(Unaudited)	
Assets		
Current		
Cash	$5,602	$7,514
Accounts and notes receivable	1,968	1,618
Prepaid expenses and other current assets	1,332	600
Deferred income taxes	62	104
Total current assets	8,964	9,836
Property, plant and equipment, at cost		
Land and improvements	4,225	3,336
Building and improvements	8,740	8,651
Furniture, fixtures and equipment	5,660	4,696
Transportation equipment	322	309
Leasehold improvements	6,388	4,363
Leased equipment under capitalized lease	824	824
Construction in progress	1,059	255
	27,218	22,434
Less Accumulated depreciation and amortization	7,589	6,728
Net property and equipment	19,629	15,706
Other assets		
Excess of cost over fair market value of net assets acquired (net of accumulated amortization)	1,848	1,898
Prepaid Acquisition Costs	3,001	-
Miscellaneous	291	92
Total other assets	5,140	1,990
	$33,733	$27,532

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET
(IN THOUSANDS, EXCEPT SHARE DATA)

	September 30, 1996 (Unaudited)	December 31, 1995
Liabilities and Shareholders' Equity		
Current		
Maturities of long-term debt and captial lease obligation	$222	$250
Accounts payable	1,868	1,395
Purses due horsemen	1,329	1,293
Uncashed pari-mutuel tickets	617	704
Accrued expenses	618	702
Customer deposits	515	315
Taxes, other than income taxes	328	246
Income Taxes	473	797
Total current liabilities	5,970	5,702
Long term liabilities		
Long-term debt and capital lease obligations, net of current maturities	80	140
Deferred income taxes	989	888
Total long-term liabilities	1,069	1,028
Commitments and contingencies		
Shareholders' equity		
Preferred stock, $.01 par value, 1,000,000 shares authorized; none issued	-	-
Common stock, $.01 par value, 10,000,000 shares authorized; 6,665,145 and 6,472,500 issued and outstanding	46	43
Additional paid in capital	14,304	12,821
Retained Earnings	12,344	7,938
Total Shareholders' Equity	26,694	20,802
	$33,733	$27,532

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(Unaudited)

	Nine Months Ended September 30,	
	1996	1995
Revenues		
Pari-mutuel revenues		
Penn National races	$14,495	$16,578
Import simulcasting	23,596	20,412
Export simulcasting	2,479	1,447
Admissions, programs and other racing revenues	3,403	2,978
Concession Revenues	2,501	2,478
Total revenues	46,474	43,893
Operating expenses		
Purses, stakes and trophies	9,744	9,329
Direct salaries, payroll taxes and employee benefits	6,211	5,823
Simulcast expenses	6,920	6,905
Pari-mutuel taxes	3,954	3,773
Other direct meeting expenses	6,932	6,249
Off-track wagering concessions expenses	1,766	1,689
Other operating expenses	3,710	3,750
Total operating expenses	39,237	37,518
Income from operations	7,237	6,375
Other income (expenses)		
Interest (expense)	(44)	(55)
Interest income	229	201
Other	-	4
Total other income	185	150
Income before income taxes	7,422	6,525
Taxes on income	3,016	2,680
Net Income	$4,406	$3,845
Earnings per share	$0.64	$0.59
Weighted average number of common shares outstanding	6,877	6,522

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
(IN THOUSANDS, EXCEPT PER SHARE DATA)
(Unaudited)

	Three Months Ended September 30,	
	1996	1995
Revenues		
Pari-mutuel revenues		
Penn National races	$4,823	$5,611
Import simulcasting	8,087	7,269
Export simulcasting	704	445
Admissions, programs and other racing revenues	1,356	1,187
Concession Revenues	900	918
Total revenues	15,870	15,430
Operating expenses		
Purses, stakes and trophies	3,296	3,209
Direct salaries, payroll taxes and employee benefits	2,244	2,037
Simulcast expenses	2,240	2,364
Pari-mutuel taxes	1,323	1,335
Other direct meeting expenses	2,454	2,105
Off-track wagering concessions expenses	721	630
Other operating expenses	1,224	1,429
Total operating expenses	13,502	13,109
Income from operations	2,368	2,321
Other income (expenses)		
Interest (expense)	(7)	(25)
Interest income	76	62
Other	-	4
Total other income	69	41
Income before income taxes	2,437	2,362
Taxes on income	992	963
Net Income	$1,445	$1,399
Earnings per share	$0.21	$0.21
Weighted average number of common shares outstanding	6,997	6,522

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY
(IN THOUSANDS, EXCEPT SHARE DATA)
(Unaudited)

	Common Stock Shares	Common Stock Amounts	Additional Paid-In Capital	Retained Earnings	Total
Balance, at January 1, 1996	6,472,500	$ 43	$ 12,821	$ 7,938	$ 20,802
Issuance of common stock	192,645	3	1,483	-	1,486
Net income for the nine months ended September 30, 1996 (unaudited)	-	-	-	4,406	4,406
Balance at September 30, 1996 (unaudited)	6,665,145	$ 46	$ 14,304	$ 12,344	$ 26,694

See accompanying notes to consolidated financial statements

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOW
(IN THOUSANDS)
(Unaudited)

	Nine Months Ended September 30,	
	1996	1995
Cash flows from operating activities		
Net Income	$4,406	$3,845
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	911	648
Deferred income taxes	144	(2)
Decrease (Increase) in		
Accounts and notes receivable	(350)	16
Prepaid expenses	(732)	(263)
Miscellaneous other assets	(197)	(29)
Increase (decrease) in		
Accounts payable	473	182
Purses due horsemen	36	701
Uncashed pari-mutuel tickets	(88)	14
Accrued expenses	(85)	(539)
Customer deposits	200	205
Taxes other than income payable	81	132
Income taxes payable	(324)	234
Net cash provided by operating activities	4,475	5,144
Cash flows from investing activities		
Expenditures for property and equipment	(4,784)	(3,690)
Prepaid acquisition costs	(3,001)	-
Net cash (used) by investing activities	(7,785)	(3,690)
Cash flows from financing activities		
Proceeds of sale common stock	1,486	-
Principal payments on long-term debt and capital lease obligations	(88)	(91)
Net cash provided by (used) in financing activities	1,398	(91)
Net increase in cash	(1,912)	1,363
Cash, at beginning of period	7,514	5,502
Cash, at end of period	$5,602	$6,865

See accompanying notes to consolidated financial statements

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

1. Basis of Presentation

The consolidated financial statements include the accounts of Penn National Gaming, Inc. and its wholly-owned subsidiaries, Mountainview Thoroughbred Racing Association, Pennsylvania National Turf Club, Inc., Penn National Speedway, Inc., Sterling Aviation, Inc., Penn National Holding Company, Penn National Gaming of West Virginia, Inc., and PNGI Charles Town Gaming Limited Liability Company (collectively, the "Company").

The financial information has been prepared in accordance with the Company's customary accounting practices and, except for the Balance Sheet at December 31, 1995, has not been audited. All significant intercompany balances and transactions have been eliminated. In the opinion of management, the information presented reflects all adjustments necessary for a fair statement of interim results. All such adjustments are of a normal and recurring nature. The foregoing interim results are not necessarily indicative of the results of operations for the full year ending December 31, 1996.

2. Wagering Information (In Thousands):

	Three months ended September 30,		Nine months ended September 30,	
	1996	1995	1996	1995
Pari-mutuel wagering in Pennsylvania on Penn National races	$23,095	$26,863	$69,200	$79,235
Pari-mutuel wagering on simulcasting				
Import simulcasting from other Pennsylvania racetracks	6,255	6,860	17,704	22,018
Import simulcasting from out of Pennsylvania racetracks	35,189	30,998	105,191	84,646
Export simulcasting to out of Pennsylvania wagering facilities	24,440	14,913	84,228	48,327
	65,884	52,771	207,123	154,991
Total pari-mutuel wagering	$88,979	$79,634	$276,323	$234,226

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

3. Commitments

The Company has a $4,200,000 credit facility with a commercial bank. The facility provides for a working capital line of credit in the amount of $2,500,000 at various interest rates and a letter of credit facility for $1,700,000. The credit facility is unsecured and contains typical financial covenants such as tangible net worth, debt to tangible net worth and debt coverage ratio. At September 30, 1996, the Company was contingently obligated under the letter of credit facility with face amounts aggregating $1,436,000. The $1,436,000 consists of $1,336,000 relating to the horsemen's account balances and $100,000 for Pennsylvania pari-mutuel taxes. All letters of credit expire December 31, 1996.

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

On February 26, 1996, the Company entered into a joint venture agreement with Bryant Development Company, the holder of an option to purchase the Charles Town Race Track in Jefferson County, West Virginia for a purchase price of $18 million. In connection with the joint venture agreement, Bryant assigned the option to the joint venture. The Company holds an 80% interest in the joint venture with Bryant Development holding the remainder. In November 1996 the joint venture entered into an amended and restated option agreement with respect to the Charles Town Race track subject to substantially the same economic terms and conditions as the original option. On November 5, 1996, the voters of Jefferson County, West Virginia approved a referendum permitting installation of video lottery terminals at the Charles Town Race Track, and thereafter, the joint venture exercised its option to purchase Charles Town Race Track. The Company intends to fund its 80% interest in the joint venture operations through additional borrowing and the Company's available working capital.

In March 1996, the Company took an assignment of an agreement to purchase land for its proposed Downingtown OTW facility. The agreement provides for a purchase price of $1,696,000, is subject to numerous contingencies including approval from the Pennsylvania State Horse Racing Commission, and expired by its terms on July 31, 1996. The Company submitted an application to the Pennsylvania State Horse Racing Commission for approval of the Downingtown OTW facility, but such application has not yet been approved. On July 31, 1996, Penn National extended its right to purchase the property for another six months.

On September 13, 1996, the Company entered into a definite agreement to acquire the assets of Pocono Downs, Inc., the owner of the Pocono Downs standardbred horse racing facility and two off-track wagering (OTW) facilities for $47 million. The company intends to finance the acquisition with cash on hand and bank debt. Settlement for the acquisition is expected to occur on or before November 30, 1996.

On September 24, 1996, the Company entered into a second agreement to purchase land for its proposed Downingtown OTW facility. The agreement provides for a purchase price of $1,400,000 and is subject to numerous contingencies including approval from the Pennsylvania State Horse Racing Commission. As of November 13, 1996, the Company has not amended its Downingtown application for this new proposed location.

4. Supplemental Disclosures of Cash Flow Information

Cash paid during the nine months ended September 30, 1996 and 1995 for interest was $44,000 and $55,000 respectively.

Cash paid during the nine months ended September 30, 1996 and 1995 for income taxes was $3,196,000 and $2,475,000 respectively.

5. Notes Receivable

On May 13, 1996, the Company loaned $400,000 to a unrelated company in Downingtown. The note bears at a rate of 10% per annum and matures on May 13, 1997.

Effective June 4, 1996, the joint venture entered into a Loan and Security Agreement with Charles Town Races, Inc. The Loan and Security Agreement provides for a working capital line of credit in the amount of $1,250,000 and will reduce the purchase price under the option by $1.60 for each dollar borrowed. As of November 13, 1996, Charles Town Races, Inc. borrowed $1,155,000 of the available credit.

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

Three months ended September 30, 1996 compared to three months ended September 30, 1995

Total revenue increased by approximately $440,000 or 2.9% from $15.4 million for the three months ended September 30, 1995 to $15.9 million for the three months ended September 30, 1996. The increase was attributable to an increase in import and export simulcasting revenues, offset in part by a decrease in pari-mutuel revenues on Penn National races, and to the opening of the Lancaster OTW facility on July 11, 1996. The increase in export simulcasting revenues of $259,000 or 58% from $445,000 to $704,000 resulted from the Company's races being broadcast to additional out-of-state locations. The decrease in pari-mutuel revenues on Penn National races was due to increased import simulcasting revenue from wagering on other race tracks at Penn National facilities. For the quarter, Penn National scheduled and ran 52 live race days in 1996 and 1995.

Total operating expenses increased by approximately $393,000 or 3.1%from $13.1 million for the three months ended September 30, 1995 to $13.5 million for the three months ended September 30, 1996. The increase in operating expenses resulted from an increase in purses, stakes and trophies, pari-mutuel taxes, and simulcast expenses resulting from an increase in revenue from import simulcasting and three months of operating expenses for the Lancaster OTW facility.

Income from operations increased by approximately $47,000 or 2.0% from $2.32 million to $2.37 million due to the factors described above.

Net income from operations increased by approximately $46,000 or 3.3% from $1,399,000 for the three months ended September 30, 1995 to $1,445,000 for the three months ended September 30, 1996. Income tax expense increased from $963,000 to $992,000 due to the increase in income for the period.

Three months ended September 30, 1995 compared to three months ended September 30, 1994.

Total revenues increased by approximately $2.4 million or 18.8% from $13.0 million to $15.4 million in the three months ended September 30, 1995. The increase was attributable to an increase in import and export simulcasting revenue, admissions, programs and other racing revenues and concession revenues, offset by a decrease in pari-mutuel revenues on Penn National races. The increase in import simulcasting revenues, admissions, programs and other racing revenues was mainly attributable to the opening of the York OTW facility in March 1995. The increase in export simulcasting resulted from the Company's

races being broadcast to additional out-of-state locations. The decrease in pari-mutuel revenues on Penn National races was a result of the Company scheduling less race days in the three months ended September 30, 1995, partially offset by the opening of the York OTW facility.

Total operating expenses increased by approximately $1.8 million or 16.0% from $11.3 million to $13.1 million in the three months, ended September 30, 1995. The increase was primarily due to the opening of the York OTW facility in March 1995, and an increase in corporate overhead due to a number of factors including the following, expansion of the Company's Wyomissing office, certain expenses relating to the Company being public and payment of severance compensation to the Company's former president. This was offset by a decrease in simulcast expenses because of a decrease in wagering on Penn National races at other Pennsylvania race tracks.

Income from operations increased by approximately $631,000 or 37.3% from $1.7 million to $2.3 million in the three months ended September 30, 1995, reflecting the factors described above.

Net income increased by $414,000 or 42% from $985,000 to $1.4 million for the three months ended September 30, 1995 due to the factors described above.

Nine months ended September 30, 1996 compared to nine months ended September 30, 1995

Total revenue increased by approximately $2.6 million or 5.9% from $43.9 million for the nine months ended September 30, 1995 to $46.5 million for the nine months ended September 30, 1996. The increase was attributable to an increase in import and export simulcasting revenues, offset in part by a decrease in pari-mutuel revenues on Penn National races. Revenues also increased due to the opening of the Lancaster OTW facility on July 11, 1996. The increase in export simulcasting revenues of $1.0 million or 71.2% from $1.5 million to $2.5 million resulted from the Company's races being broadcast to additional out-of-state locations. The decrease in pari-mutuel revenues on Penn National races was due to increased import simulcasting revenue from wagering on other race tracks at Penn National facilities. For the nine month period in 1996, Penn National was scheduled to run 165 live race days but canceled 11 days in the first quarter due to weather. In the comparable period in 1995, Penn National ran 154 live race days.

Total operating expenses increased by approximately $1.7 million or 4.9% from $37.5 million for the nine months ended September 30, 1995 to $39.2 million for the nine months ended September 30, 1996. The increase in operating expenses resulted from an increase in purses, stakes and trophies, pari-mutuel taxes, and simulcast expenses resulting from an increase in revenue from import simulcasting, nine months of operating expenses for the York OTW facility in 1996 compared to six months of expenses in 1995, and three months of operating expenses for the new Lancaster OTW facility.

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

Net income from operations increased by approximately $561,000 or 14.6% from $3,845,000 for the nine months ended September 30, 1995 to $4,406,000 for the nine months ended September 30, 1996. Income tax expense increased from $2,680,000 to $3,016,000 due to the increase in income for the period.

Nine months ended September 30, 1995, compared to nine months ended September 30, 1994.

Total revenues increased by approximately $10.3 million or 30.6% from $33.6 million to $43.9 million in the nine months ended September 30, 1995. The increase was attributable to an increase in import and export simulcasting revenues, admissions, programs and other racing revenues, and concession revenues. The increase in revenues primarily resulted from the opening of the Chambersburg and York OTW facilities in April, 1994 and March, 1995, respectively, and an increase of approximately $589,000 or 68.6% from $858,000 to $1.5 million in export simulcasting revenues due to the Company's races being broadcast to additional out-of-state locations. This was offset by a decrease in pari-mutuel revenues on Penn National's races due to a decrease in number of live race days in 1995.

Total operating expenses increased by approximately $6.9 million or 22.6% from $30.6 million to $37.5 million in the nine months ended September 30, 1995. The increase, which was in substantially all categories of operating expenses was caused primarily by the opening of the Chambersburg and York OTW facilities in April, 1994 and March, 1995, respectively and an increase in corporate overhead due to a number of factors including the following, expansion of the Company's Wyomissing office, certain expenses relating to the Company being public and payment of severance compensation to the Company's former president. The decrease in management fees was a result of the management fees being discontinued when the Company completed the May, 1994 initial public offering.

Income from operations increased by approximately $3.4 million or 112.9% from $3.0 million to $6.4 million in the nine months ended September 30, 1995, reflecting the factors described above.

Net income increased by approximately $2.1 million or 119.3% from $1.7 million to $3.8 million in the nine months ended September 30,1995 due to the factors described above. Income tax expenses increased from $755,000 to $2.7 million which was attributable to the increase in income for the period.

Liquidity and Capital Resources

Historically, the Company's primary sources of liquidity and capital resources have been cash flow from operations and borrowing from banks and related parties. During the nine months ended September 30, 1996, the Company's cash position decreased by approximately $1.9 million from $7.5 million at December 31, 1995 to $5.6 million as a result of expenditures for improvements and equipment at the race track, construction of the Lancaster OTW facility, the start of construction for the Williamsport OTW facility, and prepaid acquisition costs.

Net cash provided from operating activities totaled approximately $4.5 million for the nine months ended September 30, 1996 of which $5.3 million came from net income and non-cash expenses.

Cash flows used in investing activities totaled approximately $7.8 million. Capital expenditures totaled $4.8 million for improvements and equipment at the race track, the construction of the Lancaster OTW facility, and the start of construction for the Williamsport facility. Prepaid acquisition costs totaled $1.9 million for Charles Town Race Track and $1.1 million for Pocono Downs.

Cash flows from financing activities totaled approximately $1,486,000 from the exercise of warrants and the issuance of 192,645 shares of common stock.

The Company has a $4,200,000 credit facility with a commercial bank. The facility provides for a working capital line of credit in the amount of $2,500,000 at various interest rates and a letter of credit facility for $1,700,000. The credit facility is unsecured and contains typical financial covenants such as tangible net worth, debt to tangible net worth and debt coverage ratio. At September 30, 1996, the Company was contingently obligated under the letter of credit facility with face amounts aggregating $1,436,000. The $1,436,000 consists of $1,336,000 relating to the horsemen's account balances and $100,000 for Pennsylvania pari-mutuel taxes. All letters of credit expire December 31, 1996.

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

On February 26, 1996, the Company entered into a joint venture agreement with Bryant Development Company, the holder of an option to purchase the Charles Town Race Track in Jefferson County, West Virginia for a purchase price of $18 million. In connection wi

h the joint venture agreement, Bryant assigned the option to the joint venture. The Company holds an 80% interest in the joint venture with Bryant Development holding the remainder. In November 1996 the joint venture entered into an amended and restated option agreement with respect to the track subject to substantially the same economic terms and conditions. On November 5, 1996, the voters of Jefferson County, West Virginia approved a referendum permitting installation of video lottery terminals at the Charles Town Race Track, and thereafter, the joint venture exercised its option to purchase Charles Town Race Track. The Company intends to fund its 80% interest in the joint venture operations through additional borrowing and the Company's available working capital.

Effective June 4, 1996, the joint venture entered into a Loan and Security Agreement with Charles Town Races, Inc. The Loan and Security Agreement provides for a working capital line of credit in the amount of $1,250,000 and will reduce the purchase price under the option by $1.60 for each dollar borrowed. As of November 13, 1996, Charles Town Races, Inc. borrowed $1,155,000 of the available credit.

On May 13, 1996, the Company loaned $400,000 to a unrelated company in Downingtown. The note bears at a rate of 10% per annum and matures on May 13, 1997.

On September 13, 1996, the Company entered into a definite agreement to acquire the assets of Pocono Downs, Inc., the owner of the Pocono Downs standardbred horse racing facility and two off-track wagering (OTW) facilities for $47 million. The company intends to finance the acquisition with cash on hand and bank debt. Settlement for the acquisition is expected to occur on or before November 30, 1996.

On October 24, 1996, the Company received a loan commitment from a commercial bank for $75 million to finance the Pocono Downs acquisition and the Company's share of the option exercise price for the purchase and subsequent renovation of Charles Town Race Track. The loan contemplated by the commitment will be structured as follows: (i) an amortizing $47.0 million term loan for the purchase of Pocono Downs, (ii) an amortizing $23.0 million term loan for the purchase and renovation of Charles Town Race Track, and (iii) a $5.0 million working capital revolver which includes a letter of credit facility of $3.0 million. The commitment provides for various interest rates and will contain numerous financial and other covenants.

The Company believes that the cash on hand, cash generated from operations, and the above credit facilities will be sufficient to fund its anticipated future cash requirements.

Part II. Other Information

Item 1. Legal Proceedings

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

10.53 Agreement dated September 24, 1996 between the Company and Fred V. Schubert to purchase land for the Company's Downingtown OTW..

10.54 Purchase Agreement dated September 13, 1996 between the Company and the Estate of Joseph B. Banks for the purchase of Pocono Downs Race Track and two OTW facilities.

10.55 Loan Commitment Letter dated October 15, 1996 between the Company and Bankers Trust Company.

10.56 Amended and Restated option agreement dated as of February 17, 1995 between PNGI Charles Town Gaming Limited Liability Company (The Joint Venture) and Charles Town Racing Limited Partnership and Charles Town Races, Inc..

(b) Current reports on Form 8-K

None

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.

By: /s/ Robert S. Ippolito
Robert S. Ippolito Chief Financial Officer ,Secretary/Treasurer

Date: November 13, 1996

EXHIBIT INDEX

Exhibit Nos.	Description of Exhibits	Page No.
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10.54	Purchase Agreement dated September 13, 1996 between the Company and the Estate of Joseph B. Banks for the purchase of Pocono Downs Race Track and two related OTW facilities.	
10.55	Loan Commitment Letter dated October 15, 1996 between the Company and Bankers Trust Company.	
10.56	Amended and Restated option agreement dated as of February 17, 1995 between the PNGI Charles Town Gaming Limited Liability Company (The joint venture) and Charles Town Racing Limited Partnership and Charles Town Races, Inc.	

AGREEMENT OF SALE

THIS AGREEMENT OF SALE (the "Agreement") is made this 24_day of September, 1996 by PENN NATIONAL GAMING, INC., a Pennsylvania corporation (the "Buyer"), FRED V. SCHUBERT (the "Seller"), and MARC B. KAPLIN, ESQUIRE and RONALD M. AGULNICK, ESQUIRE (hereinafter collectively referred to as the "Escrow Agents").

BACKGROUND

A. The Seller is the owner of that certain lot or parcel of ground containing approximately 5.0094 acres, located at the intersection of Route 100 and Village Avenue in the Township of Uwchlan (the "Township"), Chester County, Pennsylvania, as depicted as Lot No. 2 ("Premises") on the Record Plan -2- Lot Subdivision for Fred V. Schubert dated October 20, 1992, last revised December 31, 1992, and prepared by Medveczky Associates ("Subdivision Plan"), a copy of which has been supplied to the Buyer. The Premises is more fully described on Exhibit "A" attached hereto and made a part hereof. The Premises presently contains a building known as the "Cadwalader House."

B. Uwchlan Partnership (the "Partnership") is the owner of that certain lot or piece of ground located to the south of the Premises and depicted on the Plan as "Parcel C" containing 1.2020 acres (the "Partnership Property"). The Partnership Property is more particularly described on Exhibit "B", attached hereto and made a part hereof. The Partnership Property is presently used as a parking lot and contains approximately eighty (80) parking spaces. As depicted on the Plan, 29 parking spaces located adjacent the Partnership Property are reserved for use by the restaurant and hotel buildings that are located on Lot #1 (hereinafter defined) ("Reserved Spaces").

C. The Seller is also the owner of

Lot #1 which is also depicted on the Plan ("Lot #1") and on which there is constructed a restaurant building occupied by "Hoss's" Restaurant and a Hampton Inn. Lot #1 contains 5.5196 acres of land, more or less, comprised of a lot containing 5.3122 acres, more or less, and a lot containing .2074 acres, more or less, as shown as "Parcel B" on the Subdivision Plan. Lot #1 is subject to a long term ground lease in which the Partnership is the Lessee. The Seller is a limited partner in the Partnership. The Reserved Spaces are included in the premises leased to the Partnership and are also included in the property encumbered by a mortgage granted by the Seller.

D. The Buyer is in the business of operating restaurant and off-track wagering facilities, and desires to develop on the Premises a building containing a restaurant, off-track wagering facility, and needed parking spaces (the "Facility"). In order to properly operate the Facility, the Buyer requires the exclusive right to at least 330 parking spaces. The Buyer's architect has estimated that approximately 250 parking spaces can be constructed on the Premises in connection with the construction of the Building and the preservation of the Cadwalader House. Accordingly, the Buyer requires the right to either purchase or enter into a long term lease for the exclusive right to use at least 80 of the parking spaces on the Partnership Property. Furthermore, the Buyer requires that the Seller use its best efforts to obtain permission from the Partnership and the Seller's lender to cause the location of the Reserved Spaces be changed from the northern end of Parcel C to the southern end (such relocation of the Reserved Spaces hereinafter referred to as the "Reserved Spaces Relocation".

E. The Seller believes that he will be able to cause the Partnership to sell or enter into a long term lease with the Buyer which will allow the Buyer to acquire the exclusive right to use at least 80 parking spaces on Parcel C in connection with the Facility (the sale or lease of Parcel C is hereafter referred to as the "Parcel C Acquisition Right"). In addition, the Seller has

agreed to use its best efforts to obtain the appropriate consents necessary to complete the Reserved Spaces Relocation so that the 80 or more parking spaces on Parcel C acquired by the Buyer are located adjacent to the Premises.

F. The Seller desires to sell the Premises to the Buyer and the Buyer desires to purchase the Premises from the Seller upon the terms and conditions set forth herein.

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

1. SALE OF PREMISES. Subject to the terms and conditions of this Agreement, the Seller hereby agrees to sell, transfer and convey to the Buyer and the Buyer agrees to purchase from the Seller the Premises together with all rights and appurtenances pertaining thereto (the "Appurtenances"), including but not limited to:

A. All right, title and interest, if any, of the Seller in and to any land in the bed of any street, road or avenue, open or proposed, in front of or adjoining the Premises;

B. All right, title and interest, if any, of the Seller in and to any rights-of-way or rights of ingress or egress on or to any land, street, road, avenue or driveway, open or proposed, in, on, across, in front of, abutting or adjoining any part of the Premises;

C. All right, title and interest, if any, of the Seller in and to any easements adjacent to or serving the Premises;

D. Any reversionary rights attributable to the Seller with respect to the Premises; and

E. Any Approvals and Permits (hereinafter defined) for the development of the Premises which have previously been obtained by the Seller from any public agencies, and all surveys, reports, studies or analyses of the Premises in the Seller's possession.

(Hereinafter, the term "Premises" shall be deemed to include all of the Appurtenances pertaining thereto.)

2. PURCHASE PRICE. The Buyer shall pay in exchange for the Premises and the Parcel C Acquisition Right the sum of One Million Four Hundred Thousand Dollars ($1,400,000.00). It shall be the Seller's obligation to pay to the Partnership the compensation, if any, which the Partnership requires to convey the Parcel C Acquisition Rights to the Buyer.

3. MANNER OF PAYMENT OF PURCHASE PRICE. The Purchase Price shall be paid in the following manner:

A. Deposit.

(1) Deposit. On the date hereof, the Buyer shall deliver to the Escrow Agents the Buyer's plain check, subject to prompt collection, in the amount of Fifty Thousand Dollars ($50,000.00) (the "Deposit").

(2) Application of Deposit. The Deposit shall be held by the Escrow Agents in an interest-bearing money market account until consummation or termination of this Agreement. If the Closing is completed hereunder, on the Closing Date the Escrow Agents shall pay the Deposit and all interest accrued thereon to the Seller, which sum shall be credited to the Buyer against that portion of the Purchase Price. If the Buyer, without the right to do so, defaults in the Buyer's obligations hereunder by failing to complete the Closing (except in the event of a default by the Seller or lawful termination of this Agreement by the Buyer), the Escrow Agents shall pay to the Seller the Deposit together with all interest accrued thereon as liquidated damages, in accordance with the provisions of Paragraph 17A below. If the Buyer terminates this Agreement as a consequence of the Seller's default, the Escrow Agents shall return the Deposit, together with all interest accrued thereon, to the Buyer.

B. Payment of Balance of Purchase Price. At the Closing, the Buyer shall pay to the Seller the Purchase Price (subject to adjustments and apportionments set forth in this Agreement and less the Deposit and all interest accrued thereon) by certified check, bank check, title insurance company check or wire transfer of immediately available federal funds.

4. INVESTIGATION PERIOD.

A. Investigation. The Buyer shall have a period commencing on the Agreement Date and expiring at 11:59 P.M. sixty (60) days thereafter (such period being referred to herein as the "Investigation Period") to inspect the Premises as more particularly described in this Paragraph 4. During the Investigation Period, the Buyer may inspect and/or cause one or more surveyors, attorneys, engineers, architects, environmental consultants and/or other experts of the Buyer's choice to inspect, examine, survey, appraise and otherwise do that which, in the opinion of the Buyer, is necessary for the Buyer to satisfy itself with regard to the physical condition of the Premises, the suitability of the Premises for the development of the Facility, and all other aspects of the Premises (the "Investigation"). If at any time prior to the expiration of the Investigation Period the Buyer determines that it is not satisfied for any reason, in its sole discretion, with the results of the Investigation, or the status of any other condition of or relating to the Premises, whether known or unknown on the Agreement Date, and notifies the Seller in writing of its election to terminate this Agreement, this Agreement shall, without any further action by the Buyer or the Seller, become null and void, and all of the parties to this Agreement shall be released from any and all further obligation or liability hereunder, except as expressly provided herein.

B. Cooperation by Seller. The Seller shall cooperate fully with the Buyer with respect to the Investigation and shall not act in any manner to hinder, obstruct, delay or prevent the same. The Seller shall promptly deliver to the Buyer within five (5) days after the Agreement Date copies of all

Approvals and Permits, environmental reports, evaluations, surveys, analyses, plans, engineering data, review letters, investigations and documents in the Seller's possession or performed for the Seller with regard to the development of the Premises, and all notes and correspondence related thereto, together with all written consents necessary for the Buyer to make use of the same.

5. TITLE.

A. Title Report. Within ten (10) days after the Agreement Date, the Buyer shall cause a search of title to the Premises to be made by any title insurance company selected by Buyer (the "Title Company"), and upon receipt of the title report (the "Title Report"), the Buyer shall furnish to the Seller and the Seller's attorney, Ronald M. Agulnick, a copy thereof together with copies of any matters which are listed as exceptions on the Title Report. Within ten (10) days of delivery of the Title Report to the Seller, the Buyer shall notify the Seller in writing of any conditions, defects, liens, encumbrances or other items appearing as exceptions in the Title Report which are unsatisfactory to the Buyer (hereinafter referred to as "Title Objections"). Within five (5) business days after the receipt by the Seller of the Buyer's list of Title Objections, the Seller shall notify the Buyer in writing of those Title Objections, if any, that the Seller is unwilling or unable to remove (the "Objection Notice"). The Buyer shall then have the right to either (1) waive such Title Objections that the Seller is unwilling or unable to remove or (2) terminate this Agreement by giving written notice thereof to the Seller within fifteen (15) days after receipt of the Objection Notice, in which event the Escrow Agents shall refund the Deposit, together with all interest accrued thereon, to the Buyer, this Agreement shall be null and void, and neither of the parties shall have any further obligations or liability under this Agreement. The title agreed upon is hereinafter referred to as the "Certified Title".

B. Status of Title. At Closing, title will be transferred by the Seller to the Buyer by special warranty deed. Title will be consistent with Certified Title and shall be insurable by the Title Company at its regular rates for regular risks pursuant to the standard stipulations of an ALTA policy of owner's title insurance. The Seller shall furnish title affidavits reasonably acceptable to the Seller in order to remove standard title objections. Permitted Exceptions as used herein shall mean any exceptions originally appearing in the Title Report which are not objected to in writing by the Buyer to the Seller or which are objected to, but such objection is thereafter waived.

C. Inability to Convey Title. If the Seller is unable to convey title at Closing in accordance with the requirements of this Agreement, the Buyer shall have the option:

(1) Of taking such title to the Premises as Seller is able to convey, with abatement of the Purchase Price in the amount (fixed or ascertainable) of any liens or encumbrances on the Premises; or

(2) Of terminating Buyer's obligations under this Agreement, in which event the Escrow Agents shall refund the Deposit, together with all interest accrued thereon, to the Buyer, and this Agreement shall be null and void and neither party shall have any further obligations hereunder.

(3) Notwithstanding the foregoing, if title to the Premises is not as described in Paragraph 5.B. herein by reason of any willful act or omission of the Seller subsequent to the Agreement Date, such act or omission shall constitute a breach by the Seller and the Buyer shall be entitled to pursue all remedies available to Buyer at law or in equity, including the right to specific performance.

6. PARCEL C ACQUISITION RIGHT. The Buyer's obligation to perform its obligations under this Agreement shall be contingent upon the Seller delivering

to the Buyer within thirty (30) days after the Agreement Date an Agreement of Sale or long term lease for Parcel C which is satisfactory to the Buyer in the Buyer's sole discretion which gives the Buyer the exclusive right to acquire or lease a portion of Parcel C for use as a parking area for at least eighty (80) cars at a cost of $1.00 to the Buyer. If the Seller does not deliver the said Agreement to the Buyer within the said thirty (30) day period, or if the said Agreement is not satisfactory to the Buyer in its sole discretion, Buyer shall have the right to terminate this Agreement by giving written notice thereof to the Seller and the Escrow Agents, in which event the Deposit, together with all interest which has accrued thereon, shall be returned to the Buyer and this Agreement shall become null and void. The Seller shall use its best efforts to cause the Reserved Spaces Relocation.

7. APPROVALS AND PERMITS. The Buyer's obligation to complete the purchase of the Premises from the Seller in accordance with this Agreement shall be contingent upon the satisfaction of each of the following conditions with regard to the Approvals and Permits (hereinafter defined) (any of which may be waived in whole or in part in writing by the Buyer) on or before the Closing Date:

_._.A. Preliminary Opinion. A Preliminary Opinion of the Township Zoning Officer issued pursuant to Section 916.2 of the Pennsylvania Municipalities Planning Code ("MPC") to the effect that the construction of the Building and the use thereof for the Facility is a permitted use under the Uwchlan Township Zoning Ordinance.

B. Variances, Waivers and Special Exceptions. The Buyer shall have obtained prior to the Closing Date all final and unappealable variances, approvals of conditional uses, special exceptions, and/or waivers required to

lawfully construct the Project on the Premises. If the Buyer is unable, using diligent efforts, to obtain any such variance, waiver, approval of conditional use or special exception, the Buyer may either purchase the Premises despite not having obtained such variance, waiver, approval of conditional use or special exception or terminate this Agreement.

C. Subdivision and Land Development Approval. The Buyer shall have obtained from the Township prior to the Closing Date final and unappealable approval of a final land development plan or a final land development and subdivision plan for the Project. The Buyer shall use diligent efforts to obtain such approval.

D. Building Permits. The Buyer shall have obtained prior to the Closing Date the right to obtain final and unappealable building permits from the Township necessary to permit the construction of the Facility, upon the submission of properly prepared building plans, payment of all necessary fees and submission of a development agreement to the Township in the form customarily required by the Township, and the financial security required by such development agreement(s).

E. Sewer Allocation and Connection Permits. The Buyer shall have obtained prior to the Closing Date (1) a final and unappealable allocation of sewage treatment and sewage conveyance capacity in the sewage treatment and sewage conveyance systems maintained by the Downingtown Area Sewer Authority (the "Sewer Authority"), sufficient to provide sanitary sewer service to the Facility (the "Allocation"); (2) such connection permits that are required to permit connection of the Building and the Cadwalader House to the Sewer Authority's sewer system; and (3) a binding and enforceable agreement giving the Buyer the irrevocable right to connect the Building and Cadwalader House to the said sewage collection and treatment system and obligating the operator(s) of the sewage treatment plant and sewage collection system to accept, transport and treat the effluent generated by the Building and the Cadwalader House. The

construction of the sewer collection lines of the size, specifications and locations which will be depicted on the plans prepared by the Buyer shall be acceptable to all governing authorities having jurisdiction without the necessity of constructing any pumping or lift station to transport sewage from the Premises to the lines of the Sewer Authority. The Buyer shall reserve the Allocation and enter into an agreement for the furnishing of sewer capacity with the Sewer Authority as soon as possible. In the event that this Agreement is terminated for any reason, Seller shall immediately purchase the Allocation from Buyer for a purchase price equal to the Buyer's cost for reserving such Allocation.

F. Planning Module Approval and Water Quality Management Permit. The Buyer shall have obtained prior to the Closing Date final and unappealable "planning module for land development" approval, the final and unappealable issuance of a water quality management permit (if required), and all other required permits and approvals issued by the Pennsylvania Department of Environmental Protection ("DEP"):

(1) Permitting the construction and installation of sewer collection lines in the Premises and the connection of each of the Buildings to such lines;

(2) Permitting the connection of the said sewer collection lines to the Sewer Authority's sewage collection system; and

(3) Planning module approval permitting the treatment of the effluent generated by the Building and Cadwalader House and collected by the said sewer lines by the Sewer Authority's sewage treatment plant.

G. Water Service. The Buyer shall have obtained prior to the Closing Date:

(1) A binding agreement from the Philadelphia Suburban Water Company (the "Water Supplier"), that provides for:

(a) The installation of water lines to the Building and Cadwalader House; and

(b) Adequate fire protection and domestic water service to the Building and Cadwalader House.

H. Transportation Permits. The Buyer shall have obtained prior to the Closing Date from the Pennsylvania Department of Transportation (hereinafter referred to as "PennDOT"), Chester County (the "County") and/or the Township all required final and unappealable highway occupancy permits (if needed) and other approvals and permits required to permit the construction of street openings, curb cuts, driveways and/or traffic signals (if applicable) from the Premises to adjacent public streets.

I. Wetlands. The Buyer shall have obtained prior to the Closing Date from DEP, the United States Army Corps of Engineers (the "Army Corps"), the United States Environmental Protection Agency (the "EPA") and all other federal and state agencies having jurisdiction over wetlands, all required final and unappealable approvals, permits and/or waivers, if any, to permit construction of the Project within any portion of the Premises determined to be within the jurisdiction of the DEP, EPA, Army Corps and other such federal and state agencies pursuant to the River and Harbor Act of 1899 (33 U.S.C. Sections 401 and 403), the Clean Water Act (33 U.S.C. Section 1344), the Marine Protection, Research, and Sanctuaries Act of 1972 (33 U.S. Section 1413), the Pennsylvania Dam Safety and Encroachments Act (32 P.S. Section 693.1 et seq.), the Pennsylvania Clean Streams Law, (35 P.S. Section 691.1 et seq.), and any other laws or regulations pertaining to construction on or near wetlands, waters of the United States or waters of the Commonwealth of Pennsylvania.

J. SCS Approval. The Buyer shall have obtained prior to the Closing Date from the Chester County Soil Conservation Service (the "CCSCS") all required final and unappealable permits and approvals.

K. Stream Encroachment, Earth Disturbance, NPDES and Other Environmental Approvals and Permits. The Buyer shall have obtained prior to the Closing Date all final and unappealable environmental permits, approvals, and/or waivers including, but not limited to, earth disturbance permits, NPDES permits, grading permits, stream encroachment permits and approvals with regard to dams and waterways, from all divisions of DEP having jurisdiction over any aspect of the development of the Premises.

L. Electric Service. The Buyer shall have obtained, prior to the Closing Date, written confirmation that electric service is readily available to serve the Premises at the standard costs and rates of the electric company serving that portion of the Township in which the Premises are located.

M. Historical. The Buyer shall have obtained prior to the Closing Date final and unappealable permits, approvals and/or waivers from the Pennsylvania Museum and Historical Commission confirming that no area of the Premises contains items of historical or archaeological significance, or such final and unappealable permits, approvals and/or waivers which are required from the Pennsylvania Museum and Historical Commission to permit the construction of the Facility even though areas of the Premises may be determined to contain items of historical significance.

N. Horse Racing Commission Approval. The Buyer shall have obtained prior to the Closing Date final and appealable approvals and permits from the Pennsylvania State Horse Racing Commission to operate an off-track wagering facility at the Premises.

O. Other Approvals and Permits. The Buyer shall have obtained prior to the Closing Date all other final and unappealable permits, approvals and agreements required to be obtained in order to develop the Premises in accordance with the Buyer's subdivision, land development and building plans for the Premises.

(The approvals, permits, variances, waivers, special exceptions and agreements referred to in Subparagraphs A through N above are herein referred to as the "Approvals and Permits").

P. Easements. The Buyer shall have the ability to connect the water and sewer systems to be installed in the Premises to the public water and sewer systems without easements or rights-of-way other than those which can and will be furnished by the Sewer Authority or Water Supplier without additional charge or cost to Buyer. If any easement or right-of-way is required which will cross or burden the lands of an adjoining property owner to obtain water or sewer service, the Seller shall, if requested by the Buyer, cooperate with the Buyer in obtaining such easement or right-of-way. (All easements and rights-of-way referred to in this Paragraph 6.P. are collectively referred to herein as the "Easements.") If any Easement is obtained by the Seller during the period of this Agreement, such Easement shall be in a form approved by the Buyer, which approval will not be unreasonably withheld.

Q. Cooperation of Seller and Buyer. The Seller shall cooperate with the Buyer to obtain the Approvals and Permits and Easements and will not act in any manner to hinder, obstruct, delay or prevent the same. The Seller shall join with the Buyer as a petitioner or applicant whenever required on any applications to obtain the Approvals and Permits provided that the Seller shall not be obligated to incur any costs or expenses in connection therewith.

R. Right to Terminate. If the Buyer is not able to obtain all of the Approvals and Permits prior to the Closing, or if the Buyer is not able to obtain all required Easements, the Buyer may terminate this Agreement and the Escrow Agents shall return the Deposit, together with all interest accrued thereon, to the Buyer and all parties shall be released from all liabilities and obligations hereunder, except Buyer's obligation to sell and Seller's obligation to buy the Allocation.

8. FINAL AND UNAPPEALABLE. For the purpose of this Agreement, the Approvals and Permits shall not be deemed final and unappealable, unless and until the period of time for the taking of an appeal from the grant of an Approval or Permit has expired without an appeal of any kind having been filed, or if an appeal has been filed, it has been dismissed.

9. CLOSING. Closing on the sale of the Premises to the Buyer(herein referred to as "Closing") shall be held at such place as Buyer shall designate on or before twelve (12) months after the date hereof (herein referred to as the "Closing Date"). The Buyer shall give the Seller twenty (20) days' advance written notice of the Closing Date.

10. POSSESSION. Possession of the Premises shall be given on the Closing Date by special warranty deed executed and delivered by the Seller conveying fee simple title to the Premises subject only to the Permitted Exceptions.

11. TENDER WAIVED. Formal tender of an executed deed and purchase money is hereby waived.

12. APPORTIONMENTS. At Closing, the following apportionments shall be made:

A. Real Estate Taxes. Real estate taxes shall be apportioned on a per diem basis on the basis of the fiscal or calendar year of each taxing authority.

B. Water, Sewer and Other Utility Charges. Any water, sewer or other utility charges assessed against or incurred because of the Premises shall be apportioned on a per diem basis.

C. Real Estate Transfer Taxes. All real estate transfer taxes imposed by any governmental body or bodies shall be borne equally by the Buyer and the Seller.

D. Preferential Assessment. The Seller shall be solely responsible for any roll-back taxes in connection with the placement of the Premises into a preferential assessment under Act 319 or Act 515 or otherwise. The Seller shall discharge such obligation at Closing.

13 REPRESENTATIONS AND WARRANTIES.

A. Representations and Warranties of Seller. In order to induce the Buyer to enter into this Agreement and purchase the Premises, and with full knowledge that the Buyer is relying thereon, the Seller hereby warrants and represents to the Buyer as follows:

(1) Power to Perform. The Seller has full power and authority to enter into and fulfill his obligations under this Agreement and to consummate the sale of the Premises, and the execution, delivery and performance of this Agreement by the Seller constitutes a valid and binding obligation of the Seller in accordance with its terms. No consent, waiver or approval by any other party is required in connection with the execution and delivery by the Seller of this Agreement or the performance by the Seller of the obligations to be performed by him under this Agreement or any instrument contemplated hereby, except confirmation of the understanding with the Partnership regarding Parcel C and the Reserved Spaces, and the release of the lien of Meridian Bank on Parcel C. Neither the entering into of this Agreement nor the completion of such sale will constitute a violation or breach by the Seller of any contract or other instrument to which the Seller is a party or to which the Seller is subject or by which any of the Seller's assets or properties may be affected, or of any judgment, order, writ, injunction or decree issued against or imposed upon the Seller, nor will the said sale result in a violation of any applicable law, order, rule, or regulation of any governmental authority.

(2) Title to Premises and Partnership Property. The Seller is the sole owner of the Premises and the Premises is not subject to any lease or to any other estate or to any outstanding option or agreement of sale. The Partnership is the sole owner of the Partnership Property.

(3) Contracts. There will not be at Closing, any contracts, written or oral, to which the Seller is a party and which affect the Premises.

(4) Condemnation. There are no condemnation proceedings pending with regard to the Premises, and the Seller does not know of any proposed condemnation proceeding with regard to any portion of the Premises.

(5) Notices. The Seller has not received any written notices of uncorrected violations of any applicable ordinances, regulations, or other laws with respect to the Premises (the "Violation Notices"). If any Violation Notices are issued after the Agreement Date and prior to Closing, the Seller shall pay the cost of complying with such Violation Notices, regardless of the cost of compliance.

(6) Assessments. There are not now, nor will there at Closing be, any assessments for public improvements against the Premises which are unpaid by the Seller, nor is the Premises subject to or affected by any special assessments, whether or not presently a lien thereon. Any assessments or special assessments levied between the Agreement Date and the Closing Date shall be paid by the Seller prior to or at the time of Closing.

(7) Water, Sewer and Tax Bills. On the Closing Date, all taxes and all water and sewer charges due in connection with the Premises will have been paid.

(8) Zoning. The present zoning classification of the Premises is "PC-2", and the prensent zoning classification of Parcel C is "PC".

(9) Environmental Matters. To the best of the Seller's actual knowledge,

(a) The Premises does not contain and there has been no application, use, treatment, production, generation, discharge, disposal, release or storage on, from or onto the Premises, or any lot or property adjacent thereto, of any Toxic Waste, Hazardous Waste, Industrial Waste

or Hazardous Substance as defined by the Resource Conservation and Recovery Act ("RCRA"), 42 U.S.C. '6901 et seq.; the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA"), 42 U.S.C. '9601 et seq., as amended by the Superfund Amendments and Reauthorization Act of 1986 ("SARA"); the Pennsylvania Hazardous Sites Clean-Up Act, 35 P.S. 6020.101 et seq.; the Pennsylvania Solid Waste Management Act, 35 P.S. '6018.101 et seq.; the Pennsylvania Clean Streams Law, 35 P.S. '691.1 et. seq.; any implementing regulations thereunder, or any other applicable federal, state or local statutes, regulations, ordinances or rules.

(b) There are no underground tanks on the Premises.

(c) No petroleum as defined by RCRA, 42 U.S.C. '6991 (8), its implementing regulations or any applicable state or local statutes, regulation ordinances or rules has been released from or onto the Premises.

(d) There is not located on or under the premises polychlorinated biphenyls or asbestos.

(10) Contributions. No commitments have been made to any governmental authority, utility company, association, or any other organization or group of individuals relating to the Premises which would impose an obligation upon Buyer to make any contribution or dedication of land, or to construct, install or maintain any improvements of a public or private nature on or off the Premises. The Buyer, however, shall be responsible for all utility tap-in, connection and reservation fees established by the providers of such utilities.

(11) Continuing Representations. The foregoing representations by Seller shall be continuing representations and warranties of the Seller which shall remain in effect until completion of the Closing but not thereafter.

B. Covenants of Seller. The Seller hereby covenants that the Seller will:

(1) Maintenance of Premises. Prior to the Closing Date, maintain the Premises in compliance with all applicable zoning ordinances and any other acts, ordinances or regulations affecting the use and improvement thereof. If the Seller fails to discharge his maintenance obligations as set forth in this Paragraph 13.B.(1), the Buyer shall have the right to perform such maintenance and to charge the Seller the cost of such maintenance.

(2) Alterations to Premises. Prior to the Closing Date, not make or permit to be made any alterations, improvements, or additions to the Premises without the prior written consent of the Buyer, which consent shall not be unreasonably withheld or delayed.

(3) Satisfaction of Liens. Not permit any liens, easements, encumbrances or other clouds on the title to the Premises to be created after the date hereof (hereinafter referred to as "Title Imperfections"). If the Seller creates or permits any Title Imperfections to be created in violation hereof, the Seller shall satisfy such Title Imperfections by the payment of money, either by such payment or by depositing in escrow with the Title Company sufficient funds as will cause the Title Company to insure the Buyer against any loss which is caused to the Buyer due to the existence of such liens or encumbrances.

(4) Inspection and Tests. Permit the Buyer and the Buyer's agents and employees to inspect the Premises from time to time. Commencing with the Agreement Date, the Buyer and Buyer's agents and employees shall have the right to enter upon the Premises to conduct or cause to be conducted upon the Premises ground tests, soil analysis, topographical surveys, engineering studies and other physical examination of the Premises as the Buyer may deem necessary. The Buyer shall hold the Seller harmless and shall indemnify and defend the Seller against any and all claims, including costs, fees, expenses and

reasonable attorneys' fees, for or in respect of injuries (including death) or damage of any kind to the person or property of Seller, Buyer or of any other person whomsoever caused by or in connection with Buyer's entry onto the Premises and/or such tests or related activities. If, however, any such injury, death or damage is caused by the act (negligent or otherwise) of the Seller or any employee or representative of the Seller, the Seller shall be liable therefor.

(5) Leases. Not enter into any lease for the Premises or any part thereof which is not terminable on or before the Closing Date, without obtaining the prior written approval of the Buyer.

C. Representations and Warranties of Buyer. In order to induce the Seller to enter into this Agreement, the Buyer hereby warrants and represents to the Seller that (1) the Buyer has the full power and authority to enter into and fulfill its obligations under this Agreement, and (2) the execution of this Agreement by the Buyer constitutes the valid and binding obligation of the Buyer in accordance with its terms.

14. CONDITIONS PRECEDENT TO BUYER'S OBLIGATIONS.

A. Conditions Precedent. The obligation of the Buyer to purchase the Premises from the Seller in accordance with this Agreement is subject to satisfaction of each of the following conditions (the "Conditions Precedent"), any of which may be waived in whole or in part by the Buyer on or prior to the Closing Date:

(1) Seller's Representations and Warranties. Each of the representations and warranties of the Seller contained in this Agreement shall be true and correct in all respects on the Closing Date, as though made on such date.

(2) Compliance with Covenants. The Seller shall have performed and complied with all of the terms, conditions and covenants required by this Agreement to be performed and complied with prior to or on the Closing Date.

(3) Title Policy. A title policy or unconditional commitment therefor meeting the requirements of Paragraph 5.B. hereof shall have been issued by the Title Company to the Buyer.

(4) Approvals and Permits. All of the Approvals and Permits shall have been obtained, shall be in full force and effect and shall be final, unappealable and unrevoked, and no federal, state or local agency of any kind shall have taken any action, the effect of which is to prevent, delay or impair the lawful construction of the Facility upon and the use of the Premises.

(5) Easements. The Buyer and/or Seller shall have obtained all required Easements without any cost to Buyer, except that any Easements to obtain water or sewer service shall be obtained at the Buyer's cost.

(6) Environmental Condition. On the Closing Date no Toxic Waste, Hazardous Waste or Hazardous Substance, as defined in Paragraph 12.A.(9) above will be located on, under, or adjacent to the Properties.

(7) Contemporaneously with the Closing on the Purchase of the Premises the Buyer shall have either completed the purchase of the Partnership Property or extend a lease for the Partnership Property. If the Buyer acquires the right to lease the Partnership Property, such lease shall be for a term of not less than ninety-nine (99) years, at an annual gross rental not to exceed One Dollar ($1.00) per year, plus all real estate taxes assessed upon the leased premises, and the Lease shall grant the Buyer the exclusive right to use the Partnership Property.

B. Buyer's Rights If Conditions Precedent Are Not Satisfied. If, on the Closing Date, all of the Conditions Precedent to the Buyer's obligation to consummate the purchase of the Premises which are set forth in this Agreement have not been satisfied, the Buyer shall elect to either (1) waive such of those conditions as are unsatisfied; or (2) terminate this Agreement. If the Buyer terminates this Agreement because the Conditions Precedent have not been satisfied, the Deposit and all accrued interest shall be returned to the Buyer and the parties hereto shall be released from all liabilities and obligations under this Agreement, other than the Buyer's obligation to sell and the Seller's obligation to buy the Allocation.

Notwithstanding the foregoing, if, on the Closing Date, all of the Conditions Precedent to the Buyer's obligations to consummate the purchase of the Premises which are set forth in this Agreement have not been satisfied because the Seller has intentionally breached any of the Seller's representations, warranties or covenants, all Deposit and all interest accrued thereon shall be returned to the Buyer and the Buyer shall have all rights and remedies set forth in Paragraph 18.B. herein.

15. RECORDING. This Agreement may not be recorded by either party hereto.

16. CONDEMNATION. If, prior to Closing, all or any part of the Premises is taken by eminent domain proceedings or a notice of any eminent domain proceeding with respect to the Premises or any part thereof is received by the Seller, the Seller shall immediately give notice thereof to Buyer and Buyer shall have the right, exercisable in writing within thirty (30) days of receipt of such notice to either:

A. Complete the purchase of the Premises hereunder in accordance with this Agreement; or

B. Terminate this Agreement, in which event the Deposit, together with all interest accrued thereon, shall be returned to the Buyer and this Agreement shall be null and void.

Failure to deliver such written notice shall be deemed an election by Buyer to complete the purchase of the Premises. If the Buyer elects (or is deemed to have elected) to complete the purchase of the Premises, the purchase shall be completed in accordance with this Agreement, except that at Closing the Seller shall assign, transfer, and pay to Buyer all rights that the Seller has to any of the proceeds of such eminent domain proceedings and all proceeds from such proceedings theretofore received by the Seller.

17. REAL ESTATE BROKERS. The Seller and Buyer respectively warrant to each other that no finders, real estate brokers or other persons entitled to claim a fee or commission have interested either of them in this transaction and that they have not had any dealings with any person which may entitle that person to a fee or commission. The Seller and Buyer hereby agree to indemnify and hold the other harmless against any losses, costs or expenses (including attorney's fees) arising out of any claim of any broker or finder in conjunction with this transaction, the obligation for which was incurred by the breaching party. The terms of this Paragraph 16 shall survive the Closing Date.

18. DEFAULT.

B. By Buyer. If, after all of the Conditions Precedent to the Buyer's obligations are satisfied, the Buyer, without justification, fails to complete the Closing and the Seller is not in default hereunder, then as the Seller's sole and exclusive remedy, the Escrow Agents shall pay the Deposit and all interest accrued thereon to the Seller as liquidated damages and not a penalty, such being agreed between Buyer and Seller to be a necessary condition to this Agreement to compensate the Seller for expenses and expenditures

incurred and made in connection therewith, the damages sustained as a result of withdrawing the Premises from the market, and otherwise for the Buyer's non-compliance with this Agreement. Thereupon, this Agreement shall become null and void and of no further force and both parties shall be released of further liability and obligations hereunder, and the Seller shall have no further remedy, either at law or in equity. The Buyer shall reimburse the Seller for any legal fees incurred by the Seller in obtaining the Deposit in the event the Buyer is unsuccessful in a challenge to the Seller's right to receive the Deposit. Notwithstanding the foregoing, if a court of competent jurisdiction renders a final, unappealable decision that the Buyer has wrongfully encumbered the Seller's title to the Premises, the Seller shall be entitled to consequential damages as a result of such wrongful action of the Buyer.

C. By Seller. If the Seller defaults hereunder, the Buyer shall be entitled to pursue all rights and remedies which are available at law, and the equitable remedy of specific performance.

19. 1445 CERTIFICATION. The Seller acknowledges that Section 1445 of the Internal Revenue Code provides that a transferee of a United States real property interest must withhold tax if the transferor is a foreign person. To inform the Buyer that withholding of tax is not required upon the disposition of a United States real property interest by the Seller, the Seller shall deliver on the Closing Date a sworn certification to the effect that the Seller is not a non-resident alien for Federal Income Tax purposes, in a form reasonably satisfactory to the Buyer.

20. ESCROW AGENTS. The Buyer and the Seller have requested that the Deposit be held in escrow by the Escrow Agents. Notwithstanding anything herein to the contrary, the Escrow Agents shall not release the Deposit unless directed to do so by written notice signed by the Buyer and the Seller, or by a final and unappealable order of a court of competent jurisdiction. The Escrow Agents are merely responsible for the safe-keeping of the Deposit and shall not be required

to determine any questions of fact or law. The Escrow Agents shall be protected in acting in good faith upon instruments or documents believed to have been signed by a proper person or persons, not only as to their due execution and the validity and effectiveness of their provisions, but also as to the truth and acceptability of any information contained therein. The Escrow Agents shall not have any duties except those which are expressly set forth herein. The Escrow Agents shall not be bound by any notice of, or demand with respect to, any waiver, modification, or amendment of this Agreement unless in writing, signed by all of the parties to this Agreement and if the duties or responsibilities of the Escrow Agents are affected, unless the Escrow Agents shall have given their prior written consent thereto. The Escrow Agents shall not be entitled to a fee for their services as Escrow Agents, nor shall they have any liability to the Buyer or the Seller for anything done or omitted to be done by them in good faith, their liability being limited solely to gross negligence or willful misconduct. The Seller acknowledges that, separate and distinct from his duties as Escrow Agent, Marc B. Kaplin is acting as counsel to Buyer. The Seller expressly consents to the foregoing and waives any right to hereafter claim that the same in any way constitutes a conflict of interest. Furthermore, if any dispute arises after the date of this Agreement, Marc B. Kaplin shall not be precluded in any manner from continuing to represent Buyer in any matter regarding this Agreement. The Buyer acknowledges that, separate and distinct from his duties as Escrow Agent, Ronald M. Agulnick is acting as counsel to the Seller. The Buyer expressly consents to the foregoing and waive any right to hereafter claim that the same in any way constitutes a conflict of interest. Furthermore, if any dispute arises after the date of this Agreement, Ronald M. Agulnick shall not be precluded in any manner from continuing to represent the Seller in any matter regarding this Agreement.

21. GENERAL PROVISIONS.

A. Binding Effect. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective heirs, executors, administrators, successors, and assigns.

B. Entire Agreement. This Agreement constitutes the entire agreement among the parties hereto and supersedes all prior negotiations, understandings and agreements of any nature whatsoever with respect to the subject matter hereof. No amendment, waiver or discharge of any provision of this Agreement shall be effective against either party unless that party shall have consented thereto in writing.

C. Governing Law. This Agreement shall be governed, interpreted, and construed in accordance with the laws of the Commonwealth of Pennsylvania.

D. Notices. All notices or other communications required or permitted to be given under the terms of this Agreement shall be in writing, sent by Certified Mail, postage prepaid, return receipt requested, or by private carrier guaranteeing next day service, addressed as follows:

(1) If to the Seller, addressed as follows:

Fred V. Schubert
114 Schubert Drive
Downingtown, PA 19335

With a copy to:

Ronald M. Agulnick, Esquire
Crawford, Wilson, Ryan & Agulnick, P.C.
220 West Gay Street
West Chester, PA 19380

(2) If to Buyer, addressed as follows:

Penn National Gaming, Inc.
Suite 203
825 Berkshire Boulevard
Wyomissing, PA 19610

With a copy to:

Marc B. Kaplin, Esquire
Lesser & Kaplin, P.C.
350 Sentry Parkway, Building 640
Blue Bell, PA 19422

or to such other address or addresses and to the attention of such other person or persons as any of the parties hereto may notify the others in accordance with the provisions of this Agreement.

E. Captions. Captions contained in this Agreement are inserted only as a matter of convenience and in no way define, limit or extend the scope or intent of this Agreement or any provision hereof.

F. Merger of Representations, Warranties and Covenants. All representations, warranties and covenants made by the Seller and the Buyer in this Agreement and all obligations of the Seller and the Buyer not discharged at Closing arising out of, or in connection with, this Agreement shall merge with the deed to the Premises and shall not survive the Closing Date.

G. Time is of the Essence. Time is of the essence of this Agreement and all of its terms and conditions.

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

SELLER:

/s/ Fred V. Schubert
FRED V. SCHUBERT

BUYER:

PENN NATIONAL GAMING, INC.

(CORPORATE SEAL)

By: /s/ Peter M. Carlino

Name/Title: Chairman

Attest: /s/ Susan M. Montgomery

Name/Title: Assistant to Chairman

ESCROW AGENTS:

/s/ Marc B. Kaplin
MARC B. KAPLIN, ESQUIRE

/s/ Ronald M. Agulnick
RONALD M. AGULNICK, ESQUIRE

PURCHASE AGREEMENT

This Purchase Agreement (the "Agreement") is made and entered into on the 13th day of September, 1996 by and between the Estate of Joseph B. Banks ("Seller") and Penn National Gaming, Inc., a Pennsylvania corporation ("Buyer"). Virginia H. Banks ("Mrs. Banks") joins in this Agreement solely for the purpose and subject to the conditions set forth in the Joinder hereto.

The Plains Company, a Pennsylvania corporation (the "Company"), through its subsidiary, Pocono Downs, Inc., a Pennsylvania corporation ("Pocono Downs"), conducts harness racing with pari-mutuel wagering at Pocono Downs Racetrack in Wilkes-Barre, Pennsylvania and operates off-track wagering facilities located in Lehigh County, Pennsylvania and Erie, Pennsylvania.

The Lehigh County off-track wagering facility is owned by Lehigh Off-Track Wagering, L.P., a Pennsylvania limited partnership ("Lehigh"). The Erie off-track wagering facility is owned by Peach Street Ltd. Partnership, a Pennsylvania limited partnership ("Peach Street"; and together with Lehigh, the "Partnerships").

Seller owns all of the issued and outstanding shares of capital stock (the "Shares") of the Company and all of the limited partnership interests (the "Interests") in the Partnerships. The Company indirectly owns all of the general partnership interests in the Partnerships.

Buyer desires to purchase from Seller, and Seller desires to sell to Buyer, the Shares and the Interests in accordance with the provisions of this Agreement.

References in this Agreement to "Section A" refer to a section in Appendix A hereto.

NOW, THEREFORE, intending to be legally bound hereby, the parties hereto agree as follows:

1. Purchase Price Deposit; Sale and Purchase of Shares and Interests. (a) Contemporaneously herewith, Buyer has deposited $1,000,000 (the "Deposit") with the escrow agent (the "Deposit Escrow Agent") designated in the escrow agreement (the "Deposit Escrow Agreement") in substantially the form of Exhibit A hereto entered into concurrently with the execution hereof among Buyer, Seller and the Deposit Escrow Agent, to be released and delivered as provided in the Deposit Escrow Agreement and in Section 2(b) hereof.

(b) Subject to the terms and conditions of this Agreement and on the basis of and in reliance upon the representations, warranties, covenants and agreements set forth herein, on the Closing Date (as defined in Section 2(a) hereof) Seller shall sell to Buyer, and Buyer shall purchase from Seller, all of the Shares and the Interests in exchange for a cash purchase price of $47,000,000, subject to adjustment after the Closing pursuant to Sections 3 and 4 hereof. The sum of $47,000,000 shall be payable by Buyer as follows:

(i) $44,000,000 shall be paid to Seller at the Closing in the manner provided in Sections 2(b) and 2(c) hereof; and

(ii) $3,000,000 shall be deposited at the Closing with the escrow agent (the "Closing Escrow Agent") designated in the escrow agreement (the "Closing Escrow Agreement") in substantially the form of Exhibit B hereto to be entered into at the Closing among Buyer, Seller and the Closing Escrow Agent, in the manner provided in Sections 2(b) and 2(c) hereof, and shall be held and disbursed by the Closing Escrow Agent in accordance with the Closing Escrow Agreement.

2. Closing. (a) The closing (the "Closing") of the sale and purchase of Shares and the Interests described in Section 1 hereof shall take place at the offices of Morgan, Lewis & Bockius LLP, 2000 One Logan Square, Philadelphia, Pennsylvania, commencing at 10:00 a.m., local time, no later than November 30, 1996, or at such other place, time or date as may be agreed upon in writing by the parties hereto. The date of the Closing is sometimes herein referred to as the "Closing Date". The parties acknowledge that if the Closing has not occurred by 6:00 p.m. Philadelphia local time on November 30, 1996, this Agreement shall terminate, Seller may be entitled to the Deposit (as provided in the Deposit Escrow Agreement) and the parties shall have no further obligation to each other except as provided in Section 11.2 hereof; provided, however, the if the parties, in their sole and unfettered discretion, so agree in writing, the period for closing shall be extended until 6:00 p.m. Philadelphia local time on December 15, 1996, upon payment by Buyer to Seller in cash of a non-refundable extension fee of $1,000,000 (which shall be in addition to, and not in lieu of, the delivery of the Deposit). In no event shall the Closing Date be extended beyond the close of business on November 30, 1996, or December 15, 1996, as applicable.

(b) At the Closing, the Deposit, and all investment earnings thereon, shall be deposited with the Closing Escrow Agent (in partial satisfaction of Buyer's payment obligations under Section 1(b) and 2(c) hereof).

(c) At the Closing, Seller shall assign, transfer and deliver to Buyer (or, without relieving Buyer of its obligations hereunder, to one or more wholly-owned direct or indirect subsidiaries of Buyer designated in writing at least five days prior to the Closing) (i) the certificates for the Shares (duly endorsed or with separate duly signed stock transfer powers attached thereto) and (ii) the Interests, in both cases free and clear of all pledges, liens, encumbrances, claims and other charges thereon of every kind (provided that Buyer acknowledges that ownership of the Shares and the Interests will be subject to securities laws and laws applicable to "licensed corporations" (as defined in the Pennsylvania Race Horse Industry Reform Act (the "Pennsylvania Act")) and owners of "race tracks" or "non primary locations" (as defined in the Pennsylvania Act)), in exchange for the delivery by Buyer (by wire transfer of immediately available funds to such accounts at such banks as Seller shall direct in writing delivered to Buyer no less than three business days prior to the Closing) to (i) Seller, the amount to be paid to it pursuant to Section 1(b)(i) hereof, and (ii) the Closing Escrow Agent, the amount to be held by the Closing Escrow Agent under the Closing Escrow Agreement pursuant to Section 1(b)(ii) hereof.

(d) At the Closing, Seller shall make available to Buyer the written resignations of all the directors and officers of the Company and its Subsidiaries (as defined in Section A.1.6 hereof) effective as of the Closing, and shall cause to be made available to the successor directors and officers of the Company (the "post-Closing Company directors and officers") all minute books, stock record books, books of account, corporate seals, leases, contracts, agreements, securities, bank, checking and money market accounts, other investments, deposits, customer and subscriber lists, files and other documents, instruments and papers belonging to the Company and its Subsidiaries and shall cause possession and control of all of the assets and properties of every kind and nature, tangible and intangible, of the Company and its Subsidiaries and of all other things and matters pertaining to the operation of the business of the Company and its Subsidiaries to be made available to the post-Closing Company directors and officers. At the Closing, Seller shall also deliver to Buyer, and Buyer shall deliver to Seller, the certificates, opinions and other instruments and documents referred to in Sections 8 and 9 hereof, respectively.

Anything in this Section 2(d) or elsewhere in this Agreement to the contrary notwithstanding, effective as of the Closing Buyer hereby waives, and

at Closing shall cause Company and the Subsidiaries to waive (by delivery of a waiver in the form attached hereto as Exhibit M), any right that Buyer, Company or the Subsidiaries may have to any notes, work product or communications within the attorney-client privilege (collectively, the "Attorney Materials") to or from Seller prepared or received (i) by Drinker Biddle & Reath or, (ii) after June 14, 1996, by Chariton & Keiser in the course of their representation of Seller in the transactions contemplated by this Agreement to the extent such right would arise as a result of Drinker Biddle & Reath or Chariton & Keiser also having been engaged by or receiving payments from the Company or any of the Subsidiaries; provided that such waivers shall be null and void and of no effect with respect to Attorney Materials that are not protected by the attorney-client privilege if it is asserted.

(e) The purchase price payable under Section 1(b)(i) and 1(b)(ii) shall be allocated between the Shares and the Interests as set forth on Exhibit C hereto. Buyer and Seller each agree to report the sale and purchase of the Shares and the Interests for all federal, state, local, foreign and other tax purposes in a manner consistent with such allocation.

(f) (i) Immediately prior to the Closing, Seller shall cause the Company to redeem a portion of the Shares (the "Redeemed Shares") in exchange for any remaining interests in the 400 Acres (as defined in Section 7.11 below). The number of Redeemed Shares, if any, shall equal the product of (A) the total number of Shares multiplied by (B) the fraction that equals the ratio of (x) the fair market value, if any, of any remaining interest of the Company or its Subsidiaries in the 400 Acres to (y) the fair market value of the Shares immediately before the redemption. Such number shall be determined by Seller. At the Seller's discretion, the remaining interest in the 400 Acres, if any, shall either be transferred directly to Seller (or its designee) or shall first be contributed to a corporation or other legal entity, 100% of the interests in which are then transferred to Seller (or its designee).

(ii) To the extent any provision of this Agreement (including without limitation the Appendix, the Schedules and Exhibits hereto) refers to Seller transferring the Shares to Buyer, or suggests that the Shares transferred to Buyer represent all of the Shares of the Company, such provision shall be deemed modified so as not to include the Redeemed Shares.

(iii) Upon any such redemption and/or conveyance of the 400 Acres, the party taking title to the 400 Acres shall release Buyer, the Company, Pocono Downs and the other Subsidiaries, and each of their affiliates (collectively, the "400 Acre Indemnitees"), from, and shall reimburse, defend, indemnify and hold harmless each 400 Acre Indemnitee from, against and in respect of, any Claims (as hereinafter defined) suffered, sustained, incurred or paid by such 400 Acre Indemnitee in connection with, resulting from or arising out of the 400 Acres (including without limitation all improvements located thereon) or the ownership or conveyance thereof (including without limitation any Claims which involve an Environmental Claim (as defined in Section 10.2 hereof) or which otherwise relate to or involve a claim, liability or obligation which arises out of or is based upon, any Environmental Law (as defined in Section 10.2 hereof) whether such liability or obligation relates to or arises out of any activity occurring, condition existing, omission to act or other matter with respect to the 400 Acres existing before or after the Closing). The foregoing indemnification covenant shall also include procedures substantially similar to those set forth in Sections 10.7 and 10.8 hereof. Such conveyance of the 400 Acres shall be by special warranty deed and without any other warranty or representation, covenant or liability of any kind. Such conveyance of the 400 Acres shall be in accordance with all applicable laws, regulations, rules and ordinances and all necessary permits, approvals and authorizations shall be obtained in connection with such conveyance.

3. Post-Closing Adjustment to Purchase Price. (a) As soon as reasonably practical following (but not more than 120 days after) the Closing Date, Buyer shall prepare and deliver to Seller a consolidated balance sheet of the Company and its Subsidiaries as of the Closing Date (the "Closing Financial Statements"). The Closing Financial Statements shall be prepared in accordance with generally accepted accounting principles using the same methods and criteria employed by Pocono Downs in connection with its preparation of the Audited Financials (as defined in Section A.1.7 hereof), to the extent such methods and criteria are consistent with generally accepted accounting principles. All expenses incurred in connection with the preparation of the Closing Financial Statements shall be the responsibility of Buyer.

(b) The Closing Financial Statements shall become final and binding upon the parties unless within 20 days following their submittal to Seller, Seller notifies Buyer of its objection thereto. If Seller so notifies Buyer of its objection to the Closing Financial Statements, Seller and Buyer shall negotiate in good faith to resolve any differences. If within 30 days following the receipt of such notice by Buyer any of such differences have not been resolved, they shall be resolved by the Philadelphia, Pennsylvania office of a nationally recognized accounting firm mutually acceptable to the parties, and such firm's opinion thereon and the resulting Closing Financial Statements shall be final, binding and not subject to any appeal. The fees and expenses of such accounting firm in connection with any such resolution shall be paid one-half by Seller and one-half by Buyer.

(c) Within ten days following the final determination of the Closing Financial Statements, an adjustment to the Purchase Price shall be made and paid as follows: (i) if the sum of the balance sheet entries thereon representing the following items with adjustments to such items as specified below:

cash
marketable securities
the tax credit identified on Exhibit D hereto
prepaid corporate and real estate taxes
net accounts receivable (excluding all receivables from Seller, receivables
from employees and funds retention receivables from Philadelphia Park)
employee receivables (to the extent collectible) food and beverage inventory miscellaneous inventory (which shall have a stipulated value of $50,000)
prepaid insurance
security deposits
deferred finance charges (to the extent the related debt is not repaid)
interest receivable
prepaid expenses

(the foregoing collectively, "Current Assets") as of the Closing Date is less than the sum of the balance sheet entries thereon representing the following items with adjustments to such items are specified below:

accounts payable indebtedness for money borrowed capitalized leases underpaid purses payroll & sales taxes payable accrued expenses

income taxes payable deferred income taxes other current liabilities 50% of 1996 capital stock taxes Fan club reserve (which shall have a stipulated value of $50,000)

(the foregoing collectively, "Debts") then Seller shall pay, or cause to be paid to Buyer, in cash, the amount of the difference between such Current Assets and the Debts, and (ii) if the sum of Current Assets as of the Closing Date is greater than the sum of Debts, then Buyer shall pay to Seller, in cash, the amount of such difference.

(d) Nothing in this Section 3 shall preclude any party from exercising, or shall adversely affect or otherwise limit in any respect the exercise of, any right or remedy available to it hereunder for any misrepresentation or breach of warranty hereunder, but neither Buyer nor Seller shall have any right to dispute the Closing Financial Statements or any portion thereof once they have been finally determined in accordance with Section 3(b) hereof.

4. Special Payment for New Activity. In addition to the Purchase Price, if:

(a) During the period beginning on the date hereof and ending on the fifth anniversary of the Closing Date, the Commonwealth of Pennsylvania (whether through legislation or otherwise) permits additional forms of wagering (including but not limited to the operation of slot machines or riverboat or other gambling facilities), other than pari-mutuel wagering, in which facilities licensed or regulated by the Harness or Horse Racing Commissions (or any successor to all or a portion of the functions thereof) are permitted to participate, and

(b) At any time that it is legally permissible for Buyer to offer any one or more of such forms of wagering anywhere in any of the following counties in Pennsylvania: Erie, Warren, McKean, Potter, Tioga, Bradford, Susquehanna, Wayne, Pike, Monroe, Northampton, Lehigh, Carbon, Schuykill, Luzerne, Lackawanna, Wyoming, Sullivan, Columbia, Northumberland, Union, Montour, Clinton, Centre, Cameron, Clearfield, Elk, Jefferson, Clarion, Forest, Venango, Mercer or Crawford, Buyer offers any one or more of such forms of wagering anywhere in Pennsylvania,

then Buyer shall pay to Seller in cash the sum of $10 million as follows: $2 million shall be due and payable upon commencement of the first new wagering activity (the "New Activity Date"), and an additional $2 million shall be due upon each of the first, second, third and fourth anniversaries of the New Activity Date. The full amount of the special payment shall be made whether or not Buyer continues to engage in the activity and shall be made whether or not Buyer shall have transferred its interests in the Company or its Subsidiaries to a new party before or after such new wagering activity is offered in such area. Such special payment shall be treated as part of the purchase price for the Shares.

For purposes of this Section 4, Buyer shall be deemed to have offered or be legally permitted to offer an additional form of wagering other than pari-mutuel wagering if the form of wagering is offered or legally permitted to be offered by Buyer, by any successor or assign of Buyer or any affiliate of Buyer or by any person which has an ownership interest in Buyer or an affiliate of Buyer or from which Buyer or any of its affiliates receives payments or other benefits directly or indirectly in respect of any such form of wagering. The special payment shall not be subject to set-off, withholding or offset for any matters or claims whatsoever.

5. Representations and Warranties of Seller. Seller represents and warrants to Buyer as set forth in Section A.1 of Appendix A hereto, which Section is incorporated in this Section 5 by reference and is a part of this Agreement.

6. Representations and Warranties of Buyer. Buyer represents and warrants to Seller as set forth in Section A.2 of Appendix A hereto, which Section is incorporated in this Section 6 by reference and is a part of this Agreement.

7. Covenants.

7.1 Covenants Pending Closing.1 Covenants Pending ClosingCovenants Pending Closing. Seller acknowledges that Buyer is agreeing to the covenants set forth in this Section 7.1 in reliance upon the continuation of Herb A. Grayek, Jr. as the person having chief executive and operating responsibility similar to that being exercised at the date of this Agreement for the Company and its Subsidiaries. In the event that Mr. Grayek no longer performs such role, Seller shall agree to such modifications of this Section 7.1 as Buyer shall reasonably request. Subject to the foregoing, Seller represents and warrants to Buyer and agrees that, except as may be approved in writing by an executive officer of Buyer, between the date hereof and the Closing Date:

(a) the Company and its Subsidiaries will conduct and operate their businesses in a manner consistent with past practices and, to the extent consistent with such operation, use their reasonable good faith efforts to (i) preserve intact their current business organizations, (ii) keep available the services of their present employees, (iii) continue normal purchasing, rental, leasing, financing, marketing, advertising, promotional and maintenance expenditures and (iv) preserve any beneficial business relationships with all persons having business dealings with them, it being understood and acknowledged that Seller is uncertain as to the effect of the prospective sale of the Shares and Interests on the foregoing, and by way of illustration and not by way of limitation, Seller may (but need not) initiate or continue efforts to acquire any desired nonprimary site, develop or establish uplink facilities, alone or in conjunction with others, enter into agreements to accept or allow wagers with respect to activities within and outside of the Commonwealth of Pennsylvania and do all things that Company and its Subsidiaries would have done in the ordinary course of their business had this Agreement not been executed;

(b) the Company and its Subsidiaries will, at their own expense, maintain in a manner consistent with past practices (i) all of the material properties used or useful in their businesses in current operating condition and repair, ordinary wear and tear excepted and (ii) all insurance covering their business, employees and assets in full force and effect until 12:01 A.M. on the first day following the Closing Date with responsible companies, comparable in amount, scope and coverage to that in effect on the date hereof;

(c) the Company and its Subsidiaries will (i) use their reasonable good faith efforts consistent with past practices to duly comply with all laws, ordinances, codes, rules and regulations applicable to them if the failure to do so would have a material adverse effect upon the Company and its Subsidiaries taken as a whole, (ii) use their reasonable best efforts to perform all of their material obligations and liabilities without default, (iii) maintain their corporate existence in good standing in their jurisdictions of incorporation or organization and their due qualification in good standing in all jurisdictions in which they are so qualified and (iv) maintain all of their books and records in the usual, regular and ordinary manner on a basis consistent with past practices, it being understood and agreed by the parties hereto that the responsibility for complying with the provisions of the Pennsylvania Race Horse Industry Reform Act and regulations of the Pennsylvania Racing Commissions applicable to the transaction contemplated hereunder is exclusively that of Buyer and not of Seller or, prior to the Closing, the Company or any of its Subsidiaries;

(d) the Company and its Subsidiaries will give to Buyer and its counsel, accountants, investment bankers and other representatives access during normal business hours to the premises of the business, personnel, counsel, accounts and other representatives of the Company and its Subsidiaries and furnish to Buyer and such representatives all such additional documents and information with respect to the businesses of the Company and its Subsidiaries as Buyer may from time to time reasonably request and as, in the case of documents and information, may be readily accessible to the Company;

(e) Seller shall use its reasonable best efforts to satisfy the conditions set forth in Sections 8.4, 8.5, 8.7 (except to the extent relating to Buyer's election pursuant to such Section to continue any indebtedness), 8.9 and 8.10 hereof, and Seller shall cooperate with Buyer in its efforts to obtain any required third party consents to the consummation of the transactions contemplated by this Agreement; Seller and its Subsidiaries shall execute customary affidavits and documentation required by Buyer's title insurance company in connection with the issuance of Owner's Title Policies (as hereinafter defined) insuring title in the form required by Sections 12(b) and 12(c) hereto;

(f) neither the Company nor any Subsidiary will (i) make any change adverse to Buyer in its organizational documents or its authorized, issued or outstanding capital stock or partnership interests, (ii) grant any options or other rights to acquire, whether directly or contingently, any of its capital stock or partnership interests or (iii) except as may be provided herein, sell, rent, lease or otherwise dispose of any of their assets, except in the ordinary course of business consistent with past practices;

(g) other than in the ordinary course of business (as more fully set forth and illustrated in Section 7.1(a) hereof), neither Seller, the Company nor any Subsidiary will (i) make any capital expenditures or commitments for capital expenditures, (ii) assume, guarantee, endorse or otherwise become liable or responsible (whether directly, contingently or otherwise) for the obligations of any other person, (iii) enter into any employment contract, increase the rate of compensation payable or to become payable by it to any officer or any other executive employee or make any general increase in the compensation or rate of compensation payable or to become payable to hourly employees or salaried employees except in the ordinary course of business or as required by existing contracts or (iv) accrue or pay to any of its officers or employees any bonus, profit-sharing, retirement pay, insurance, death benefit, fringe benefit or other compensation, except as disclosed herein or in the Schedules hereto;

(h) neither the Company nor any Subsidiary will modify, terminate or renew any agreement, contract or commitment or waive, release or dispose of any right or claim of value accruing to it, except in a manner consistent with past practices;

(i) other than in the ordinary course of business, neither Seller, the Company nor any Subsidiary will enter into any transaction or take any action or fail to take any action which is intended to result in any of the representations and warranties contained in this Agreement being untrue and incorrect in any material respect;

(j) neither the Company nor any Subsidiary will take any other action or suffer or permit any other action to occur (other than actions taken in the ordinary course of business, as more fully set forth and illustrated in Section 7.1(a) hereof) which could reasonably be expected to have a material adverse

effect on the business, management, operations, results of operations, assets, liabilities, properties, prospects or condition (financial or otherwise) of the Company or any Subsidiary;

(k) neither Seller nor any affiliate of Seller will undertake any transaction that would require a filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") with respect to the transaction contemplated by this Agreement and will not make any such filing;

(l) neither Seller, the Company nor any Subsidiary will agree or commit to do any of the foregoing;

(m) notwithstanding any other provision hereof, between the date hereof and the Closing Date the Company and its Subsidiaries shall be entitled to pay dividends and make other distributions and make other transfers (including without limitation through redemption) to equity holders of cash, cash equivalents, marketable securities and Pocono Downs= funds retention receivable from Philadelphia Park without prior notice to or approval of Buyer; and

(n) Seller shall use its reasonable good faith efforts to cause the Company and its Subsidiaries to comply with all matters referred to in this Section 7.1, with the same effect as if the covenants in this Section 7.1 were made by them.

7.2 No Solicitation, Etc. Prior to Closing:

(a) Seller shall not, and shall not permit the Company or any Subsidiary to, directly or through another person, make, solicit, initiate, negotiate or encourage submission of proposals or offers from any persons relating to any liquidation, dissolution, recapitalization, merger, consolidation or acquisition or purchase of all or substantially all of the assets of, or equity interest in, the Company or any Subsidiary or any other similar transaction or business combination. Seller shall, and shall cause the Company and its Subsidiaries to, immediately cease and cause to be terminated all contracts, negotiations and communications with third parties with respect to the foregoing, if any, existing on the date hereof. Seller shall request the financial and other advisors and representatives of Seller and the Company and its Subsidiaries to comply with each of the covenants contained in this Section 7.2; and

(b) Seller shall not, and shall not permit the Company or any Subsidiary to, directly or indirectly, participate in any negotiations regarding, or furnish to any other person any information with respect to, or otherwise cooperate in any way with, or assist, any effort or attempt by any other person to do or seek any of the activities referred to in Section 7.2(a) hereof.

7.3 Update Schedules. Prior to the Closing, Seller shall endeavor in good faith to disclose to Buyer in writing any information set forth in the Schedules hereto which no longer obtains and any information of the nature of that set forth in the Schedules which arises after the date hereof and which would have been required to be included in the Schedules if such information had obtained on the date hereof. Such disclosure shall not limit or affect any of Buyer's rights hereunder for or with respect to any misrepresentation or breach of warranty by Seller or Seller's failure to fulfill any covenant, agreement or condition contained in this Agreement, provided that if such disclosure is based principally on information or events which arise or occur after the date hereof, such information or events may serve as a basis for the condition specified in Section 8.8(b) hereof not being satisfied, but may not serve as the basis for a claim of misrepresentation or breach of warranty, under any provision of this Agreement, with respect to representations and warranties made herein by Seller on the date hereof.

7.4 Covenants of Buyer Pending Closing.

(a) Seller and Buyer agree that the information contained in this Agreement (including the Exhibits, Appendix and Schedules hereto) or provided to either of them in connection with the investigation, negotiation, consummation and carrying to fruition of the transactions contemplated hereby is confidential in nature and, except as may be required by subpoena, civil investigation, demand or other similar process or as required for transferring the Shares and the Interests, each agrees not to disclose to any person (excluding its directors, employees, lenders, potential lenders, the escrow agent under the Deposit Escrow Agreement and the Closing Escrow Agreement and/or consultants and representatives, in each case who agree to keep such information confidential, all on a need-to-know basis) any such confidential information or the fact that discussions or negotiations have taken place among the parties to this Agreement, any of the terms or conditions of this Agreement or any discussions or negotiations of transactions (including the identity of any party to this Agreement) or information furnished in connection therewith, without the prior written consent of the party which furnished such information. Each party agrees that if it discloses such information to its affiliates, directors, employees, lenders or potential lenders, counsel and/or consultants and representatives, such party shall be responsible for any breach of this Section 7.4(a) by such person. No information will be deemed confidential and subject to this Section 7.4(a) if it is developed independently by a party or becomes or was generally available to the public other than as a result of a breach by a party of its obligations hereunder or under that certain letter agreement dated June 14, 1996, by Buyer, accepted by Seller, but information provided to or filed with the Pennsylvania State Harness Racing Commission (the "Commission") or any other government agency shall not be deemed to be available to the public by virtue of such filing or submission or accessibility to review. If Closing does not occur, Buyer shall not disclose or use confidential information provided by or on behalf of Seller, including confidential information relevant to the Company and the Subsidiaries, and Seller shall not disclose or use confidential information provided by or on behalf of Buyer. If Closing does occur, Seller shall not disclose or use confidential information provided by or on behalf of Buyer, including confidential information relevant to the Company and the Subsidiaries on or after the Closing, and Buyer shall not disclose or use confidential information provided by or on behalf of Seller that is not relevant to the Company and its Subsidiaries on or after the Closing. The provisions of this Section 7.4(a) will survive the Closing or the termination of this Agreement for a period of two years after such termination or Closing, as the case may be.

(b) Buyer will exercise its reasonable best efforts to obtain the financing contemplated in Section 8.6 hereof and, upon request, will advise Seller of the status of such financing and give Seller copies of any commitment letter or term sheet or similar document. Buyer shall not engage in a public offering of securities prior to Closing hereunder if any confidential information of Seller would be disclosed in connection therewith.

(c) Buyer will, and after Closing will cause the Company and all Subsidiaries to, comply in all material respects with the Pennsylvania Race Horse Industry Reform Act and all regulations thereunder applicable to Buyer, the Company or any Subsidiary in respect of this transaction.

(d) Before Closing, neither Buyer nor any affiliate of Buyer will undertake any transaction that would require a filing under the Hart-Scott-Rodino Antitrust Improvements Act of 1976 (the "HSR Act") with respect to the transaction contemplated by this Agreement or will make any such filing.

(e) Neither Buyer nor any person or entity affiliated with Buyer will object to the settlement of the Estate of Joseph B. Banks.

(f) Buyer shall use its reasonable best efforts to cause the guarantees listed in Exhibit F hereto to be terminated, including without limitation the offer of its guarantee in lieu thereof.

7.5 Continuation of Charitable Obligation. After the Closing, Buyer shall cause Pocono Downs to continue through 1998 the annual fundraising activities previously provided by it on behalf of St. Joseph Center in Scranton, Pennsylvania.

7.6 Remediation. After the Closing, Seller shall promptly reimburse Buyer (or at Buyer's election, the Company) for reasonable out-of-pocket expenses incurred after the Closing to

(a) investigate and remediate soil, groundwater or any other media in or related to the seven (7) areas identified at the bottom of Page 2 of the Phase II Environmental Assessment Report prepared by GeoSystems Consultants, Inc. dated August 22, 1996 (a copy of which is attached hereto as Exhibit G) to a background cleanup level consistent with Pennsylvania's Act 2 Land Recycling and Environmental Remediation Standards Act; provided (1) Seller's reimbursement obligation shall apply only to investigation and remediation work completed before June 30, 1997; (2) Buyer shall select the lowest and most qualified bid received from at least three (3) reputable environmental remediation contractors solicited by Buyer to perform the remediation work; and (3) Buyer provides Seller with the results of all remediation work in or related to the seven (7) specific areas, including without limitation any test results and reports, and itemized costs and supporting documentation for the out-of-pocket expenses; and

(b) investigate, remediate or otherwise implement the proper closure of the Eastside Landfill, Plains Township, Luzerne County, Wilkes Barre, Pennsylvania; provided (1) the Eastside Landfill Authority, City of Wilkes Barre, Township of Plains, Hanover Township and Borough of Ashley fail to abide by the Settlement Agreement as approved by Order of the Chief Judge, U.S.D.C. Middle District of Pennsylvania, Civil Action 82-1612, dated June 30, 1986; (2) Seller's reimbursement obligation shall apply only to work in connection with Eastside Landfill completed before March 31, 1999; (3) Buyer is required to incur out-of-pocket expenses as a result of a written order or directive from either the PA Department of Environmental Protection and/or the U.S. Environmental Protection Agency; (4) Buyer provides Seller with the itemized cost and supporting documentation for the out-of-pocket expenses related to the Eastside Landfill, and (5) Buyer agrees to reimburse Seller for any out-of-pocket expenses reimbursed by the Seller to the Buyer which Buyer later recovers from a third-party;

and further, the reimbursement obligation of Seller pursuant to this Section 7.6 is limited to a maximum of $250,000 , regardless of (i) the status or total cost of any remediation work, (ii) the results of any tests performed, (iii) the extent of any remediation work required to satisfy Buyer (or the Company) or any federal, state or local authority, and (iv) whether the remediation meets the cleanup standards of Pennsylvania's Act 2 Land Recycling and Environmental Remediation Standards Act and any other federal, state or local law or regulation. Nothing in this Section 7.6 shall change or alter Buyer's indemnity to Seller pursuant to Section 10.2.

7.7 Preparation of Final Tax Returns. Within 60 days after Closing, Seller shall cause its independent accountants, Robert Rossi & Co., to prepare, certify and distribute to Buyer all Tax Returns (as defined in Section A.1.13 hereof), for the Company and its Subsidiaries for all taxable periods of the Company and its Subsidiaries ending on, immediately before, or with the Closing. Buyer shall cause such Tax Returns to be timely filed, provided that such Tax Returns are

consistent with the manner in which prior Tax Returns were prepared by Robert Rossi & Co. for the Company and its Subsidiaries, and further provided that Buyer does not reasonably believe that filing such Tax Returns will expose Buyer to criminal prosecution in the event of an audit. The parties shall work together in good faith to resolve any disputes regarding the filing of the Tax Returns described in this Section 7.7.

The Federal income tax return of each Partnership for the taxable year beginning January 1, 1996 shall contain an election under section 754 of the Internal Revenue Code.

No amendment to any Tax Return described in this Section 7.7, or to any Tax Return for the Company or its Subsidiaries for any prior periods, shall be made, nor shall any waiver or extension of the statute of limitations with respect to any such Tax Return be granted or agreed to, without the prior written consent of Seller.

7.8 Settlement of Estate. If in connection with the settlement of the Estate of Joseph B. Banks, a formal Account is filed with the Orphans Court, any obligations of the Seller which continue, including obligations to Buyer under this Agreement, will be reflected in the Account as obligations of the distributees of the Estate, and, if the Estate is settled by way of a Family Settlement Agreement, the Family Settlement Agreement will also reflect any such obligations as obligations of the distributees of the Estate. Further, to the extent that the Seller assigns its rights under this Agreement, or any portion of the purchase price, to the Trustees of the Trust dated March 5, 1985 established by Joseph B. Banks, as amended, such assignment will also reflect that the assignment is taken subject to any continuing obligations under this Agreement.

7.9 Severance Payments. Buyer acknowledges that the Company is a party to two employment agreements, each of which has a three year term commencing June 1, 1996 (as such agreements are in effect on this date, such agreements are referred to in this Section collectively as the "Employment Agreements" or individually as an "Employment Agreement"), with each of Dale Rapson and Arthur E. Manuel (each is a "Specified Employee" and together they are the "Specified Employees"). Buyer further acknowledges and agrees that the Company (and not Seller) is and will be required to pay the amounts payable to the Specified Employees under such Employment Agreements at least through May 31, 1999 unless the employment of a Specified Employee is terminated under and in such a manner that, consistent with such Employment Agreements and applicable law, would not require such payments through May 31, 1999 to be made. In the event that, under the terms of an Employment Agreement, a Specified Employee is entitled to payments after May 31, 1999 as a result of his termination (which payments may relate to a termination at any time after May 31, 1997), Seller agrees to be responsible (and shall reimburse the Company) for such payments for a period of not greater than two (2) years in accordance with the terms specified for such payments in the Employment Agreements, but without giving effect to any discretionary increase in salary made by the Company for the benefit of a Specified Employee. Notwithstanding the foregoing, in the event the employment of a Specified Employee is continued after May 31, 1999 but is thereafter terminated in a manner which requires a termination payment, the obligation of Seller referred to in this paragraph to reimburse the Company for up to two (2) years of termination payments shall be reduced pro rata based on the number of days between June 1, 1999 and the date on which the Specified Employee first becomes entitled to the termination payment (for example, if the employment is continued for one month beyond May 31, 1999 and is then terminated in a manner that would require termination payments under an Employment Agreement to be made, Seller will be responsible for 23 months of termination payments). The Company shall not modify the Employment Agreements prior to Closing in a manner that would affect the obligations of the Company or the Seller under this Section 7.9 after the Closing.

7.10 Kalmanowicz Property. Upon receipt after Closing by Buyer, the Company or any Subsidiary of indemnification or reimbursement for costs and expenses in respect of the Kalmanowicz litigation referred to in item (7) of Schedule A.1.14 (the AKalmanowicz Litigation@), Buyer shall pay or cause to be paid to Seller its pro rata share of such reimbursed or indemnified amount based on the costs and expenses incurred by Pocono Downs or its affiliates in connection with such litigation prior to Closing and the total costs and expenses expended by Pocono Downs or its affiliates prior to and after the Closing. After the Closing, Seller shall not have any responsibility for any liability or obligation in connection with matters covered by the Kalmanowicz litigation.

7.11 400 Acres. Nothing contained in the Agreement shall preclude the Company or any Subsidiary from (A) selling, transferring, distributing, or otherwise disposing of the approximately 400 acres of land described and outlined in Exhibit N hereto (the "400 Acres") and (B) distributing the net proceeds, if any, of such disposition to Seller (or its designee).

8. Conditions Precedent to Buyer's Obligations. The obligations of Buyer under this Agreement to purchase the Shares and the Interests are subject to the fulfillment or satisfaction, prior to or at the Closing, of each of the following conditions precedent:

8.1 Representations and Warranties; Performance of Obligations. All of the representations and warranties of Seller contained in this Agreement shall be true and correct in all material respects (except for such representations and warranties as are by their terms qualified by materiality, which shall be true and correct in all respects taking into account the materiality qualifications therein) on and as of the Closing Date (subject to the proviso in the last sentence of Section 7.3) with the same effect as though such representations and warranties had been made on and as of such date (or, if expressly made as of any other date, as of such other date); all of the terms, covenants, agreements and conditions of this Agreement to be complied with, performed or satisfied by Seller on or before the Closing Date shall have been duly complied with, performed or satisfied in all material respects; and Buyer shall have received a certificate dated the Closing Date and signed on behalf of Seller to the foregoing effects.

8.2 Legal Matters. No claim, action, suit, arbitration, investigation or other proceeding shall be pending which (a), if reasonably likely to be decided adversely to Seller, the Company or any Subsidiary, would be reasonably likely to have a material adverse effect on the business, operations, results of operations, assets, liabilities, properties or condition (financial or otherwise) of the Company and its Subsidiaries taken as a whole or (b) seeks to restrain the transactions contemplated hereby; and no temporary restraining order, preliminary or permanent injunction or other order issued by any court or other governmental or regulatory official, body or authority restraining or prohibiting the consummation of the transactions contemplated hereby shall be in effect.

8.3 Third Party Consents. All consents and approvals from, and all filings and registrations with, all courts, governmental agencies and bodies and other third parties listed on Exhibit E hereto, shall have been obtained and made on terms and conditions, if any, not materially adverse to Buyer or the Company and its Subsidiaries taken as a whole.

8.4 Closing Escrow Agreement. Seller and the Closing Escrow Agent shall have executed and delivered the Closing Escrow Agreement.

8.5 Termination of Certain Agreements. Each of the Agreements listed on Exhibit H hereto shall have been terminated and the Company and its Subsidiaries shall have no further liabilities or obligations in connection therewith.

8.6 Financing. Buyer shall have available at the Closing debt financing, on terms reasonably satisfactory to Buyer.

8.7 Indebtedness Repaid. All indebtedness for money borrowed of the Company and its Subsidiaries (except inter-company indebtedness), except for such indebtedness as Buyer may elect (by notice given to Seller on or before October 31, 1996) to have continued, shall have been paid in full, and all liabilities and obligations of the Company and its Subsidiaries in connection therewith, and all security therefor, shall have been fully terminated and released, except for liabilities or obligations which by the terms of the documents evidencing such indebtedness survive such repayment. Notwithstanding anything herein to the contrary, Buyer may not continue indebtedness of the Company or Pocono Downs owing to PNC Bank unless the guarantees referred to on Exhibit F are terminated with the effect set forth in Section 9.5 hereof.

8.8 Material Adverse Changes. (a) Between the date hereof and the Closing Date, there shall not have been any material adverse change in the business or financial condition of the Company and its Subsidiaries, taken as a whole, except for changes generally affecting the racing or gaming industry in the Commonwealth of Pennsylvania.

(b) The updated Schedules delivered pursuant to Section 7.3 do not disclose information that is materially adverse to the business or financial condition of the Company and its Subsidiaries taken as a whole, except for changes generally affecting the racing or gaming industry in the Commonwealth of Pennsylvania.

(c) No circumstances shall have arisen in connection with which Buyer, upon consummation of the Closing, would have a Claim or Claims under Section 10.1(a)(iv) aggregating more than $250,000, unless Seller agrees to be fully responsible for such Claim.

8.9 Release. Effective as of the Closing Seller shall have delivered, or shall have caused to be delivered (as the case may be), to Buyer written releases from Seller, Mrs. Banks, each of the beneficiaries of the Estate of Joseph B. Banks, Mr. Herb A. Grayek, Jr. and Jerry B. Chariton, and, to the extent the persons hereinafter described are willing to provide such release upon request of Seller (Seller being under no obligation but to make such request), from those other persons who have served as an officer or director of the Company or any Subsidiary immediately prior to the Closing (all such persons signing releases are collectively, "Seller Releasors") pursuant to which each Seller Releasor shall fully and forever remise, release, acquit and discharge the Buyer, the Company and its Subsidiaries of and from any and all claims, demands, agreements, contracts, covenants, promises, actions, suits, causes of action, obligations, controversies, debts, costs, expenses, accounts, damages, judgments, losses and liabilities of whatever kind or nature, at law or in equity or otherwise, whether known or unknown, which against either the Company or any Subsidiary it, he or she may have had, now has or can, shall or may now or in the future have, for or by reason of any matter, cause or thing whatsoever from the beginning of the world to the Closing Date, except for (a) claims for any accrued but unpaid salary or fees due any Seller Releasor or an affiliate thereof (all of which shall be reflected as Debts on the Closing Financial Statements), (b) any amounts due to any Seller Releasor pursuant to the written indemnity of the Company delivered pursuant to Section 9.6(b) hereof, or (c) obligations of Buyer under this Agreement and after the Closing Date, obligations of the Company and the Subsidiaries to Seller under this Agreement.

8.10 Opinion of Counsel to Seller and Mrs. Banks. Buyer shall have received the written opinions dated the Closing Date of Drinker Biddle & Reath and Chariton and Keiser, counsel for Seller and Mrs. Banks, substantially in the forms attached hereto as Exhibit I-1 and I-2, respectively.

9. Conditions Precedent to Seller's Obligations. The obligations of Seller under this Agreement to sell the Shares and the Interests are subject to the fulfillment or satisfaction, prior to or at the Closing, of each of the following conditions precedent:

9.1 Representations and Warranties; Performance of Obligations. All of the representations and warranties of Buyer contained in this Agreement shall be true and correct in all material respects (except for such representations and warranties as are by their terms qualified by materiality, which shall be true and correct in all respects taking into account the materiality qualification therein) on and as of the Closing Date with the same effect as though such representations and warranties had been made on and as of such date (or, if expressly made as of any other date, as of such other date); all of the terms, covenants, agreements and conditions of this Agreement to be complied with, performed or satisfied by Buyer on or before the Closing Date shall have been duly complied with, performed or satisfied in all material respects; and Seller shall have received a certificate dated the Closing Date and signed by the Chairman and Chief Executive Officer, President or any Vice President of Buyer to the foregoing effects.

9.2 Legal Matters. No claim, action, suit, arbitration, investigation or other proceeding shall be pending or shall have been brought which seeks to restrain the transactions contemplated hereby; and no temporary restraining order, preliminary or permanent injunction or other order issued by any court or other governmental or regulatory official, body or authority restraining or prohibiting the consummation of the transactions contemplated hereby shall be in effect.

9.3 Third Party Consents. All consents and approvals from, and all filings and registrations with, all courts, governmental agencies and bodies and other third parties listed on Exhibit E hereto, shall have been obtained and made.

9.4 Closing Escrow Agreement. Buyer and the Escrow Agent shall have executed and delivered the Closing Escrow Agreement.

9.5 Termination of Guarantees. Those guarantees of Seller listed on Exhibit F hereto, that relate on the Closing Date to indebtedness for money borrowed of the Company and its Subsidiaries which Buyer has elected (pursuant to Section 8.7 hereof) to continue, shall have been terminated and Seller shall have no further liabilities or obligations in connection therewith.

9.6 Release and Indemnity. (a) Effective as of the Closing Buyer shall and shall have caused the Company and its Subsidiaries to deliver to each Seller Releasor written releases from the Buyer, the Company and its Subsidiaries pursuant to which the Buyer, the Company and each of its Subsidiaries shall fully and forever remise, release, acquit and discharge such Seller Releasor of and from any and all claims, demands, agreements, contracts, covenants, promises, actions, suits, causes of action, obligations, controversies, debts, costs, expenses, accounts, damages, judgments, losses and liabilities of whatever kind or nature, at law or in equity or otherwise, whether known or unknown, which against such Seller Releasor either the Buyer, the Company or any Subsidiary may have had, now has or can, shall or may now or in the future have, for or by reason of any matter, cause or thing whatsoever from the beginning of the world to the Closing Date, except for obligations of Seller and Mrs. Banks under this Agreement.

(b) Buyer shall have caused the Company and its Subsidiaries to confirm their written agreement, in substantially the form attached as Exhibit J hereto, (which may be entered into at Seller's direction prior to Closing) to indemnify each person who is or was a director or officer of the Company or any

Subsidiary, or is or was serving while a director or officer of the Company or any Subsidiary at the request of the Company or such Subsidiary as a director, officer, employee, agent, fiduciary or other representative of another corporation for profit or not-for-profit, partnership, joint venture, trust, employee benefit plan or other enterprise.

9.7 Opinion of Buyer's Counsel. Seller shall have received the written opinions dated the Closing Date of Morgan, Lewis & Bockius LLP and Mesirov Gelman Jaffe Cramer & Jamieson, counsel for Buyer, substantially in the form attached hereto as Exhibit K-1 and Exhibit K-2, respectively.

9.8 Waiver. Seller shall have received the waiver referred to in Section 2(d) executed by the Company and the Subsidiaries.

10. Indemnification.

10.1 Indemnification by Seller. From and after the Closing, Seller and Mrs. Banks (subject to the Joinder hereto), jointly and severally, shall reimburse, defend, indemnify and hold harmless Buyer from, against and in respect of:

(a) any and all liabilities, losses, claims, damages, actions, suits, proceedings, demands, assessments, adjustments, deficiencies, costs and out-of-pocket expenses (including without limitation reasonable attorneys' fees and expenses) (collectively, "Claims") suffered, sustained, incurred or paid by Buyer or any of its affiliates (including without limitation after the Closing the Company and its Subsidiaries) in connection with, resulting from or arising out of:

(i) subject to the proviso in the last sentence of Section 7.3, any breach of any representation or warranty of Seller in this Agreement or any certificate or other writing prepared in connection with the transactions contemplated by this Agreement and delivered by or on behalf of Seller, the Company or any Subsidiary in connection therewith;

(ii) any nonfulfillment of any covenant or agreement on the part of Seller set forth in this Agreement or on the part of Mrs. Banks set forth in the Joinder hereto;

(iii) any liability or obligations of which any of the persons listed on Exhibit L hereto (after the inquiry referred to therein) has actual knowledge on the date hereof (including without limitation liabilities and obligations disclosed in the Schedules hereto on the date hereof), relating to or arising out of the business, operations or assets of the Company or any Subsidiary prior to or at the Closing and with respect to the period prior to and ending with the Closing, including without limitation any such liability or obligation to any former shareholder of the Company or any Subsidiary, except that Buyer shall not be entitled to indemnification under this Section 10.1(a)(iii) for liabilities or obligations resulting from or arising out of the Kalmanowicz Litigation;

(iv) any liability or obligation, of which any of the persons listed on Exhibit L hereto (after the inquiry referred to therein) acquire actual knowledge between the date hereof and the Closing (including without limitation liabilities and obligations disclosed in any amendment to the Schedules hereto between the date hereof and the Closing), relating to or arising out of the business, operations or assets of the Company or any Subsidiary prior to or at the Closing and with respect to the period prior to and ending with the Closing, including without limitation any such liability or obligation to any former shareholder of the Company or any Subsidiary;

(v) any liability or obligation relating to or arising out of the business, operations or assets of the Company or any Subsidiary at or prior to the Closing and with respect to the period prior to and ending with the Closing, including without limitation any such liability or obligation to any former shareholder of the Company or any Subsidiary, except for liabilities and obligations subject to Sections 10.1(a)(iii) and 10.1(a)(iv) hereof, provided that no Claim Notice (as hereinafter defined) may be given in respect of a claim for indemnification under this Section 10.1(a)(v) after March 31, 1999;

(vi) any liability of the Company or any Subsidiary for any Taxes of the Company or any Subsidiary (including without limitation Taxes with respect to the Tax Returns described in Section 7.7 hereof, but excluding 1996 capital stock taxes) with respect to any period or portion thereof ending on, immediately before or with the Closing (or for any period beginning before and ending after the Closing Date, to the extent allocable to the portion of such period beginning before and ending on the Closing), except to the extent such Taxes are accrued for on the final Closing Financial Statements or are attributable to elections under applicable Tax Laws or transactions entered into by the Company or a Subsidiary after the Closing or by the Buyer, provided that no Claim Notice may be given in respect of a claim for indemnification under this Section 10.1(a)(vi) commencing 30 days after the applicable statute of limitations in respect of the Taxes for which indemnification is sought has expired, unless an extension or waiver of such statute of limitations has been agreed to by Seller; or

(vii) the real property or properties (including without limitation all improvements located thereon) comprising the 400 Acres, or the ownership or conveyance thereof, (including without limitation any Claims which involve an Environmental Claim or which otherwise relate to or involve a claim, liability or obligation which arises out of or is based upon, any Environmental Law whether such liability or obligation relates to or arises out of any activity occurring, condition existing, omission to act or other matter with respect to such real property or properties existing before or after the Closing); and

(b) any and all actions, suits, claims, proceedings, investigations, costs and other expenses (including without limitation reasonable attorneys' fees and expenses) incident to the enforcement of this Section 10.1.

10.2 Indemnification by Buyer. Except as set forth in Section 7.6 hereof, from and after the Closing, Buyer shall reimburse, defend, indemnify and hold harmless Seller (and, solely with respect to Section 10.2(a)(iv) hereof, Mrs. Banks) from, against and in respect of:

(a) any and all Claims suffered, sustained, incurred or paid by Seller in connection with, resulting from or arising out of:

(i) any breach of any representation or warranty of Buyer in this Agreement or any certificate or other writing delivered by or on behalf of Buyer in connection herewith;

(ii) any nonfulfillment of any covenant or agreement on the part of Buyer set forth in this Agreement;

(iii) the operation of the Company and its Subsidiaries after the Closing (except to the extent that any such Claims relate to a pre-Closing agreement, commitment, action, other circumstance or condition or other matter for which Buyer is entitled to indemnification from Seller and Mrs. Banks under Section 10.1 hereof);

(iv) any liability or obligation which relates to, or which involves an Environmental Claim or otherwise relates to or involves a claim, liability or obligation which arises out of or is based upon, any Environmental Law whether such liability or obligation relates to or arises out of any activity occurring, condition existing, omission to act or other matter existing before or after the Closing; provided that this Section 10.2(a)(iv) shall not apply to any matter that is the subject of Section 10.1(a)(vii) hereof); and

(b) any and all actions, suits, claims, proceedings, investigations, costs and other expenses (including without limitation reasonable attorneys' fees and expenses) incident to the enforcement of this Section 10.2.

As used in this Agreement:

"Environmental Claims" means any and all administrative or judicial actions, suits, orders, claims, liens, notices, investigations, violations or proceedings related to any applicable Environmental Law or any Environmental Permit brought, issued or asserted by a governmental authority or third party for compliance, damages, penalties, removal, response, remedial or other action pursuant to any applicable Environmental Law or for personal injury or property damage resulting from a Hazardous Material at, to or from any facility or property of the Company or any Subsidiary or any facility or property at which the Company or any Subsidiary disposed or arranged for the disposal or treatment (with a transporter or otherwise) of Hazardous Materials, including without limitation past, present or future employees of the Company or any Subsidiary seeking damages for exposure to Hazardous Materials;

(ii) "Environmental Laws" means all federal, state and local laws, statutes, ordinances, codes, rules and regulations related to protection of the environment, natural resources, safety or health or the handling, use, recycle, generation, treatment, storage, transportation or disposal of Hazardous Materials, and any common law cause of action relating to the environment, natural resources, safety, health or the management of or exposure to Hazardous Materials including without limitation, Comprehensive Environmental Response, Compensation, and Liability act of 1980, as amended (42 U.S.C. "6901 et seq.) Hazardous Materials Transportation Act, as amended, 49 U.S.C. "1801, et seq.), the Resource Conservation and Recovery Act, as amended, 42 U.S.C. "9601, et seq., the Clean Water Act, as amended, (33 U.S.C. "1251, et seq.), the Clean Air Act, as amended, 42 U.S.C. "7401, et seq.), the Federal Insecticide, Fungicide and Rodenticide Act (7 U.S.C. "136, et seq.), the Toxic Substances Control Act (15 U.S.C. "2601, et seq.), the Surface Mining Control and Reclamation Act of 1977, (30 U.S.C. "1201, et seq.), Emergency Planning and Community Right to Know Act of 1986, (42 U.S.C. "11001, et seq.), the Occupational Safety and Health Act, as amended, (29 U.S.C. "651, et seq.), Pennsylvania Solid Waste Management Act of July 7, 1980, (35 P.S. "6018.101-6018.1003), the Low Level Radioactive Waste Disposal Act of February 9, 1988 (35 P.S. "7110.1 et seq.), the Infectious and Chemotherapeutic Waste Act of July 13, 1988, (35 P.S. "6019.1 et seq.), Municipal Waste Planning, Recycling and Waste Reduction Act of July 28, 1988, (53 P.S. "4000.100 et seq.), the Hazardous Sites Cleanup Act of October 18, 1988, (35 P.S. "6020.101 et seq.), the Clean Streams Law of June 22, 1937, (35 P.S. "691.1-691.1001) the Air Pollution Control Act of January 8, 1960, (35 P.S. "4001-40159), the Surface Mining Conservation & Reclamation Act of May 31, 1945, (52 P.S. "1396.1-1396.31), the Noncoal Surface Mining Conservation & Reclamation Act, (52 P.S. "3301-3326), and the Dam Safety and Encroachments Act of November 26, 1978, (32 P.S. "693.1-693.27);

(iii) "Environmental Permit" means all permits, licenses, approvals, authorizations or consents required by any governmental authority under any applicable Environmental Law and includes any and all orders, consent orders or binding agreements issued or entered into by a governmental authority under any applicable Environmental Law; and

(iv) "Hazardous Material" means any hazardous, toxic or radioactive substance, material or waste which is regulated as of the Closing Date or thereafter by any state or local governmental authority or the United States of America, including without limitation any material or substance that is defined or designated a "hazardous substance", "hazardous waste", "regulated substance", or "solid waste" under Environmental Laws or petroleum, petroleum products or wastes, asbestos, or polychlorinated biphenyls or otherwise regulated under Environmental Laws.

10.3 Limitations on Liability. (a) Except as otherwise provided in Section 10.5(b) hereof and except that this limitation shall not apply to any indemnification claim arising under or with respect to any of Sections A.1.1, A.1.2, A.1.3, A.1.5, A.1.6(a) (the first sentence only), (b) and (c), A.1.8 and 11.4(a) hereof, neither Seller nor Mrs. Banks shall be liable to Buyer under Section 10.1 hereof for any breach of any representation or warranty or for any claim under Section 10.1(a)(v) until and only to the extent that the amount for which it or she would otherwise (but for this provision) be liable to Buyer for all such breaches exceeds in the aggregate $350,000 (the "Deductible").

(b) Except as otherwise provided in Section 10.5 hereof and except that this limitation shall not apply to any indemnification claim arising under or with respect to any of Sections A.2.2, A.2.3, A.2.7 and 11.4(b) hereof, Buyer shall not be liable to Seller under Section 10.2 hereof for any breach of any representation or warranty until and only to the extent that the amount for which it would otherwise (but for this provision) be liable to Seller for all such breaches exceeds in the aggregate the Deductible.

(c) It is specifically acknowledged and agreed by Buyer that except for Seller's obligations under Sections 7.6 and 10.1 hereto and the representations set forth in Section A.1.22 hereto, Seller shall have no liability or obligation of any kind with respect to Environmental Claims or Environmental Laws including without limitation with respect to the Eastside Landfill, Plains Township, Luzerne County, Wilkes Barre, Pennsylvania.

10.4 Survival of Representations and Warranties; Closing Date Representations. The representations and warranties of Seller or Buyer in this Agreement or in any certificate or other writing prepared in connection with the transactions contemplated by this Agreement shall survive the Closing until March 31, 1998 and shall thereafter terminate and be of no further force or effect and no indemnification claim can be made in respect of such representations or warranties after such termination, except that (a) all representations and warranties relating to Taxes and Tax Returns (as defined in Section A.1.13 hereof) shall survive the Closing for the period of the applicable statutes of limitation plus any extensions or waivers thereof agreed to by Seller and shall thereafter terminate, (b) all representations and warranties set forth in Sections A.1.1, A.1.2, A.1.3, A.1.5, A.1.6(a) (the first sentence only), (b) and (c), A.2.2, A.2.3, A.2.4 and 11.4 hereof shall survive the Closing for six years and shall thereafter terminate and be of no further force or effect and no indemnification claim can be made in respect of such representations or warranties after such termination, (c) the representations and warranties set forth in Section A.1.22 and A.2.7 shall survive the Closing until March 31, 1999 and shall thereafter terminate, and (d) any representation or warranty as to which a Claim Notice shall have been given in accordance with Section 10.7 (including a contingent claim, subject to the limitation on contingent claims in Section 10.7(c)) during the survival period shall continue

in effect with respect to the claim, until such claim shall have been finally resolved or settled. The parties hereto acknowledge that the representations and warranties set forth herein are made as of the date hereof and, if Closing occurs, are made once again as of the date thereof by delivery of the certificates referred to in Sections 8.1 and 9.1 hereof (as set forth in such Sections).

10.5 Exclusive Remedy; Exceptions to Limitations. (a) After Closing, the indemnification provided under this Section 10 shall be the exclusive remedy of the parties hereto for any breach or non-compliance with any of the terms of this Agreement, except to the extent otherwise provided in the Closing Escrow Agreement.

(b) To the extent otherwise applicable to Claims, the Deductible and the caps on indemnification described in Section 10.9 shall not apply to Claims originating prior to March 31, 1999 (and for which the initial Claim Notice with respect to the matter has been delivered prior to March 31, 1999) in respect of which there has been a willful misrepresentation, willful breach of warranty or willful failure to fulfill any agreement or covenant set forth herein by the Indemnifying Party (as herein defined) in respect of such Claim. For purposes of this Agreement, "willful" means (i) with respect to a representation or warranty, making such representation or warranty knowing it to be false and intending it to be a misrepresentation or breach of warranty under this Agreement, and (ii) with respect to an agreement or covenant, knowingly failing to fulfill an agreement or covenant with the intent to breach an agreement or covenant under this Agreement. The knowledge which is a prerequisite for a finding of willfulness, as defined above, shall in respect to Seller, the Company, the Subsidiaries and Mrs. Banks refer solely to the actual personal knowledge of Mrs. Banks after due inquiry of Jerry B. Chariton and Herbert A. Grayek, Jr. (with Mrs. Banks being entitled to rely on certifications by Messrs. Chariton and Grayek in response to such inquiry).

10.6 Payment of Indemnification Obligations. In the event that Seller (or Mrs. Banks) or Buyer is required to make any payment under this Section 10, such party shall promptly pay Buyer or Seller, as the case may be, the amount of such indemnity obligation. Seller's and Mrs. Banks' indemnification obligations shall be paid, in the first instance, out of funds held under the Closing Escrow Agreement until such funds are exhausted. If there should be a dispute as to the amount of such indemnity obligation, Seller (or Mrs. Banks) or Buyer, as the case may be, shall nevertheless pay when due such portion, if any, of the obligation as shall not be subject to dispute. Disputed amounts shall be paid when and as resolved by agreement or by a final and unappealable decision of a court of competent jurisdiction.

10.7 Indemnification Procedure. All claims for indemnification under Sections 10.1 and 10.2 hereof shall be asserted and resolved as follows:

(a) In the event that any Claim for which a party (the "Indemnifying Party") may be liable to the other party (the "Indemnified Party") hereunder is asserted against an Indemnified Party by a third party, the Indemnified Party shall with reasonable promptness notify the Indemnifying Party of such Claim, specifying the nature of such Claim and the amount or the estimated amount thereof to the extent then feasible (which estimate shall not be conclusive of the final amount of such Claim) (the "Claim Notice"). The Indemnifying Party shall have 30 days from the receipt of the Claim Notice (the "Notice Period") to notify the Indemnified Party (i) whether or not the Indemnifying Party disputes the Indemnifying Party's liability to the Indemnified Party hereunder with respect to such Claim and (ii) whether or not the Indemnifying Party desires, at the sole cost and expense of the Indemnifying Party, to defend against such Claim. In the event that the Indemnifying Party notifies the Indemnified Party within the Notice Period that the Indemnifying Party desires to defend the Indemnified Party against such Claim, the Indemnifying Party shall have the right to defend by appropriate proceedings, which proceedings shall be promptly

settled or prosecuted by the Indemnifying Party to a final conclusion. The Indemnifying Party may not settle any Claim without the consent of the Indemnified Party, which consent may not be unreasonably withheld. If the Indemnified Party desires to participate in, but not control, any such defense or settlement the Indemnified Party may do so at the Indemnified Party's sole cost and expense. If the Indemnifying Party elects not to defend the Indemnified Party against such Claim, whether by not giving the Indemnified Party timely notice as provided above or otherwise, then the Indemnified Party, without waiving any rights against the Indemnifying Party, may settle or defend against any such Claim in the Indemnified Party's sole discretion and, if it is ultimately determined that the Indemnifying Party is responsible therefor under this Section 10, then the Indemnified Party shall be entitled to recover from the Indemnifying Party the amount of any settlement or judgment and all indemnifiable costs and expenses of the Indemnified Party with respect thereto. If the Indemnifying Party has defended or settled any such Claim and it is ultimately determined that the Indemnifying Party is not responsible therefor under this Section 10, the Indemnified Party shall promptly pay to the Indemnifying Party the amount of the judgment or settlement paid by the Indemnifying Party.

(b) In the event the Indemnified Party should have an indemnification claim against the Indemnifying Party hereunder which does not involve a Claim being asserted against or sought to be collected by a third party, the Indemnified Party shall with reasonable promptness send a Claim Notice with respect to such claim to the Indemnifying Party. If the Indemnifying Party does not notify the Indemnified Party within the Notice Period that the Indemnifying Party disputes such indemnification claim, the amount of such indemnification claim shall be conclusively deemed a liability of the Indemnifying Party hereunder.

(c) Nothing herein shall be deemed to prevent the Indemnified Party from making an indemnification claim hereunder for contingent Claims provided the Claim Notice sets forth the specific basis for any such contingent Claim to the extent then feasible and the Indemnified Party has reasonable grounds to believe that such an indemnification claim may be made, and the Indemnified Party sets forth with reasonable detail the basis for such belief, provided that if no such indemnification claim is in fact made within one year after the contingent Claim relating thereto is made such Claim shall not be qualified for indemnification hereunder. The Indemnified Party's failure to give reasonably prompt notice to the Indemnifying Party of any actual, threatened or contingent Claim which may give rise to a right of indemnification hereunder shall not relieve the Indemnifying Party of any liability which the Indemnifying Party may have to the Indemnified Party unless the failure to give such notice materially and adversely prejudiced the Indemnifying Party. The procedures set forth in Sections 10.7(a) and (b) hereof shall not apply to Claims of an Indemnified Party which are covered by the applicable Deductible, provided that the procedures set forth in Section 10.7(a) shall apply to any Claim where the estimated amount thereof approximates $150,000 or more.

(d) In connection with any indemnification claim, the Indemnified Party shall give the Indemnifying Party reasonable access to the books, records and assets of the Indemnified Party which relate to the act, omission or occurrence giving rise to such Claim and the right, upon prior notice during normal business hours, to interview any appropriate personnel of the Indemnified Party with respect thereto and Indemnified Party otherwise shall cooperate with Indemnifying Party (and with its insurance company, if applicable) in defending a third party claim.

10.8 Mitigation. In computing the amount to be paid pursuant to this Article 10, the indemnification shall be for the net amount of a loss after giving effect to anything which directly mitigates the loss and after taking into account insurance proceeds or any other recovery resulting from the loss. If, after the payment of any indemnification hereunder, the amount of a loss

shall be reduced beyond the amount that an indemnification obligation has previously been reduced pursuant to the preceding sentence, then the amount of such additional reduction in loss (less any expenses incurred in connection with such reduction) shall promptly be repaid to the party that made the payment to which the reduction relates.

10.9 Caps on Indemnification. (a) Except as otherwise provided in Section 10.5(b) hereof, the aggregate amount of indemnification payments from Seller (and Mrs. Banks) under Sections 10.1(a)(i) (except as otherwise provided below in Section 10.9(c)), 10.1(a)(ii), 10.1(a)(iii) and 10.1(a)(vi) hereof (and related provisions of this Section 10), or from Buyer under Section 10.2(a)(i) (except that no cap shall apply to a breach of a representation or warranty under Section A.2.7), 10.2(a)(ii) or 10.2(a)(iii) (except in the case of (a)(ii) or (a)(iii) to the extent relating to an indemnification obligation under Section 10.2(a)(iv) as to which there is no cap) hereof, (whether in the form of cash payments from the Indemnifying Party, payments from funds held under the Closing Escrow Agreement or offsets against sums due to the Indemnifying Party) shall not exceed $8,000,000 less, in the case of Seller (and Mrs. Banks), any payments made by Seller (or Mrs. Banks) under Section 10.1(a)(iv), to the extent such amount exceeds $250,000 in the aggregate, and Section 10.1(a)(v).

(b) Except as otherwise provided in Section 10.5 hereof, the aggregate amount of indemnification payments from Seller (and Mrs. Banks) under Section 10.1(a)(iv) hereof and related provisions of this Section 10 (whether in the form of cash payments from the Indemnifying Party, payments from funds held under the Closing Escrow Agreement or offsets against sums due to the Indemnifying Party) shall not exceed an amount equal to $1,000,000 less any payments (up to an aggregate of $1,000,000) made by Seller (or Mrs. Banks) under Section 10.1(a)(v).

(c) Except as otherwise provided in Section 10.5 hereof, the aggregate amount of indemnification payments from Seller (and Mrs. Banks) under Section 10.1(a)(v) hereof or in respect of a misrepresentation under Section A.1.10 (or under A.1.27, solely to the extent of a liability or obligation that also gives rise to a claim for misrepresentation under Section A.1.10) and related provisions of this Section 10 (whether in the form of cash payments from the Indemnifying Party, payments from funds held under the Closing Escrow Agreement or offsets against sums due to the Indemnifying Party) shall not exceed an amount equal to $2,000,000 less any payments made by Seller (or Mrs. Banks) under Section 10.1(a)(iv) to the extent such payments exceed $250,000 in the aggregate.

(d) There is no limit on the aggregate amount of indemnification payments from Seller (and Mrs. Banks) under Section 10.1(a)(vii) hereof.

11. Miscellaneous.

11.1 Termination. This Agreement shall terminate with the effect herein provided automatically and without any notice or action whatever if the Closing shall not have occurred on or before 6:00 p.m. Philadelphia local time on November 30, 1996 or, if applicable under Section 2(a) hereof, December 15, 1996. This Agreement may be terminated.

(a) by mutual consent of Buyer and Seller; or

(b) by Seller, on the one hand, or by Buyer, on the other hand, if there is or has been a material breach or material default on the part of the other party (i) of any of the representations and warranties contained herein or (ii) in the due and timely performance of any of the covenants or agreements

contained herein which continues for more than five business days after notice of such material breach or material default.

11.2 Effect of Termination. In the event of the termination of this Agreement pursuant to Section 11.1 hereof, this Agreement shall forthwith become void (except for this Section 11.2 and Sections 7.4(a), 11.4 and 11.11 hereof and the Deposit Escrow Agreement), and there shall be no liability or obligation on the part of any party hereto (except, to the extent relevant, with respect to such excluded sections). Notwithstanding the foregoing:

(a) if such termination is by Seller under Section 11.1(b) hereof, then Seller shall be entitled to the Deposit and, in addition, Buyer shall be liable to Seller for (i) reasonable expenses incurred by Seller in connection with this Agreement and the transactions contemplated hereby, (ii) other monetary damages in accordance with applicable law and (iii) all Seller's reasonable costs and other expenses (including without limitation attorneys' fees and expenses) incident to the enforcement of this Section 11.2(a); and

(b) if such termination is by Buyer under Section 11.1(b) hereof, then Seller shall be liable to Buyer for (i) reasonable expenses incurred by Buyer in connection with this Agreement and the transactions contemplated hereby, (ii) other monetary damages in accordance with applicable law and (iii) all Buyer's reasonable costs and other expenses (including without limitation attorneys' fees and expenses) incident to the enforcement of this Section 11.2(b) .

11.3 Expenses; Sales and Transfer Taxes. (a) Buyer shall pay its expenses incidental to the preparation hereof and, through the Closing, the carrying out of the provisions hereof and the consummation of the transactions contemplated hereby. The Company may pay Seller's expenses incidental to the preparation hereof and, through the Closing, the carrying out of the provisions hereof and the consummation of the transactions contemplated hereby, but, if it does so, any amounts owing in respect thereof at the time of the Closing shall be fully reflected in the Closing Financial Statements. The parties hereto shall pay their own expenses incidental to the carrying out of the provisions hereof after the Closing and, except as provided in Section 10.2 hereof, no such expenses of Seller, including without limitation Seller's legal fees and expenses, shall be

paid by or out of any of the assets or properties of Buyer, the Company or any Subsidiary.

(b) Seller and Buyer each shall pay one-half of all documentary, stamp, sales, transfer, excise and other taxes incurred in connection with this Agreement and the transactions contemplated hereby, and shall equally share the cost of and jointly participate in the preparation and filing of all necessary tax returns and other documentation with respect to all such documentary, stamp, sales, transfer, excise and other taxes, provided that if Seller's payment obligation under the foregoing clause in respect of real estate transfer taxes would otherwise exceed $140,000, Seller's payment obligation in respect of such taxes shall be capped at $140,000 and Buyer shall pay the balance of all such real estate transfer taxes.

11.4 No Brokers' or Finders' Fees. (a) Seller represents and warrants to Buyer that all negotiations relative to this Agreement have been carried on by it directly without the intervention of any person who may be entitled to any brokerage or finder's fee or other commission in respect hereof or the consummation of the transactions contemplated hereby, except for a person whose fees and expenses are the sole responsibility of Seller, and Seller agrees to indemnify and hold harmless Buyer against any and all Claims which may be asserted against or incurred or paid by it or any of its affiliates (including without limitation after the Closing the Company and its Subsidiaries) as a result of any dealings, arrangements or agreements of Seller, the Company or any Subsidiary with any such person.

(b) Buyer represents and warrants to Seller that all negotiations relative to this Agreement have been carried on by Buyer directly without the intervention of any person who may be entitled to any brokerage or finder's fee or other commission in respect hereof or the consummation of the transactions contemplated hereby, and Buyer agrees to indemnify and hold harmless Seller against any and all Claims which may be asserted against or incurred or paid by Seller, any legal representative of Seller or other person making payment on behalf of Seller as a result of Buyer's or any of its affiliates' dealings, arrangements or agreements with any such person.

11.5 Contents of Agreement; Parties in Interest; Etc. This Agreement sets forth the entire understanding of the parties hereto and Mrs. Banks with respect to the transactions contemplated hereby. It shall not be amended or modified except by a written instrument duly executed by the parties hereto and Mrs. Banks. Any and all previous agreements and understandings between or among the parties regarding the subject matter hereof, whether written or oral and including without limitation the letter dated June 14, 1996 (as amended), are superseded by this Agreement.

11.6 Assignment and Binding Effect. All of the terms and provisions of this Agreement shall be binding upon and inure to the benefit of and be enforceable by the beneficiaries, successors and assigns of the parties hereto and Mrs. Banks. Prior to the Closing, Buyer may not assign any of its rights or obligations hereunder to any person or entity, except that Buyer (without relieving Buyer of its obligations hereunder) may assign its right to receive the Shares and Interests to one or more wholly-owned direct or indirect subsidiaries of Buyer designated in writing at least five (5) days prior to Closing. After the Closing, either party may assign any of its rights and obligations hereunder, provided that no such assignment of obligations shall relieve the assigning party of any of its obligations hereunder.

11.7 Waiver. Any term or provision of this Agreement may be waived at any time by the party entitled to the benefit thereof by a written instrument duly executed by such party.

11.8 Notices. Any notice, request, claim, demand, waiver, consent, approval or other communication which is required or permitted hereunder shall be in writing and shall be deemed given if delivered personally or sent by telefax (with confirmation of receipt and promptly confirmed by certified mail or recognized overnight courier service), by registered or certified mail, postage prepaid, or by recognized overnight courier service, as follows:

If to Buyer, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 203
Wyomissing, PA 19620
Attention: Peter M. Carlino
Chairman and Chief Executive Officer
Telefax: 610-376-2842

with a required copy to:

Morgan, Lewis & Bockius LLP
2000 One Logan Square
Philadelphia, PA 19103
Attention: Stephen M. Goodman, Esq.
Telefax: 215-963-5299

If to Seller or Mrs. Banks, to:

Mrs. Virginia H. Banks
c/o Chariton & Keiser
138 South Main Street
P.O. Box 220
Wilkes-Barre, PA 18703
Attention: Jerry B. Chariton, Esq.
Telefax: 717-824-3580

with a required copy to:

Drinker Biddle & Reath
1345 Chestnut Street
Philadelphia, PA 19107
Attention: Howard A. Blum, Esq.
Telefax: 215-988-2757

or to such other address as the person to whom notice is to be given may have specified in a notice duly given to the sender as provided herein. Such notice, request, claim, demand, waiver, consent, approval or other communication shall be deemed to have been given as of the date so delivered or telefaxed, five business days after the date mailed, one business day after dispatch by recognized overnight courier service or, if given by any other means, shall be deemed given only when actually received by the addressee.

11.9 No Public Announcements. Prior to the Closing (or if there shall not be a Closing), neither Buyer, Seller nor any of their respective affiliates shall issue or cause the publication of any press release or other public announcement with respect to this Agreement or any of the transactions contemplated hereby without the prior consultation of the other party, except as may be required by law or by any listing agreement with a national securities exchange. Without the prior written consent of Seller, no such release or announcement of Buyer shall contain any information regarding Seller, the Company or any Subsidiary treated as confidential in Section 7.4(a) hereof except the names of the Seller and the Company, the purchase price and the nature, location and names of the principal facilities of the Company and its Subsidiaries. Buyer recognizes that Seller has an interest in maintaining its relationships with employees, horsemen, trainers, financial institutions and the communities in which the Company or its Subsidiaries operate, and nothing in this Section 11.9 or elsewhere herein shall restrict Seller in the manner or content of its communications with such persons concerning the transactions contemplated herein and matters related hereto.

11.10 Specific Performance. Each party hereto acknowledges that the other party will be irreparably harmed and that there will be no adequate remedy at law for any violation by the other party of certain covenants and agreements contained in this Agreement. Accordingly, if all conditions set forth in Sections 8 and 9 hereof have been timely satisfied (or in the case of Section 8, waived by Buyer), and Seller refuses to consummate Closing, Buyer may be entitled, in addition to any other remedies which shall be available upon such breach, to seek injunctive relief to restrain such breach of, or to compel Seller to perform, and otherwise to specific performance of, Seller's obligation to consummate Closing; and Seller shall be entitled to seek injunctive remedies and/or remedies at law to prevent or redress any breach of Section 7.4(a) hereof. Otherwise, in the event Closing shall not have occurred and this

Agreement is terminated, remedies shall be limited to the enforcement of obligations, if any, expressly set forth (or referred to) in Section 11.2 hereof or in the Deposit Escrow Agreement. Remedies following Closing shall be restricted as set forth in Section 10.

11.11 Pennsylvania Law to Govern. This Agreement shall be governed by and interpreted and enforced in accordance with the laws of the Commonwealth of Pennsylvania.

11.12 No Benefit to Others; Persons Having Knowledge. The representations, warranties, covenants and agreements contained in this Agreement are for the sole benefit of the parties hereto and their beneficiaries (including without limitation with respect to Seller, Mrs. Banks), successors and assigns, and they shall not be construed as conferring any rights on any other persons. It is hereby acknowledged and agreed by Buyer that no reference herein to the knowledge of the persons identified on Exhibit L hereto, or to any certifications delivered to Mrs. Banks by any such person, shall give rise to any liability on the part of such person to Buyer (other than as specifically set forth herein with respect to Seller, or as specifically set forth in the Joinder with respect to Mrs. Banks), in respect of any representation, warranty or other matter hereunder or any certification referred to herein, and Buyer agrees not to bring an action against any such person to the contrary.

11.13 Headings; Gender; "Person". All section headings contained in this Agreement are for convenience of reference only, do not form a part of this Agreement and shall not affect in any way the meaning or interpretation hereof. Words used herein, regardless of the number and gender specifically used, shall be deemed and construed to include any other number, singular or plural, and any other gender, masculine, feminine or neuter, as the context requires. Any reference to a "person" herein shall include an individual, firm, corporation, partnership, trust, estate, governmental authority or body, association, unincorporated organization or any other entity.

11.14 Further Assurances. At any time and from time to time after the Closing, the parties agree to cooperate with each other, to execute and deliver such other documents, instruments of transfer or assignment, files, books and records and do all such further acts and things as may be reasonably required to carry out the intent of the parties hereunder with respect to the transfer of the Shares and the Interests.

11.16 Exhibits; Appendix; Schedules. The Exhibits hereto, the Joinder hereto, Appendix A hereto and the Schedules referred to herein and therein are intended to be and hereby are specifically made a part of this Agreement.

11.17 Severability. If any provision of this Agreement or the application thereof to any person or circumstance is held invalid or unenforceable in any jurisdiction, the remainder hereof, and the application of such provision to such person or circumstance in any other jurisdiction or to other persons or circumstances in any jurisdiction, shall not be affected thereby, and to this end the provisions of this Agreement shall be severable.

11.18 Counterparts. This Agreement may be executed in any number of counterparts and any party hereto may execute any such counterpart, each of which when executed and delivered shall be deemed to be an original and all of which counterparts taken together shall constitute but one and the same instrument. This Agreement shall become binding when one or more counterparts taken together shall have been executed and delivered by the parties. It shall not be necessary in making proof of this Agreement or any counterpart hereof to produce or account for any of the other counterparts.

12. Title Matters. (a) Buyer may order a title commitment or commitments with respect to the Real Property (the "Title Commitment") from a title company which will insure fee simple title to the Real Property at Closing (the "Title

Company") through an ALTA Owners Form of title insurance policy in the form that is customary in Pennsylvania (the "Owners Title Policy"). Buyer may also order surveys for the Real Property ("Surveys") and shall be given access thereto for the preparation of the Surveys.

(b) Subject to paragraph (c), in the event the Title Commitments or the Surveys identify any matter which is unacceptable to Buyer, Buyer shall have the right to terminate this Agreement prior to the thirtieth day after the execution hereof ("Title Review Period") by written notice to Seller ("Termination Notice"), in which event the Deposit shall be paid to Buyer and, thereafter, the parties shall have no further rights or obligations hereunder except for obligations which expressly survive the termination of this Agreement. In the event Buyer does not deliver the Termination Notice before the expiration of the Title Review Period, Buyer shall take title to the Real Property subject to the Permitted Exceptions (as defined in paragraph (c)) and, the matters identified in the Title Commitments and the Surveys without any reduction of or credit against the purchase price for the Shares and the Interests. Between the expiration of the Title Review Period and Closing, Buyer shall not cause or permit any change in title to the Real Property.

(c) Title to the Real Property at Closing shall be good and marketable (except to the extent of the Kalmanowicz Litigation regarding the Real Property which has been disclosed to Buyer), and further shall be subject to (i) applicable zoning and building ordinances and governmental land use regulations, (ii) the lien of taxes not yet due and payable, (iii) any encumbrances or restrictions which do not materially interfere with the use of the respective parcel of Real Property as it is currently being used, and (iv) reservation of subsurface rights (the foregoing exceptions described in clauses (i) through (iv) are, collectively, the APermitted Exceptions@). Buyer shall not be entitled to terminate this Agreement because of any Permitted Exception. At Closing Seller shall discharge all liens and encumbrances affecting the Real Property which can be discharged by the payment of money other than liens and encumbrances relating to indebtedness that Buyer has elected to have continued under Section 8.7 hereof.

IN WITNESS WHEREOF, the parties hereto have duly executed this Purchase Agreement on the date first written.

ESTATE OF JOSEPH B. BANKS

By /s/ Virginia H. Banks
As its Executrix

PENN NATIONAL GAMING, INC.

Attest:

/s/ Robert S. Ippolito
Name: Robert S. Ippolito
Title: Secretary/ Treasurer

By /s/ Peter M. Carlino
As its Chairman and Chief

JOINDER OF VIRGINIA H. BANKS

To induce Buyer to enter into this Purchase Agreement, the undersigned, a beneficiary of Seller, intending to be legally bound, hereby joins in this Purchase Agreement for the sole purpose of confirming her indemnity obligations under Sections 10 and acknowledging and agreeing to Sections 11.5, 11.6, 11.8 and 11.11 of the Purchase Agreement; provided, however, that, notwithstanding any provision in the Purchase Agreement to the contrary, no indemnity claim may be asserted or enforced against the undersigned unless (i) the amount due from Seller or the undersigned under Section 10 shall have been established under Section 10, by agreement of the parties or by a final and unappealable determination of a court of competent jurisdiction, (ii) the amount deposited in escrow pursuant to the Closing Escrow Agreement shall have been exhausted or shall be insufficient to satisfy such claim in full and (iii) Seller shall not have made payment in full immediately upon demand.

Witness:
/s/ Jennifer H. Banks
- ----------

/s/ Virginia H. Banks

VIRGINIA H. BANKS

AGREED AND ACCEPTED:

ESTATE OF JOSEPH B. BANKS

By /s/ Virginia H. Banks
As its Executrix

PENN NATIONAL GAMING, INC.

Attest:

By /s/ Peter M. Carlino
As its Chairman and Chief Executive Officer

/s/ Robert S. Ippolito
Name:Robert S. Ippolito
Title:Secretary/Treasurer

Appendix A

Representations and Warranties

Terms used in this Appendix A but not defined herein shall have the meanings ascribed thereto in the forepart of this Agreement.

A.1 Representations and Warranties of Seller. For purposes of this Section A.1, references that limit representations and warranties to "the knowledge of the Company, the Subsidiaries and Seller" and all equivalent phrases shall be deemed to refer solely to the actual knowledge of the persons listed on Exhibit L hereto (after the inquiry referred to therein). Subject to the foregoing, Seller represents and warrants to Buyer as follows:

A.1.1 Share and Interest Ownership; Authority. Joseph H. Banks is the lawful owner of record of, and Seller owns beneficially and will as of the Closing own of record, all of the issued and outstanding shares of capital stock of the Company (previously defined as the "Shares") and all of the outstanding limited partnership interests of the Partnerships (previously defined as the "Interests"), in each case (except as set forth on Schedule A.1.1 hereto and except that ownership of the Shares and the Interests is subject to securities laws and laws applicable to "licensed corporations" (as defined in the Pennsylvania Act) and owners of "race tracks" or "non primary locations" (as defined in the Pennsylvania Act)) free and clear of all pledges, liens, encumbrances, claims and other charges and restrictions thereon of every kind, including without limitation any agreements, subscriptions, options, warrants, calls, commitments or rights (contingent or otherwise) of any character granting to any person any interest in or right to acquire from Seller at any time, or upon the happening of any stated event, any Shares or Interests. Each of Seller and Mrs. Banks has full right, power and authority to execute, deliver and perform this Agreement and the Joinder, as applicable. This Agreement and the Joinder, as applicable, has been duly executed and delivered by each of Seller and Mrs. Banks. This Agreement constitutes the legal, valid and binding obligation of each of Seller and Mrs. Banks enforceable against it and her in accordance with its terms, except as the same may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws affecting the enforcement of creditors' rights in general, and except that the enforceability of this Agreement is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Notwithstanding the foregoing, no representation or warranty is made that the execution, delivery or performance of this Agreement by Seller complies with, or is permitted by, the Pennsylvania Race Horse Industry Reform Act or the regulations promulgated thereunder or any Federal laws pertaining primarily to the harness and horse racing industry ("Federal Laws").

A.1.2 Validity of Contemplated Transactions; Etc. The execution, delivery and, except as set forth on Schedule A.1.2 hereto, performance hereof and of the Joinder, as applicable, by each of Seller and Mrs. Banks, will not contravene or violate (a) any law, rule or regulation to which Seller or Mrs. Banks is subject or (b) any judgment, order, writ, injunction or decree of any court, arbitrator or governmental or regulatory official, body or authority which is applicable to Seller or Mrs. Banks; nor, except as set forth on Schedule A.1.2 hereto, will such execution, delivery or performance violate, be in conflict with or result in the breach (with or without the giving of notice or lapse of time, or both) of any term, condition or provision of, or require the consent of any other party to, any contract, commitment, agreement, lease, license, permit, authorization, document or other understanding, oral or written, to or by which Seller or Mrs. Banks is a party or otherwise bound or affected. Except as set forth on Schedule A.1.2 hereto, no authorization, approval or consent of, and no registration or filing with, any governmental or regulatory official, body or authority is required in connection with the execution, delivery and performance

hereof or of the Joinder, as applicable, by Seller or Mrs. Banks (it being understood that no representation or warranty is made regarding any authorization, approval, consent, registration or filing that may be required under the Pennsylvania Race Horse Industry Reform Act or the regulations promulgated thereunder).

A.1.3 No Claims Against the Company or any Subsidiary. Except as set forth on Schedule A.1.3 hereto, Seller has no claim, either accrued, absolute, contingent or otherwise and whether known or unknown, fixed or unfixed, choate or inchoate, liquidated or unliquidated, secured or unsecured, against the Company or any Subsidiary for any reason.

A.1.4 Corporate Existence. The Company is a corporation duly organized and validly existing under the laws of the Commonwealth of Pennsylvania, and it has all requisite corporate power and authority and all necessary licenses, permits and authorizations to carry on its business as it has been and is now being conducted and to own, lease and operate the properties used in connection therewith. The Company is not, and is not required to be, qualified as a foreign corporation authorized to do business in any other jurisdiction.

A.1.5 Capitalization. (a) The total authorized capital stock of the Company consists of (i) 100 shares of Class A common stock, par value $1.00 per share, of which ten of such shares are issued and outstanding, and (ii) 300,000 shares of Class B common stock, par value $1.00 per share, of which 30,000 of such shares are issued and outstanding, (all such issued and outstanding shares have been previously defined as the "Shares"). All of the Shares have been duly authorized and validly issued, are fully paid and non-assessable, were not issued in violation of the terms of any agreement or other understanding binding upon the Company and were issued in compliance with all applicable charter documents of the Company and all applicable federal, state and foreign securities laws, rules and regulations. No preemptive rights with respect to the issuance of the Shares or any other capital shares of the Company have been violated.

(b) There are no outstanding subscriptions, options, warrants, convertible securities, calls, commitments, agreements or rights (contingent or otherwise) of any character to purchase or otherwise acquire from the Company or Seller any shares of, or any securities convertible into, the capital stock of the Company.

A.1.6 Subsidiaries; No Interest in Other Entities. (a) Pocono Downs, Mill Creek Land, Inc., Northeast Concessions, Inc., Audio Video Concepts, Inc., Backside, Inc., The Downs Off-Track Wagering, Inc. and the Partnerships (collectively, the "Subsidiaries") are the only direct or indirect subsidiaries of the Company. Each of the Subsidiaries is a corporation or limited partnership, as the case may be, duly organized and validly existing under the laws of the Commonwealth of Pennsylvania, and each has all requisite corporate or partnership power and authority and all necessary licenses, permits and authorizations to carry on its business as it has been and is now being conducted and to own, lease and operate the properties used in connection therewith. No Subsidiary is, or is required to be, qualified as a foreign corporation or partnership authorized to do business in any other jurisdiction.

(b) The authorized, issued and outstanding capital stock or partnership interests (as the case may be) of each Subsidiary are listed on Schedule A.1.6 hereto. All of such issued and outstanding shares of capital stock and partnership interests have been duly authorized and validly issued, are in the case of capital stock fully paid and non-assessable, were not issued in violation of the terms of any agreement or other understanding binding upon any Subsidiary and were issued in compliance with all applicable charter documents of the Subsidiaries and all applicable federal, state and foreign securities laws, rules and regulations. There are no outstanding subscriptions, options,

warrants, convertible securities, calls, commitments, agreements or rights (contingent or otherwise) of any character to purchase or otherwise acquire from any Subsidiary any shares or partnership interests of, or any securities convertible into, the capital stock or partnership interests of any Subsidiary. No preemptive rights with respect to the issuance of the capital shares or partnership interests of any Subsidiary have been violated.

(c) (i) The Company is the lawful owner of record and beneficially of all of the issued and outstanding shares of capital stock of Pocono Downs; (ii) Pocono Downs is the lawful owner of record and beneficially of (A) all of the issued and outstanding shares of capital stock of Mill Creek Land, Inc., Northeast Concessions, Inc., Audio Video Concepts, Inc., Backside, Inc. and The Downs Off-Track Wagering, Inc. ("The Downs") and (B) all of the outstanding general partnership interests of Peach Street; and (iii) The Downs is the lawful owner of record and beneficially of all of the outstanding general partnership interests of Lehigh; in each case (except as set forth on Schedule A.1.6 hereto) free and clear of all pledges, liens, encumbrances, claims and other charges and restrictions thereon of every kind (except that such ownership is subject to securities laws and laws applicable to "licensed corporations" (as defined in the Pennsylvania Act) and owners of "race tracks" or "non-primary locations" (as defined in the Pennsylvania Act)), including without limitation any agreements, subscriptions, options, warrants, calls, commitments or rights (contingent or otherwise) of any character granting to any person any interest in or right to acquire from the Company, Pocono Downs or The Downs at any time, or upon the happening of any stated event, any shares of capital stock or any partnership interest of any Subsidiary.

(d) Neither the Company nor any Subsidiary owns any shares of any corporation other than as set forth in Section A.1.6(c) hereof and for passive investments in publicly traded corporations and neither the Company nor any Subsidiary has any other ownership or other investment interest, either of record, beneficially or equitably, in any association, partnership, joint venture or legal entity, except for bank, checking and money market accounts and other cash equivalent investments and marketable securities of publicly traded corporations.

A.1.7 Financial Statements. (a) Seller has delivered (or, with respect to the Unaudited Financials, will deliver in accordance with Schedule A.1.7 hereto) to Buyer prior to the date hereof (i) the consolidated balance sheets of Pocono Downs and the other Subsidiaries as of December 31, 1995, 1994 and 1993 and the related consolidated statements of income, retained earnings and cash flows for the 12-month periods then ended, reported on without qualification by Robert Rossi & Co., independent certified public accountants (the "Audited Financials"), and (ii) the unaudited consolidated balance sheet of the Company and its Subsidiaries as of June 30, 1996 (the "June Balance Sheet") and the related consolidated statement of income for the six-month period then ended (the "Unaudited Financials"; and together with the Audited Financials, the "Company Financials"). The Company Financials (including without limitation all notes thereto), correct and complete copies of all of which are attached hereto (or will be attached hereto when delivered) as Schedule A.1.7, are in accordance with the books and records of the Company and its Subsidiaries and present fairly the consolidated financial position and assets and liabilities of the Company and its Subsidiaries as of their respective dates and the results of their consolidated operations for the periods then ended, in conformity with generally accepted accounting principles applied on a consistent basis except, in the case of the Unaudited Financials, for the omission of footnote information, statements of retained earnings and cash flows, and normal year-end audit adjustments which in the aggregate will not be material in terms of their overall impact on the Company's financial statements. Notwithstanding the foregoing, no representation or warranty is made regarding the Company's policy regarding the accrual of capital stock taxes.

(b) The accounting books and records maintained by the Company and its Subsidiaries, and upon which the Company Financials are based, accurately reflect all of their material items of income and expense, assets and liabilities. The Company maintains a system of internal accounting controls sufficient to provide reasonable assurances that transactions are recorded as necessary to permit preparation of financial statements in conformity with generally accepted accounting principles.

A.1.8 Accounts Receivable. All accounts receivable of the Company and its Subsidiaries are valid and genuine, arise out of bona fide sales and deliveries of goods, performance of services or other business transactions, are not subject to valid defenses, set-offs or counterclaims other than normal returns and allowances and were generated only in the ordinary course of business. All accounts receivable reflected on the Closing Balance Sheet, less (a) an allowance for doubtful accounts equal to five percent of such accounts receivable and (b) employee receivables not deemed to be collectible for purposes of the Closing Financial Statements, are collectible in full within 180 days after the Closing Date with customary collection effort.

A.1.9 Inventory and Equipment. All inventory and equipment of the Company and its Subsidiaries reflected on the June Balance Sheet, and all inventory and equipment owned by the Company or any Subsidiary as of the date hereof, (a) consisted and consists of items of a quality and quantity useable in the ordinary course of their businesses consistent with past practice, subject to normal wear and tear and routine maintenance, (b) was and is valued in conformity with generally accepted accounting principles applied on a consistent basis and (c) conformed and conforms in all material respects to all applicable laws, ordinances, codes, rules and regulations relating thereto and to the construction, use, operation and maintenance thereof. Such inventory and equipment has been maintained in accordance with the regular business practices of the Company and its Subsidiaries.

A.1.10 Absence of Undisclosed Liabilities. (a) Except as set forth in Schedule A.1.10 hereto, neither the Company nor any Subsidiary is liable for or subject to any liability except for:

(i) those liabilities reflected on the June Balance Sheet and not heretofore paid or discharged;

(ii) those liabilities arising in the ordinary course of its business consistent with past practice under any contract, commitment or agreement specifically disclosed on any Schedule to this Agreement or not required to be disclosed thereon because of the term or amount involved or otherwise; and

(iii) those liabilities incurred, consistent with its past practice, in the ordinary course of its business and either not required to be shown on the June Balance Sheet or arising since June 30, 1996, which liabilities in the aggregate are, taken as a whole, of a character and magnitude consistent with its past practice.

For purposes of this Section A.1.10 only, the term "liabilities" shall mean all items required to be reflected as liabilities on a balance sheet prepared in accordance with generally accepted accounting principles.

(b) Except as provided in Section A.1.21 hereof, the Company and its Subsidiaries do not provide or maintain, and are not required under applicable law to provide or maintain, for their employees, themselves or any other person any pension, retirement, profit-sharing or other plan or policy for the benefit of employees, themselves or any other person which is required to comply with,

and the Company and its Subsidiaries have no liabilities with respect to themselves or any other person under, the federal Employees Retirement Income Security Act of 1974, as amended ("ERISA"). Furthermore, on the Closing Date neither the Company nor either Partnership will have any liability for any dividends or distributions to any shareholder or partner, except as may be fully reflected on the Closing Financial Statements.

A.1.11 Existing Condition. Except as disclosed on Schedule A.1.10 or A.1.11 hereto, since June 30, 1996, the Company and its Subsidiaries have not:

(a) sold, assigned or transferred any of their material assets or properties except in the ordinary course of their businesses consistent with past practice;

(b) created, incurred, assumed or guaranteed any indebtedness for money borrowed or incurred any other liabilities exceeding $100,000 in the aggregate except for current liabilities incurred consistent with past practice and for borrowings and reborrowings under existing credit arrangements;

(c) suffered any damage, destruction or loss materially and adversely affecting their businesses, operations, assets or properties;

(d) suffered any material adverse change in their businesses, operations, assets, properties or condition (financial or otherwise) other than changes generally affecting the racing industry in the Commonwealth of Pennsylvania or nationally;

(e) made any capital expenditure or capital addition or betterment except for such as may be involved in the ordinary repair, maintenance and replacement of their assets or are otherwise consistent with past practice;

(f) other than in the ordinary course of business consistent with past practice, increased the salaries or other compensation of, or made any advance (excluding advances for ordinary and necessary business expenses) or loan to, any of their directors, officers or employees, or to Seller, or made any increase in, or any addition to, other benefits to which any of their directors, officers or employees or Seller may be entitled; or

(g) entered into any material transaction other than in the ordinary course of their businesses consistent with past practice.

Except as disclosed on Schedule A.1.11 or A.1.21 hereto, since December 31, 1995, the Company and its Subsidiaries have not made or suffered any material amendment to or termination of any material contract or commitment to which they or any of them is or was a party or by which they or any of their properties are or were bound.

A.1.12 Assets and Properties. (a) Schedule A.1.12 hereto identifies each parcel of real property owned, leased or subleased by the Company or any Subsidiary or in which the Company or any Subsidiary has any real estate interest and lists each lease agreement under which the Company or any Subsidiary has any direct or indirect leasehold interest in any real property (collectively, "Real Property"). Schedule A.1.12 hereto also contains a list of all inventory and equipment owned by the Company or any Subsidiary as of June 30, 1996, and will include (in accordance with Schedule A.1.12 hereto) in each case the book and tax basis thereof. The Company and its Subsidiaries are in possession of all of their owned Real Property. The Company and its Subsidiaries own outright all and have good and marketable title to all personal owned properties and assets, including without limitation all of the properties and assets reflected on the June Balance Sheet and those acquired since June 30,

1996 (except in each case for properties and assets sold or otherwise disposed of since June 30, 1996 in the ordinary course of their businesses consistent with past practice), free and clear of all mortgages, liens, pledges, security interests, charges, claims, restrictions and other encumbrances and defects of title of any nature whatsoever, except liens for current taxes not yet due and payable or being contested in good faith by appropriate proceedings (and which have been fully accrued for) and items disclosed on Schedule A.1.12 hereto. All leases, subleases, licenses, permits and authorizations in any manner related to the Real Property, assets, properties or business of the Company and its Subsidiaries and all other instruments, documents and agreements pursuant to which the Company or any Subsidiary has obtained the right to use any real or personal property are valid and effective in accordance with their respective terms, and there is not under any of such leases, subleases, licenses, permits, authorizations, instruments, documents or agreements any existing default or event which with the giving of notice or lapse of time, or both, would constitute a default.

(b) Except as disclosed on Schedule A.1.12 hereto, all facilities, buildings, vehicles, equipment, furniture and fixtures, leasehold improvements and other material items of tangible personal property owned or used by the Company or any Subsidiary are in operating condition and repair, subject to normal wear and tear and routine maintenance, are useable in the regular and ordinary course of their businesses and conform to all applicable laws, ordinances, codes, rules and regulations relating thereto and to the construction, use, operation and maintenance thereof.

(c) Located on the Real Property is all machinery, equipment, appliances and fixtures necessary or useful for the proper supply of heat, ventilation, air conditioning, electricity, water service, fire protection, gas and lighting service to the buildings used to operate the Real Property, all of which will be conveyed with the Real Property.

(d) Except as disclosed on Schedule A.1.12 hereto, since January 1, 1991, no notice has been received by Seller, the Company or any Subsidiary from the holder of any mortgage or from any insurance company that has issued a policy with respect to the Real Property or by any Board of Fire Underwriters, or other body exercising similar functions, claiming any defects or deficiencies with respect to the Real Property, or requesting performance of any demolition, repairs, alterations or other work to the Real Property.

(e) Except as disclosed on Schedule A.1.12 hereto, no public or private nuisance condition currently exists, or to the knowledge of Seller, the Company or any Subsidiary has existed, on or with respect to the Real Property.

(f) The Real Property has connection to sanitary sewer, storm sewer, water, electricity, gas, telephone and all other necessary utilities and services, and to the knowledge of Seller, the Company and any Subsidiaries there are no circumstances or conditions which exist which would result in termination of such connections.

(g) There is, to the knowledge of the Company, any Subsidiary or Seller, no present, or threatened, ban, moratorium or other limitation of any kind on new connections or additional flows to the sewage treatment plant serving or to serve the Real Property or the conveyance facilities leading to such sewage treatment plant.

(h) Except as set forth on Schedule A.1.12 hereto, no work has been or will be performed at, and no materials have been or will be furnished to, the Real Property which might give rise to any mechanics', materialmen's or other lien against the Real Property.

A.1.13 Taxes and Tax Returns and Reports. With respect to the Company and its Subsidiaries (each referred to in this Section A.1.13 as a "Company"), (a) all reports, returns, statements (including without limitation estimated reports, returns or statements), and other similar filings required to be filed on or before the Closing Date by any Company (the "Tax Returns") with respect to any Taxes (as defined in this Section A.1.13) have been timely filed with the appropriate governmental agencies in all jurisdictions in which such Tax Returns are required to be filed, and all such Tax Returns correctly reflect the liability of each Company for Taxes for the periods, properties or events covered thereby, (b) all Taxes (other than with respect to subsurface coal rights) payable with respect to the Tax Returns will have been paid in full prior to the Closing Date, or an adequate accrual in accordance with generally accepted accounting principles will be provided with respect thereto on the Closing Balance Sheet, (c) no deficiency in respect of any Taxes which has been assessed against any Company remains unpaid and neither the Company, any Subsidiary nor Seller has knowledge of any unassessed Tax deficiencies or of any audits (other than routine annual audits by the Pennsylvania Department of Revenue) or investigations pending or threatened against any Company with respect to any Taxes, (d) except as set forth in Schedule A.1.21 hereto, there is in effect no extension for the filing of any Tax Return and no Company has extended or waived the application of any statute of limitations of any jurisdiction regarding the assessment or collection of any Tax, (e) to the knowledge of Seller and each Company, no claim has ever been made by any Tax authority in a jurisdiction in which any Company does not file Tax Returns that it is or may be subject to taxation by that jurisdiction, (f) there are no liens for Taxes upon any asset of any Company except for liens for current Taxes not yet due, (g) no issues have been raised in any examination by any Tax authority with respect to any Company which, by application of similar principles, reasonably could be expected to result in a proposed deficiency for any other period not so examined, (h) except for the obligations established by this Agreement, no Company is a party to any Tax allocation or sharing agreement or otherwise under any obligation to indemnify any person with respect to any Taxes, (i) other than for the interests held in the Partnerships, no Company is a holder of any equity interests in any joint venture, partnership or other arrangement that is treated as a partnership for federal income tax purposes, (j) there are no accounting method changes or proposed accounting method changes of any Company that could give rise to an adjustment under section 481 of the Code, for periods after the Closing Date, (k) there are no requests for rulings in respect of any Tax pending between any Company and any Taxing authority, (l) since the date of its ownership by Seller (or the Company, as the case may be), no Company has been a member of any affiliated group other than the affiliated group of which the Company is the common parent, (m) each Company has timely made all deposits required by law to be made with respect to employees' withholding and other employment taxes and (n) each Partnership is and was appropriately treated, for all periods (or partial periods) prior to or including the Closing Date, as a partnership for federal income tax purposes, and not as association taxable as a corporation.

For purposes of this Agreement, "Taxes" means any taxes, duties, assessments, fees, levies or similar governmental charges, together with any interest, penalties and additions to tax, imposed by any taxing authority, wherever located (i.e. whether federal, state, local, municipal or foreign), including without limitation all net income, gross income, gross receipts, net receipts, sales, use, transfer, franchise, privilege, profits, social security, disability, withholding, payroll, unemployment, employment, excise, severance, property, windfall profits, value added, ad valorem, occupation or any other similar governmental charge or imposition.

A.1.14 Legal Proceedings; Etc. Except as disclosed on Schedule A.1.14 hereto, there are no disputes, claims, actions, suits or proceedings (including without limitation local zoning or building ordinance proceedings), arbitrations or investigations, either administrative or judicial, pending, or to the knowledge of the Company, any Subsidiary or Seller threatened, by or against the Company or any Subsidiary or their assets or businesses, before or by any court or governmental or regulatory official, body or authority, or before an arbitrator of any kind. Except as disclosed on Schedule A.1.14 hereto, neither the Company, any Subsidiary nor Seller has any knowledge of any condition or state of facts or the occurrence of any event that the Company, any Subsidiary or Seller believes is likely to form the basis of any dispute, claim, action, suit, proceeding or arbitration against the Company or any Subsidiary. Except as disclosed on Schedule A.1.14 hereto, neither the Company nor any Subsidiary is a party to the provisions of any judgment, order, writ, injunction or decree of any court, arbitrator or governmental or regulatory official, body or authority.

A.1.15 Compliance with Law. Except as disclosed on Schedule A.1.15 hereto, the Company and its Subsidiaries have complied in all material respects with each, and are not in violation in any material respect of any, law, rule or regulation to which they or their businesses are, or their operations, assets or

properties are, subject and have not failed to obtain or adhere to the requirements of any license, permit or other authorization necessary to the ownership of their assets and properties or to the conduct of their businesses. Without limiting the generality of the foregoing, except as disclosed on Schedule A.1.15 or A.1.20 hereto (a) neither Seller, the Company nor any Subsidiary, or any director, officer, employee or agent of or any consultant to the Company or any Subsidiary, or any other person authorized to act on behalf of the Company or any Subsidiary, has unlawfully offered, paid or agreed to pay, directly or indirectly, any money or anything of value to or for the benefit of any individual who is or was an official or employee or candidate for office of the government of any country or any political subdivision, agency or instrumentality thereof or any employee or agent of any customer or supplier of the Company or any Subsidiary and (b) the Company and each Subsidiary is compliance with all applicable federal, state and local laws respecting employment and employment practices, including without limitation laws relating to employment discrimination and sexual harassment. Notwithstanding the foregoing, no representation or warranty is made regarding compliance with or violations of Environmental Laws.

A.1.16 Validity of Contemplated Transactions; Etc. The execution, delivery and, except as set forth on Schedule A.1.16 hereto, performance hereof or of the Joinder, as applicable, by each of Seller and Mrs. Banks will not contravene or violate (a) any law, rule or regulation to which the Company or any Subsidiary is subject (it being understood that no representation or warranty is made that the execution, delivery or performance of this Agreement by Seller complies with, or is permitted by, the Pennsylvania Race Horse Industry Reform Act or the

regulations promulgated thereunder), (b) any judgment, order, writ, injunction or decree of any court, arbitrator or governmental or regulatory official, body or authority which is applicable to the Company or any Subsidiary or (c) the charter documents of the Company or any Subsidiary; nor, except as set forth on Schedule A.1.16 hereto, will such execution, delivery or performance violate, be in conflict with or result in the breach (with or without the giving of notice or lapse of time, or both) of any term, condition or provision of, or require the consent of any other party to, any material contract, commitment, agreement, lease, license, permit, authorization, document or other understanding, oral or written, to or by which the Company or any Subsidiary is a party or otherwise bound or by which any of the assets or properties of the Company or any Subsidiary may be bound or give any party with rights thereunder the right to terminate, modify, accelerate, renegotiate or otherwise change any of the existing rights or obligations of the Company or any Subsidiary thereunder.

A.1.17 Insurance. Schedule A.1.17 hereto contains a true and complete list of the insurance coverage in effect with respect to the Company and its Subsidiaries and their businesses and properties, together with a description of each insurance claim in excess of $25,000 made by the Company or any Subsidiary during the past two years. The Company and its Subsidiaries have at all times during the past two years maintained insurance coverage substantially similar to the insurance coverage currently in effect. There has been no material default under any such coverage, nor has there been any failure to give any notice or present any claim under any such coverage in a timely fashion or in the manner or detail required by the policy or binder. There are no outstanding unpaid premiums other than premiums accrued but not yet payable in the ordinary course of business of the Company and its Subsidiaries, and there are no provisions in any insurance coverage of the Company or any Subsidiary for retroactive or retrospective premium adjustments. No notice of cancellation or nonrenewal with respect to, or disallowance of any claim under, any such coverage has been received by the Company or any Subsidiary. Except as disclosed on Schedule A.1.17 hereto, there are no outstanding performance bonds or other surety arrangements covering or issued for the benefit of either the Company or any Subsidiary or their businesses or as to which the Company or any Subsidiary has or may incur any liability.

A.1.18 Contracts and Commitments. Except as listed and described on Schedule A.1.10 or A.1.18 hereto or, in the case of benefit plans and arrangements, Schedule A.1.21 hereto, neither the Company nor any Subsidiary is a party to or otherwise bound or affected by any written or oral:

(a) agreement, contract or commitment with any present or former shareholder, director or officer; or any agreement, contract or commitment with any employee or consultant or for the employment of any person, including without limitation any consultant, that is not terminable by the Company or any Subsidiary upon 30 days (or less) prior notice or without any severance or other termination payment;

(b) agreement, contract, commitment or arrangement with any labor union or other representative of employees;

(c) agreement, contract or commitment for the purchase of, or payment for, supplies or products, or for the performance of services by a third party, involving in any one case supplies, products or services having a value of $25,000 or more;

(d) agreement, contract or commitment to sell or supply products or to perform services, involving in any one case products or services having a value of $25,000 or more;

(e) agreement, contract or commitment (i) providing for payments based upon the revenues or profits of the Company, any Subsidiary or any other entity or (ii) continuing over a period of more than six months from the date hereof or exceeding $25,000 in value;

(f) representative or sales agency agreement, contract or commitment;

(g) (i) capital or (ii) operating lease under which it is either lessor or lessee of real property or any material personal property;

(h) note, debenture, bond, conditional sale agreement, equipment trust agreement, letter of credit agreement, loan agreement or other agreement or contract, commitment or arrangement for the borrowing or lending of money (including without limitation loans to or from officers, directors, Seller or any member of any of their immediate families or beneficiaries, as the case may be), agreement, contract, commitment or arrangement for a line of credit or guarantee, pledge or undertaking in any manner whatsoever of the indebtedness of

any other person;

(i) agreement, contract or commitment with any governmental agency, commission, department or other governmental body or for any political or charitable contribution;

(j) agreement, contract or commitment for any capital expenditure in excess of $25,000;

(k) agreement, contract or commitment limiting or restraining it from engaging or competing in any lines of business with any person, nor to the knowledge of the Company, any Subsidiary or Seller is any officer or employee of the Company or any Subsidiary subject to any such agreement;

(l) material license, franchise, distributorship or other similar agreement, contract or commitment, including without limitation those which relate in whole or in part to any patent, trademark, trade name, service mark or copyright or to any ideas, technical assistance or other know-how of or used by the Company or any Subsidiary; or

(m) material agreement, contract or commitment not made in the ordinary course of its business.

Except as may be disclosed on Schedule A.1.18 hereto, each of the agreements, contracts, commitments, arrangements, leases and other instruments, documents and undertakings listed on Schedule A.1.18 hereto is, as to the Company or the Subsidiary party thereto and, to the knowledge of the Company, the Subsidiaries and Seller, the other parties thereto, valid and enforceable in accordance with its terms (except as the same may be limited by bankruptcy, insolvency, reorganization, moratorium and other similar laws); the Company or the Subsidiary party thereto, as the case may be, (and to the knowledge of the Company, the Subsidiaries and Seller the other parties thereto) are not in default in the performance, observance or fulfillment of any material obligation, covenant or condition contained therein; and to the knowledge of the Company, the Subsidiaries and Seller no event has occurred which with or without the giving of notice or lapse of time, or both, would constitute a material default thereunder.

A.1.19 Additional Information. Schedule A.1.19 hereto contains (or will, with respect to item (j), contain in accordance with Schedule A.1.19 hereto), to the extent not described in some other Schedule hereto, accurate lists and, in respect of items not fully set forth in a document previously provided to Buyer or its representatives, summary descriptions of the following:

(a) all vehicles, equipment, furniture and fixtures, leasehold improvements and other material items of personal property owned or leased by the Company or any Subsidiary, specifying which are owned and which are leased;

(b) all real property and interests in real property owned, leased or otherwise held by the Company or any Subsidiary specifying which are owned and which are leased and, with respect to leased real property, specifying the identity of the lessor and the agreement under which it is leased;

(c) the names of all directors of the Company and its Subsidiaries;

(d) (i) the names and current weekly salaries of all employees of the Company together with a statement of the full amount of any bonuses, profit sharing or other remuneration paid to each such person and to any director during the current or the last fiscal year or payable to each such person in the future and the basis therefor and (ii) as of June 29, 1996, the names and the current salaries of all other employees of the Company and its Subsidiaries;

(e) the names and addresses of each bank and other financial institution or fund in which the Company or any Subsidiary maintains an account (whether

checking, savings, money market or otherwise), lock box or safe deposit box, and the account numbers and names of persons having signing authority or other access with respect thereto;

(f) a listing of all cash equivalent items held by the Company and its Subsidiaries;

(g) all material licenses, permits and governmental authorizations of the Company and its Subsidiaries;

(h) the names of all persons authorized to borrow money or incur or guarantee indebtedness on behalf of the Company or any Subsidiary;

(i) the names of all persons holding powers of attorney executed by the Company or any Subsidiary and a summary statement of the terms thereof; and

(j) a listing of all accounts payable of the Company or any Subsidiary as of the date of this Agreement in excess of $5,000 individually.

A.1.20 Labor Matters; Owners and Trainers. Except as set forth on Schedule A.1.20 hereto, (a) there are no labor controversies or disputes pending, or to the knowledge of the Company, any Subsidiary or Seller threatened, against the Company or any Subsidiary, and neither Seller, the Company nor any Subsidiary has knowledge of any facts that would be likely to give rise to such a controversy or dispute other than issues that customarily arise as a result of change of ownership of a business; (b) there is no union representing the interests of any employees of the Company or any Subsidiary; (c) to the knowledge of the Company, the Subsidiaries and Seller there are no employees of the Company or any subsidiary seeking union representation; (d) to the knowledge of the Company, the Subsidiaries and Seller there is no union seeking to represent such employees; and (e) within the past five years, neither the Company nor any Subsidiary has committed any unfair labor practice, as defined in the National Labor Relations Act, as amended. The relations of the Company and its Subsidiaries with their employees, and with owners and trainers who have participated in racing at Pocono Downs within the past 12 months, are satisfactory, and neither Seller, the Company nor any Subsidiary has knowledge of any facts that would be likely to affect adversely such relations other than issues that customarily arise as a result of change of ownership of a business.

A.1.21 Benefit Plans and Arrangements. (a) Schedule A.1.21 hereto lists all employee benefit plans (within the meaning of section 3(3) of ERISA), and other funds, policies, arrangements, practices, customs and understandings or programs, whether or not they are or are intended to be (i) covered or qualified under the Code, ERISA or any other applicable law, (ii) written or oral, (iii) funded or unfunded or (iv) generally available to any or all employees (or former employees) of the Company and/or one of its Subsidiaries (and/or their beneficiaries or dependents), which were or are established, contributed to or maintained by the Company and/or one or more of its Subsidiaries since 1993, including without limitation welfare, fringe benefit, pension, profit sharing, retirement, stock purchase, stock option, stock bonus, disability or wage continuation, sick pay or vacation pay, supplemental unemployment, severance or deferred compensation plans (the "Plans").

(b) With respect to any such Plans, the Company has made (or as of the Closing Date will make) all contributions thereto which it has accrued on its financial statements and other books and records as a liability and except as disclosed on Schedule A.1.21, the Company has delivered or made available to Buyer true, accurate and complete copies of (i) all documents governing such Plans contributed to or maintained by the Company and/or one or more of its Subsidiaries, and all amendments thereto, (ii) all reports filed, with respect to the period beginning on January 1, 1988 and ending on the Closing Date, by

the Company or officials of each Plan described in clause (i) of this Section A.1.21(b) with respect to such Plans with the United States Department of Labor, the Internal Revenue Service (the "IRS") and any other federal or state regulatory agency, (iii) all summary plan descriptions, notices and other reporting and disclosure material furnished to participants in any of such Plans described in clause (i) of this Section A.1.21(b), (iv) all actuarial, accounting and financial reports, if any, prepared with respect to any of such Plans described in clause (i) of this Section A.1.21(b) and (v) all currently effective IRS ruling or determination letters on any of such Plans described in clause (i) of this Section A.1.21(b).

(c) Except as disclosed on Schedule A.1.21, the Plans and provisions thereof, the trusts created thereby, and the operation of the Plans are (and at all times have been) in material compliance with and conform (and at all times have conformed) to the applicable provisions of the Code, ERISA, other applicable statutes and governmental rules and regulations.

(d) Except as disclosed on Schedule A.1.21, there is no action, claim or demand of any kind (other than routine claims for benefits) which has been brought or, to the knowledge of the Company, any Subsidiary or Seller threatened, against any Plan or the assets thereof, or against any fiduciary of any such Plan.

(e) Except as disclosed on Schedule A.1.21, no Plan is, and neither the Company nor any Benefits Affiliate has, and no event has occurred that could result in, any liability, actual or contingent, with respect to any Plan, or any other employee benefit plan that the Company or any Benefits Affiliate has maintained or contributed to since 1985, that is (i) a defined benefit pension plan subject to Title IV of ERISA, (ii) a multiemployer pension plan, as that term is defined in sections 4001(a)(3) and 3(37) of ERISA or (iii) a plan providing life, health or medical benefits to retired employees (other than as required by sections 601-608 of ERISA). For purposes of this Section A.1.21 only, the term "Benefits Affiliate" shall include (i) any corporation which is a member of a controlled group of corporations (as defined in section 414(b) of the Code) which includes the Company or any Subsidiary, (ii) any trade or business (whether or not incorporated) which is under common control (as defined in section 414(c) of Code) with the Company or any Subsidiary, (iii) any organization (whether or not incorporated) which is a member of an affiliated service group (as defined in section 414(m) of the Code) which includes the Company or any Subsidiary and (iv) any other entity required to be aggregated with the Company or any Subsidiary pursuant to the regulations issued under section 414(o) of the Code.

(f) With respect to any Plan that is an employee welfare benefit plan (within the meaning of section 3(1) of ERISA, except any such Plan that is a multiemployer plan within the meaning of Section 3(37) of ERISA) (a "Welfare Plan"), (i) each Welfare Plan for which contributions are claimed as deductions under any provision of the Code is in material compliance with all applicable requirements pertaining to such deductions and (ii) any Plan that is a group health plan (within the meaning of section 5000(b)(1) of the Code) complies, and in each and every case has complied, with all of the requirements of ERISA and section 4980B of the Code.

(g) Except as disclosed on Schedule A.1.21, Seller has not made any commitment regarding the continuation of any Plan maintained by the Company or any Subsidiary after the Closing Date and Buyer will be free, in its sole discretion, to cause the Company or any Subsidiary to amend, cancel, terminate or otherwise modify in any and all respects any such Plan, except with respect to any Benefit Affiliate not acquired by the Buyer.

(h) Except as disclosed on Schedule A.1.21, the consummation of the sale and purchase of the Shares effectuated by this Agreement shall not impose upon the Company any obligation with respect to the payment of any severance benefits, parachute payments or any other similar type of payment to any employee or any other person.

A.1.22 Environmental Matters. (a) Except as disclosed on Schedule A.1.22 hereto, Mrs. Banks, Herbert A. Grayek, Jr. and Jerry B. Chariton have no actual knowledge that the Company or any Subsidiary has received any written notice or complaint from the Pennsylvania Department of Environmental Protection or the U.S. Environmental Protection Agency related to environmental conditions or claims.

(b) As far as Mrs. Banks, Herbert A. Grayek, Jr. and Jerry B. Chariton actually know, the Company and the Subsidiaries have disclosed to or otherwise made available for inspection by Buyer all written reports and material correspondence received within three (3) years prior to the date hereof from any environmental consultant or environmental contracting firm identifying or discussing actual or potential environmental conditions. It shall not constitute a misrepresentation under this Section A.1.22(b) if any report or correspondence not disclosed or otherwise made available to Buyer as aforesaid does not materially affect the information that is set forth in reports or correspondence disclosed or made available. In any litigation regarding this Section A.1.22, if Seller is the prevailing party it shall be entitled to reimbursement by Buyer for its reasonable costs and expenses (including without limitation reasonable attorneys' fees) of the dispute.

(c) Anything in this Section A.1.22 to the contrary notwithstanding, it shall not constitute a misrepresentation under this Section A.1.22 if any written notice or complaint of the kind required to be disclosed pursuant to Section A.1.22(a), or any written reports or material correspondence otherwise required to be disclosed or made available pursuant to Section A.1.22(b), with respect to the Eastside Landfill (referred to in Section 7.6(b)), has not been scheduled, disclosed or otherwise made available unless Mrs. Banks, Herbert A. Grayek and Jerry B. Chariton actually knew that such information existed and was required to be scheduled, disclosed or otherwise made available in accordance with this Section A.1.22 and they intentionally failed to do so with the intent of misleading Buyer into signing this Agreement and Buyer would not have signed this Agreement if it knew the information set forth in such written notice or complaint or written report or material correspondence.

A.1.23 No Intellectual Property Violations. Except as disclosed on Schedule A.1.14 or A.1.23 hereto, the business of the Company and its Subsidiaries (a) as presently conducted does not utilize any patent, trademark, trade name, service mark or copyright, and (b) as formerly and presently conducted did not and does not conflict with or infringe upon any patent, trademark, trade name, service mark, trade secret, copyright or proprietary right owned or claimed by another.

A.1.24 No Third Party Options. There are no existing agreements, options, commitments or rights with, to or in any third person to acquire any of the assets or properties of the Company or any Subsidiary or any interest therein, except for those contracts entered into in the ordinary course of business consistent with past practice for the sale of such assets and properties.

A.1.25 Schedules; Delivery of Documents; Corporate Records. Except as disclosed on Schedule A.1.25 hereto and except for documents specifically identified as "incomplete" on any Schedule hereto, Seller has delivered or made available to Buyer the originals or true and complete copies of all documents, including without limitation all amendments, supplements or modifications thereof or waivers currently in effect thereunder, referred to on the Schedules hereto and has also delivered to Buyer copies of the Articles of Incorporation and Limited Partnership Agreements, and all amendments thereto, and the By-Laws,

as amended, of the Company and its Subsidiaries. The minute and stock and partnership record books of the Company and its Subsidiaries, which have been made available to Buyer for its inspection, contain complete and correct copies of all charter documents and the records of all meetings and consents in lieu of meeting of the Boards of Directors (and any committees thereof) and voting shareholders and partners of the Company and its Subsidiaries since January 1, 1984.

A.1.26 HSR Act Compliance. On the date hereof, and based upon the HSR Act as in effect and interpreted on the date hereof, Seller's "ultimate parent entity", together with all entities which it controls (as determined under the HSR Act) do not have "total assets" or "annual sales" equal to or in excess of $100,000,000 (as such quoted terms are defined under the HSR Act).

A.1.27 Completeness of Disclosure. No representation or warranty by Seller contained in this Agreement, and no representation, warranty or statement contained in any certificate delivered pursuant to this Agreement, this Appendix or any Schedule or Exhibit contains any statement of a material fact known to the Company, any Subsidiary or Seller to be untrue or omits to state any material fact known to the Company, any Subsidiary or Seller to be necessary to make any statement herein or therein not misleading.

A.2 Representations and Warranties of Buyer. Buyer represents and warrants to Seller as follows:

A.2.1 Corporate Existence. Buyer is a corporation duly organized and validly existing under the laws of the Commonwealth of Pennsylvania.

A.2.2 Corporate Power and Authorization. Buyer has the full power to execute, deliver and perform this Agreement. The execution, delivery and performance hereof by Buyer have been duly authorized by all necessary corporate action. This Agreement is a legal, valid and binding obligation of Buyer and is enforceable against Buyer in accordance with its terms, except as may be limited by bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other laws affecting the enforcement of creditors' rights in general, and except that the enforceability of this Agreement is subject to general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). Notwithstanding the foregoing, except as set forth in Section A.2.7 hereof no representation or warranty is made that the execution, delivery or performance of this Agreement by Buyer complies with, or is permitted by, the Pennsylvania Race Horse Industry Reform Act or the regulations promulgated thereunder.

A.2.3 Validity of Contemplated Transactions; Etc. The execution and delivery and, except as set forth on Schedule A.2.3 hereto, the performance hereof by Buyer will not contravene or violate (a) any law, rule or regulation to which Buyer is subject, (b) any judgment, order, writ, injunction or decree of any court, arbitrator or governmental or regulatory official, body or authority to which Buyer is subject or (c) the Articles of Incorporation or By-Laws of Buyer; nor will such execution, delivery or performance violate, be in conflict with or result in the breach (with or without the giving of notice or lapse of time, or both) of any term, condition or provision of, or require the consent of any other party to, any contract, commitment or agreement, oral or written, to or by which Buyer is a party or otherwise bound or by which any of Buyer's assets or properties may be bound. No authorization, approval or consent of, and no registration or filing with, any governmental or regulatory official, body or authority is required in connection with the execution, delivery and performance hereof by Buyer. Notwithstanding the foregoing, except as set forth in Section A.2.7 hereof no representation or warranty is made that

the execution, delivery or performance of this Agreement by Buyer complies with, or is permitted by, or does not require any authorization, approval, consent, registration or filing under, the Pennsylvania Race Horse Industry Reform Act or the regulations promulgated thereunder.

A.2.4 No Knowledge of Breach. Except as may be set forth in one or more letters from Buyer to Seller delivered prior to the date hereof, Buyer does not know as of the date hereof of any breach of warranty or any misrepresentation by Seller hereunder. Apart from representations of Seller contained in this Agreement, Seller and representatives of Seller have made no further or additional representations or warranties.

A.2.5 HSR Act Compliance. On the date hereof, and based upon the HSR Act as in effect and interpreted on the date hereof, Buyer's "ultimate parent entity", together with all entities which it controls (as determined under the HSR Act) do not have "total assets" or "annual sales" equal to or in excess of $100,000,000 (as such quoted terms are defined under the HSR Act).

A.2.6 Investment Only. Buyer is acquiring the Shares and the Interests for its own account and not with the intention of selling such securities in a public distribution in violation of the federal securities laws or any applicable state securities laws. Buyer acknowledges that the Shares and Interests are not registered under the Securities Act of 1933, and must be held indefinitely unless they are subsequently so registered or unless an exemption from registration is available.

A.2.7 Regulatory Matters. (a) There is no provision of the Pennsylvania Act, the rules and regulations of the Commission thereunder (the "Regulations") or any Federal laws pertaining primarily to the harness and horse racing industry ("Federal Laws") which requires any filing with, notice to or approval of the Commission or any federal agency whose primary responsibility is over the harness or horse racing industry prior to the consummation of the transactions contemplated by this Agreement.

(b) There is nothing in the Pennsylvania Act, Regulations or Federal Laws that would permit any Pennsylvania or federal agency to require Seller or Mrs. Banks to disgorge any part of the purchase price for the Shares and the Interests by virtue of the transactions contemplated by this Agreement (other than the payment of taxes) or to obtain damages or penalties solely in consequence thereof.

(c) Except for filing a post-Closing affidavit pursuant to section 204 of the Pennsylvania Act and Section 185.52 of the Regulations, Seller and Mrs. Banks do not have to file any application or document or take any other action under the Pennsylvania Act, the Regulations or Federal Laws arising out of the transactions

BANKERS TRUST COMPANY
ONE BANKERS TRUST PLAZA
NEW YORK, NEW YORK 10006

October 15, 1996

Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Boulevard
Suite 203
Wyomissing, Pennsylvania 19610

Attention: Peter Carlino
Chairman of the Board and
Chief Executive Officer

re Commitment Letter

Gentlemen:

You have advised Bankers Trust Company ("BTCo") that (i) Penn National Gaming, Inc. (the "Borrower") intends to acquire 100% of the equity of The Plains Company (such company, the "Plains Company", and such acquisition, the "Plains Company Acquisition") and (ii) the Borrower, through its 80% interest in PNGI Charles Town LLP, a joint venture with Bryant Development, also intends to acquire the Charles Town Race Track (the "Charles Town Race Track") in Jefferson County, West Virginia (the "Charles Town Acquisition", and together with the Plains Company Acquisition, the "Acquisitions") in negotiated transactions structured to the satisfaction of BTCo.

We understand that the sources of funds needed (a) to effect the Acquisitions, (b) to make improvements to the Charles Town Race Track, (c) to provide a working capital facility for the Borrower after giving effect to the Acquisitions and (d) to pay all fees and expenses incurred in connection with

the foregoing shall be provided solely through the incurrence of the Senior Secured Financing described below. It is also our understanding that the Senior Secured Financing is the only funding required to be incurred to consummate the Acquisitions.

We understand that the senior bank financing (the "Senior Secured Financing") required by you to effect the foregoing transactions will consist of (i) a $47 million term loan facility (the "A Term Loan Facility"), (ii) a $23 million second term loan facility (the "B Term Loan Facility", and together with the A Term Loan Facility, the "Term Loan Facilities") and (iii) a $5 million revolving credit facility (the "Revolving Facility", and together with the Term Loan Facility, the "Credit Facilities"), with a $2 million sublimit for standby letters of credit for periods of up to 12 months. We also understand that (x) the proceeds under the A Term Loan Facility shall be used solely for the Plains Company Acquisition, (y) the proceeds under the B Term Loan Facility shall be used solely for the Charles Town Acquisition and the making of improvements to the Charles Town Race Track and (z) that the Revolving Facility shall be used solely for the Borrower's working capital and general corporate purposes. A summary of certain of the terms and conditions of the Credit Facilities are set forth on Exhibit A hereto (the "Term Sheet").

BTCo is pleased to confirm that it is willing to commit to provide, on the terms and conditions set forth herein and in the Term Sheet, up to $50 million of the Senior Secured Financing and to use its best efforts to arrange, as agent, a syndicate of lending institutions (each a "Lender", and collectively, the "Lenders") to provide the remainder of the Senior Secured Financing. BTCO shall act as sole agent with respect to the Senior Secured Financing.

BTCo reserves the right, prior to or after the execution of the definitive credit documentation for the Senior Secured Financing, to syndicate all or part of its commitments for the Senior Secured Financing to one or more Lenders pursuant to a syndication to be managed by BTCo. BTCo will commence syndication efforts for the Senior Secured Financing promptly after your execution and delivery of this letter, and you agree to actively assist BTCo in achieving a syndication that is satisfactory to BTCo. Such syndication will be accomplished by a variety of means, including direct contact during the syndication between senior management and advisors of the Borrower and the Plains Company and the proposed syndicate members. To assist BTCo in its syndication efforts, you hereby agree, both before and after the closing of the Senior Secured Financing, (i) to provide and cause your advisors to provide BTCo and the other syndicate members upon request with all reasonable information deemed necessary by us to complete syndication, including but not limited to, information and evaluations prepared by the Borrower, the Plains Company and the owners of the Charles Town Race Track and their respective advisors or on their behalf relating to the transactions contemplated hereby and (ii) to assist BTCo upon request in the preparation of an Information Memorandum to be used in connection with the syndication of the Senior Secured Financing, including making available officers of each the Borrower and the Plains Company from time to time to attend and make presentations regarding the business and prospects of

the Borrower, the Plains Company and the Charles Town Race Track, at a meeting or meetings of Lenders or prospective Lenders.

As you are aware, we have not had the opportunity to complete our business or financial due diligence analysis and review or perform our legal due diligence analysis and review with respect to the Acquisitions, the Plains Company, the Charles Town Race Track and their subsidiaries. BTCo's willingness to participate in the Senior Secured Financing described in this letter is therefore subject to the completion of such analysis and review and its satisfaction with the results thereof, and to the satisfaction of the conditions precedent contained in the Term Sheet. Furthermore, if BTCo discovers information not previously known to it which BTCo reasonably believes is materially negative information with respect to the Acquisitions or the condition (financial or otherwise), business, operations, assets, liabilities or prospects of the Borrower, the Plains Company or the Charles Town Race Track, BTCo may, in its sole discretion, suggest alternative financing amounts or structures that assure adequate protection for it or decline to provide or participate in the proposed financing.

You hereby agree to pay all costs and expenses (including the reasonable fees and expenses of White & Case as counsel to BTCo and BTCo's out-of-pocket expenses) arising in connection with the preparation, execution and delivery of this letter and the definitive financing agreements (and BTCo's due diligence and syndication efforts in connection therewith). In addition, you hereby agree to indemnify and hold harmless each of the Lenders (including in any event BTCo) and each director, officer, employee and affiliate thereof (each of the foregoing entities an "indemnified person") in connection with any losses, claims, damages, liabilities or other expenses to which such indemnified persons may become subject, insofar as such losses, claims, damages, liabilities (or actions or other proceedings commenced or threatened in respect thereof) or other expenses arise out of or in any way relate to or result from the Acquisitions or this letter or the extension of the Senior Secured Financing contemplated by this letter, or in any way arise from any use or intended use of this letter or the proceeds of any of the Senior Secured Financing contemplated by this letter, and you agree to reimburse each indemnified person for any legal or other expenses incurred in connection with investigating, defending or participating in any such loss, claim, damage, liability or action or other proceeding (whether or not such indemnified person is a party to any action or proceeding out of which any such expenses arise), provided that you shall have no obligation hereunder to indemnify any indemnified person for any loss, claim, damage, liability or expense to the extent that same resulted primarily from the gross negligence or willful misconduct of such indemnified person. This letter is furnished for your benefit, and may not be relied upon by any other person or entity. Neither BTCo nor any other Lender shall be responsible or liable to you or any other person for consequential damages which may be alleged as a result of this letter. You also hereby agree to pay to BTCo the fees set forth in the separate fee letter (the "Fee Letter") dated the date hereof with respect to the Senior Secured Financing, with such fees to be payable in accordance with the terms of the Fee Letter.

BTCo reserves the right to employ the services of its affiliates, including BT Securities Corporation ("BTSC"), in providing the services contemplated by this letter and to allocate, in whole or in part, to such affiliates (including BTSC) certain fees payable to BTCo in such manner as BTCo and its respective affiliates may agree in its sole discretion. You acknowledge that BTCo may share with any of its affiliates (including BTSC), and such affiliates may share with BTCo, any information relating to the Acquisitions or the Borrower, the Plains Company, the Charles Town Race Track and their respective subsidiaries and affiliates, including any information as to the credit worthiness of any such entities.

You are not authorized to show or circulate this letter to any other person or entity (other than your legal and financial advisors in connection with your evaluation hereof) until such time as you have accepted this letter as provided in the succeeding paragraph. If this letter is not accepted by you as provided in the succeeding paragraph, you are to immediately return this letter (and any copies hereof) to the undersigned. This letter may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which counterparts shall be an original, but all of which shall together constitute one and the same instrument.

If you are in agreement with the foregoing, please sign and return to BTCo the enclosed copy of this letter, together with a copy of the Fee Letter. This offer shall terminate at 5:30 P.M., New York time, on October 16, 1996 unless a signed copy of this letter, together with a signed copy of the Fee Letter, has been delivered to BTCo (including by way of facsimile transmission) by such time.

THIS LETTER AND THE FEE LETTER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK, AND ANY RIGHT TO TRIAL BY JURY WITH RESPECT TO ANY CLAIM, ACTION, SUIT OR PROCEEDING ARISING OUT OF OR CONTEMPLATED BY THIS LETTER AND/OR THE FEE LETTER IS HEREBY WAIVED. YOU HEREBY SUBMIT TO THE NON-EXCLUSIVE JURISDICTION OF THE FEDERAL AND NEW YORK STATE COURTS LOCATED IN THE CITY OF NEW YORK IN CONNECTION WITH ANY DISPUTE RELATED TO THIS LETTER AND/OR THE FEE LETTER OR ANY MATTERS CONTEMPLATED HEREBY OR THEREBY.

Very truly yours,

BANKERS TRUST COMPANY

By /s/ Calli S. Hayes
Title: Vice President

Agreed to and Accepted this
15 day of October, 1996

PENN NATIONAL GAMING, INC.

By /s/ Peter M. Carlino
Title:Chairman

EXHIBIT A

SUMMARY OF CERTAIN TERMS
OF THE CREDIT FACILITIES1/

I. Description of Credit Facilities

A. Term Loan Facilities

Facilities: $47 million term loan facility (the "A Term Loan Facility").

$23 million second term loan facility (the "B Term Loan Facility").

Use of Proceeds: All loans under the A Term Loan Facility (the "A Term Loans") shall be utilized (x) to pay the purchase price for the Plains Company Acquisition and (y) to pay the fees and expenses incurred in connection therewith. All loans under the B Term Loan Facility (the "B Term Loans", and together with the A Term Loans, the "Term Loans") shall be utilized (x) to pay the purchase price for the Charles Town Acquisition, (y) to make improvements to the Charles Town Race Track and (z) to pay the fees and expenses incurred therewith.

Maturity: The final maturity date for each of the Term Loan Facilities shall be the fifth anniversary of the closing date for the Plains Company Acquisition (the "Initial Closing Date").

Commencing on December 31, 1997, the A Term Loan Facility and the B Term Loan Facility will amortize on a quarterly basis with payments thereunder to be split proportionately between the A Term Loan Facility and the B Term Loan Facility, in annual aggregate amounts for the Term Loan Facilities as specified below:

Year	Amount
1997	$2,000,000
1998	$8,000,000
1999	$20,000,000

1/ Unless otherwise defined herein, capitalized terms used herein and defined in the letter to which this Exhibit A is attached (the "Commitment Letter"), are used herein as therein defined.

2/ Adjusted Consolidated EBITDA is defined as consolidated EBITDA less capital expenditures.

2000	$20,000,000
2001	$20,000,000

In the event that less than the full amount of the Term Loan Facilities are utilized, the amortization payments set forth above will be reduced on a pro rata basis.

Availability: A Term Loans may only be incurred on the closing date of the Plains Company Acquisition. Any portion of the A Term Loan Facility not utilized on such closing date will be cancelled.

B Term Loans may only be incurred on and after the closing date for the Charles Town Acquisition. B Term Loans may be drawn in one draw or a series of draws, provided that any portion of the B Term Loan Facility that has not been drawn by June 30, 1997 will be cancelled.

No amount of the Term Loans once repaid may be reborrowed.

B. Revolving Facility

Facility: $5 million revolving credit facility (the "Revolving Facility"), with a $2 million sublimit for standby letters of credit (the "Letters of Credit") for periods of up to 12 months.

Use of Proceeds: The loans under the Revolving Facility (the "Revolving Loans", and together with the Term Loans, the "Loans") shall be used for the working capital and general corporate purposes of the Borrower and its subsidiaries. The Letters of Credit may be used to support obligations to the horsemen for racing purposes and to guarantee payment for pari-mutual taxes.

Availability: Up to $3 million of the Revolving Facility will be available on and after the Initial Closing Date. The remaining $2 million of the Revolving Facility will be available only after the conditions precedent to the initial borrowing to the B Term Loan Facility have been met. Revolving Loans may be borrowed, repaid and reborrowed on and after the Initial Closing Date and prior to the maturity of the Revolving Facility.

Maturity: The fifth anniversary of the Initial Closing Date. All Revolving Loans shall be required to be repaid (and all

Letters of Credit terminated) as a bullet on such date, provided that to the extent mandatory repayments are required as set forth below after all outstandings under the Term Loan Facilities have been repaid in full, such mandatory repayments will apply to reduce the commitments under the Revolving Facility (and will require prepayments of Revolving Loans (and/or cash collateralizations of Letters of Credit) to the extent in excess of such commitments as so reduced).

II. General Terms Applicable to the Credit Facilities

Borrower: Penn National Gaming, Inc. (the "Borrower")

Agent: BTCo (the "Agent").

Lenders: A syndicate of lenders arranged and agented by BTCo (the "Lenders").

Guarantees: All obligations under the Senior Secured Financing shall be unconditionally guaranteed (the "Guaranty") by each of the Borrower's direct and indirect subsidiaries, including any subsidiaries created or purchased subsequent to the Initial Closing Date (the "Guarantors"), subject to customary exceptions for transactions of this type.

Security: All amounts owing by the Borrower and the Guarantors under the Senior Secured Financing will be secured by (i) a first priority perfected pledge of (x) all notes owned by the Borrower and the Guarantors and (y) all capital stock owned by the Borrower and the Guarantors and (ii) a first priority perfected security interest in all other assets owned by the Borrower and the Guarantors, including, without limitation, receivables, securities, inventory, equipment, real estate, leasehold interests, contracts, patents, copyrights and trademarks, subject to such exceptions, if any, as are acceptable to BTCo.

All documentation evidencing the security required pursuant to the immediately preceding paragraph shall be in form and

substance satisfactory to BTCo, and shall effectively create first priority security interests in the property purported to be covered thereby, with such exceptions as are acceptable to BTCo in its sole discretion.

Interest Rates: At the Borrower's option, Loans may be maintained from time to time as (x) Base Rate Loans, which shall bear interest at the Base Rate in effect from time to time plus the Applicable Margin (as defined below) or (y) Reserve Adjusted Eurodollar Loans, which shall bear interest at the Eurodollar Rate (as determined by the Agent, and adjusted for maximum reserves) for the respective interest period plus the Applicable Margin, provided that no Reserve Adjusted Eurodollar Loans may be incurred prior to the earlier of (i) the 90th day following the Initial Closing Date or (ii) that date upon which BTCo determines in its sole discretion that the primary syndication has been completed.

"Base Rate" shall mean the highest of (x) 1/2 of 1% in excess of the federal reserve reported certificate of deposit rate, (y) the rate that BTCo announces from time to time as its prime lending rate and (z) 1/2 of 1 % in excess of the federal funds rate.

"Applicable Margin" shall mean a percentage per annum based on the Leverage Ratio as set forth in the following table (provided that at any time that a default or an event of default exists, the Applicable Margin shall be 2% in the case of the Base Rate and 3% in the case of the Eurodollar Rate Margin:

Leverage Ratio	Base Rate Margin	Eurodollar Rate Margin
>4:1	2%	3%
>3:1 #4:1	1.75%	2.75%
>2.5:1 #3.1	1.50%	2.50%
>2:1 #2.5:1	1%	2%
>1.5:1 #2:1	.75%	1.75%
#1.5:1	.50%	1.50%

Interest periods of 1, 2, 3 and 6 months shall be available in the case of Reserve Adjusted Eurodollar Loans.

The Credit Agreement shall include customary protective provisions for such matters as defaulting banks, capital adequacy, increased costs, funding losses, illegality and withholding taxes.

Interest in respect of Base Rate Loans shall be payable quarterly in arrears on the last business day of each quarter. Interest in respect of Reserve Adjusted Eurodollar Loans shall be payable in arrears at the end of the applicable interest period and every three months in the case of interest periods in excess of three months. Interest will also be payable at the time of repayment of Loans and at maturity. All interest and commitment commission and other fee calculations shall be based on a 360-day year and actual days elapsed.

Overdue principal and, to the extent permitted by law, overdue interest and all other overdue amounts shall bear interest at a rate per annum equal to the greater of (i) the rate which is 2% in excess of the rate otherwise applicable to the Base Rate Loans from time to time and (ii) the rate which is 2% in excess of the rate then borne by such borrowings. Such interest shall be payable on demand.

Agent/Lender Fees: The Agent and the Lenders shall receive such fees as have been separately agreed upon with the Agent.

Commitment Fees: A commitment fee on the unutilized commitments under the Senior Secured Financing, as in effect from time to time, commencing on the Initial Closing Date and continuing to and including the termination of the Senior Secured Financing, payable quarterly in arrears and upon the termination of the Senior Secured Financing. The commitment fee shall be a percentage per annum based on the Leverage Ratio as follows:

Leverage Ratio	Commitment Fee
$2:1	.50%
Less than 2:1	.375%

Letter of Credit Fees: A letter of credit fee equal to 2 of the Applicable Margin as in effect from time to time for Revolving Loans maintained as Reserve Adjusted Eurodollar Loans (but in no event less than 1%) to be shared proportionately by the Lenders in accordance with their participation in the respective Letter of Credit, and a facing fee of 1/8 of 1% per annum to be paid to the issuer of the Letter of Credit for its own account, in each case calculated on the aggregate stated amount of all Letters of Credit for the stated duration thereof. In addition, the issuer of a Letter of Credit will be paid its customary administrative charges in connection with each Letter of Credit issued by it.

Voluntary Prepayments: Permitted in whole or in part with prior notice but without premium or penalty, in aggregate principal amount of at least $500,000 and, if greater, in an integral multiple of $100,000; provided that Reserve Adjusted Eurodollar Loans may only be voluntarily repaid on the last day of an interest period applicable thereto.

Voluntary prepayments of Term Loans shall be (x) allocated ratably between the A Term Loans and the B Term Loans and (y) applied to reduce the remaining installments of the A Term Loans and the B Term Loans on a pro rata basis (based upon the amount of each remaining installment).

Mandatory Prepayments: Mandatory repayments of Term Loans (and after all Term Loans have been repaid, mandatory reductions to the Revolving Facility commitments) shall be required in an amount equal to (i) 100% of the net cash proceeds from any issuance or incurrence of funded debt by the Borrower or any of its direct or indirect subsidiaries (other than pursuant to customary exceptions to be negotiated), (ii) a percentage of the net cash proceeds from any issuance of equity by the Borrower or any of its direct or indirect subsidiaries (other than pursuant to customary exceptions to be negotiated) equal to (A) 100% until such time as the outstanding Term Loans and Revolving Facility

have been reduced to $50 million or less, (B) and thereafter 50% until such time as both (1) the outstanding Term Loans and Revolving Facility have been reduced to $25 million or less and (2) and the ratio of Adjusted Consolidated Debt to Adjusted Consolidated EBITDA is equal to or less than 2.0:1.0, (C) and thereafter 0%, (iii) 75% of the net sale proceeds from asset sales (in excess of a $3 million aggregate basket) by the Borrower or any of its direct or indirect subsidiaries, subject to customary exceptions to be agreed upon, (iv) 75% of annual excess cash flow (to be defined) of the Borrower, paid annually based on financial statements delivered at the end of each fiscal year (from and after the fiscal year ended December 31, 1997) and (v) 100% of certain insurance proceeds, with certain reinvestment rights to the agreed upon.

Mandatory repayments of the Term Loans (i) shall be applied pro rata to the A Term Loan Facility and the B Term Loan Facility and (ii) shall be applied to reduce the scheduled amortizations of each Term Loan Facility on a pro rata basis (based upon the amount of each remaining installment). In addition, Revolving Loans shall be required to be prepaid (and Letters of Credit cash collateralized) if at any time the aggregate principal amount thereof exceeds the total Revolving Facility commitments, such prepayment (and/or cash collateralization) to be in an amount equal to such excess.

Assignments and Participations:

The Borrower may not assign its rights or obligations under the Credit Facilities without the prior written consent of the Lenders. Any Lender may assign, and may sell participations in, its rights and obligations under the Credit Facilities, subject (x) in the case of participations, to customary restrictions on the voting rights of the participants and (y) in the case of assignments, to such limitations as may be established by BTCo, including without limitation, a minimum assignment amount of $5 million (except in the case of an assignment to another Lender or in the case of the assignment of a Lender's entire position). The Credit Facilities shall provide for a mechanism which will allow each assignee to become a direct signatory to the Credit Facilities and will relieve the assigning Lender of its obligations with respect to the assigned portion of its commitment.

Documentation: The Lenders' commitments will be subject to the negotiation, execution and delivery of definitive financing agreements (and related security documentation, guaranties, etc.) consistent with the terms of this letter, in each case prepared by White & Case, counsel to the Agent, and satisfactory to the Agent and the Required Lenders (including without limitation as to the terms, conditions, representations, covenants and events of default contained therein). All documentation shall be governed by New York law.

Commitment Termination: The commitments of BTCo under the Commitment Letter shall terminate on December 15, 1996 unless a definitive Credit Agreement has been executed and delivered, the Plains Company Acquisition has been consummated, and the initial borrowing under the Credit Agreement has occurred.

Conditions Precedent: In addition to conditions precedent typical for these types of facilities and any other conditions appropriate in the context of the proposed transaction, the following conditions, without limitation, shall apply:

A. A Term Loan Facility and $3 Million of Revolving Facility

(i) The structure and all terms of, and the documentation for, the Plains Company Acquisition shall be satisfactory in form and substance to the Agent and the Required Lenders, and such documentation shall be in full force. All conditions precedent to the consummation of the Plains Company Acquisition as set forth in the documentation relating thereto shall have been satisfied, and not waived except with the consent of the Agent and the Required Lenders, to the satisfaction of the Agent and the Required Lenders. The Plains Company Acquisition shall have been consummated in accordance with the documentation therefor and all applicable laws.

(ii) The corporate, capital and ownership structure of the Borrower and its subsidiaries shall be satisfactory to the Agent and the Required Lenders.

(iii) All necessary governmental (domestic and foreign) and third party approvals and/ or consents in connection with the Plains Company Acquisition and the transactions contemplated by the Credit Facilities and the continuing operations of the business of the Borrower and its Subsidiaries or otherwise referred to herein shall have been obtained and remain in effect, and all applicable waiting periods shall have expired without any action being taken by any competent authority which restrains, prevents, or imposes materially adverse conditions upon, the consummation of the Plains Company Acquisition or the transactions contemplated by the Credit Facilities or otherwise referred to herein. Additionally, there shall not exist any judgment, order, injunction or other restraint prohibiting or imposing materially adverse conditions upon the Plains Company Acquisition or the transactions contemplated by the Credit Facilities.

(iv) The Borrower and its subsidiaries (including the Plains Company and its subsidiaries) shall have all licenses, including. without limitation, gaming and alcohol licenses, necessary to for the operation of its businesses.

(v) The Agent, for the benefit of the Lenders, shall have been granted a perfected security interest in all assets of the Borrower and its subsidiaries to the extent and of the priority described above under the heading "Security"; and the Agent shall have received satisfactory assurances that title insurance policies, in amounts and in form and substance satisfactory to the Agent, will be available to insure the interest of the Lenders in such of the real property securing the Credit Facilities as may be designated by the Agent in its discretion. The Guarantees required under the heading "Guarantees" above shall be in full force and effect, with all the foregoing to be pursuant to documentation satisfactory to the Agent.

(vi) Since December 31, 1995, nothing shall have occurred (and neither BTCo nor the Lenders shall have become aware of any facts or conditions not previously known, whether as a result of their due diligence investigations or otherwise) which BTCo or the Required Lenders shall determine has had, or could have, a material adverse effect on the rights or remedies of the Lenders or the Agent, or on the ability of the Borrower or any Guarantor to perform its respective obligations to the Lenders or which could have a materially adverse effect on the Plains Company Acquisition or the business, operations, property, assets, condition (financial or otherwise) or prospects of the Borrower, the Plains Company or any of their respective subsidiaries.

(vii) No litigation by any entity (private or governmental) shall be pending or threatened with respect to the Credit Facilities, the Plains Company Acquisition or any documentation executed in connection therewith, or which the Agent or the Required Lenders shall determine could have a materially adverse effect on the Plains Company Acquisition or on the business, property, assets, condition (financial or otherwise) or prospects of the Borrower, the Plains Company or any of their respective subsidiaries.

(viii) The Lenders shall have received customary legal opinions from counsel, and covering matters, acceptable to the Agent and the Required Lenders.

(ix) All Loans and other financing pursuant to the Borrower shall be in full compliance with all applicable requirements of the margin regulations.

(x) The Agent and the Lenders shall have received (and be satisfied with) (i) audited financial statements of the Borrower and its subsidiaries for the fiscal years ended December 31, 1993, 1994 and 1995, (ii)

unaudited financial statements of the Borrower and its subsidiaries for the nine-month period ended September 30, 1996 and for any monthly period thereafter ended prior to the Initial Closing Date), (iii) audited financial statements of all of the operating subsidiaries of the Plains Company for the fiscal years ended December 31, 1994 and 1995, prepared by Robert Rossi & Co., together with a review of the audit procedures, work papers and other matters relating to such audit in scope and substance satisfactory to BTCo, performed by BDO Seidman, LLP, (iv) unaudited financial statements of the Plains Company and its Subsidiaries for the nine-month period ended September 30, 1996 and for any monthly period thereafter ended prior to the Initial Closing Date, (v) quarterly financial statements of all of the operating subsidiaries of the Plains Company and its Subsidiaries for the period from July 1, 1995 through June 30, 1996, (vi) a pro forma balance sheet of the Borrower and its subsidiaries as of the Initial Closing Date after giving effect to the Plains Company Acquisition and the financings contemplated hereby, (vii) a financial review in scope and substance satisfactory to BTCo verifying the absence of assets (other than the capital stock of subsidiaries) and liabilities (including tax, ERISA, contingent or otherwise) of the Plains Company, performed by BDO Seidman, LLP and (viii) final projected financial statements (including balance sheets and statements of operations, stockholders' equity and cash flows) of the Borrower and its subsidiaries for the five-year period after the Initial Closing Date, presented with and without giving effect to the acquisition of the Charles Town Race Track. The financial statements referred to above shall be prepared in accordance with GAAP.

(xi) The Lenders shall have received a solvency opinion from an independent valuation firm, in form and substance acceptable to the Agent and the Required Lenders, setting forth the conclusions that, after giving effect to the Plains Company Acquisition and the incurrence of all the financings contemplated herein, each of the Borrower on a standalone basis, and the Borrower and its subsidiaries taken as a

whole, are not insolvent and will not be rendered insolvent by the indebtedness incurred in connection therewith, and will not be left with unreasonably small capital with which to engage in their businesses and will not have incurred debts beyond their ability to pay such debts as they mature.

(xii) The Lenders shall have received environmental and hazardous substance analyses in scope, and in form and substance, acceptable to the Agent and the Required Lenders.

(xiii) To the extent required by law, the Agent shall have received real estate appraisals, which appraisals shall comply with applicable law and shall otherwise be in form and substance satisfactory to the Agent and the Required Lenders.

(xiv) The Agent shall have successfully completed its syndication of the remaining $25 million of the Senior Secured Financing.

(xv) There shall have been no material adverse change after the date hereof to the syndication market for credit facilities similar in nature to the Credit Facilities contemplated herein and there shall not have occurred and be continuing a material disruption of or material adverse change in financial, banking or capital markets that would have an adverse effect on the syndication, in each case as determined by the Agent in its sole discretion. The Borrower, the Plains Company and their subsidiaries shall have fully cooperated in the syndication efforts, including without limitation by promptly providing the Agent with all information deemed necessary by them to successfully complete the syndication.

(xvi) The Agent and the Lenders shall have (i) received all the information necessary to conduct their continuing due diligence analysis and review and (ii) completed such due diligence analysis and review and shall be satisfied with the results thereof, in each case with

respect to the Borrower, the Plains Company and their respective subsidiaries and the Plains Company Acquisition.

(xvii) All costs, fees, expenses (including, without limitation, legal fees and expenses) and other compensation contemplated hereby payable to the Lenders or the Agent shall have been paid to the extent due.

(xviii) The Borrower and the Plains Company and their respective subsidiaries shall have no other indebtedness outstanding.

B. B Term Loan Facility and Remaining $2 Million of the Revolving Facility

The conditions precedent to the initial borrowing of B Term Loans will be similar in nature to the conditions precedent to the initial borrowing of A Term Loans except that references will be to the Charles Town Acquisition, and such conditions will in any event include the consummation of the Plains Company Acquisition and the passing of a referendum in West Virginia permitting the installation of video lottery terminals at the Charles Town Race Track.

C. Conditions To all Loans

The conditions to all borrowings will include absence of material adverse change, absence of material litigation, absence of default or unmatured default under the Credit Facilities, continued accuracy of representations and warranties and receipt of such documentation (including without limitation opinions of counsel) as shall be required by the Agent.

Covenants: Those typical for these types of facilities (containing certain exceptions to be negotiated and as are acceptable to BTCo in its sole discretion) and any additional covenants appropriate in the context of the proposed transaction. Although the covenants have not yet been specifically determined, we anticipate that the covenants shall in any event include:

(i) Minimum Consolidated Net Worth.

(ii) Minimum ratio of Adjusted Consolidated EBITDA2/ to Consolidated Cash Interest Expense.

The ratio is calculated on a rolling four quarter basis. The ratio will be calculated giving pro forma effect to any proposed borrowing of indebtedness.

(iii) Maximum ratio of Consolidated Indebtedness to Adjusted Consolidated EBITDA.

Adjusted Consolidated EBITDA is calculated on a rolling four quarter basis. The ratio will be calculated giving pro forma effect to any proposed borrowing of Indebtedness.

(iv) Restrictions on other debt.

(v) Restrictions against mergers, acquisitions, joint ventures, partnerships and acquisitions and dispositions of assets.

(vi) Restrictions on sale-leaseback transactions and lease payments.

(vii) No cash dividends.

(viii) Restrictions on voluntary prepayments of other debt and amendments thereto.

(ix) Restrictions on transactions with affiliates and formation of subsidiaries.

(x) Restrictions on investments.

(xi) Absence of liens, with customary exceptions to be negotiated.

(xii) Adequate insurance coverage.

(xiii) ERISA covenants.

(xiv) The obtaining of interest rate protection in amounts and for periods to be determined.

(xv) Restrictions on capital expenditures to be negotiated.

(xvi) Restrictions on material amendments of organization documents.

(xvii) Maintenance of properties.

Representations and Warranties: The Credit Facilities and related documentation shall contain representations and warranties typical for these types of facilities, as well as any additional ones appropriate in the context of the proposed transaction. Although the representations and warranties have not yet been specifically determined, we anticipate that the representations and warranties shall in any event include:

(i) Due organization and authorization.

(ii) Enforceability.

(iii) Financial condition.

(iv) Absence of material adverse change.

(v) Good title to all properties.

(vi) Absence of material litigation.

(vii) Payment of taxes.

(viii) Compliance with all material agreements.

(ix) Compliance with all laws, rules and regulations.

(x) ERISA.

(xi) Environmental.

(xii) Perfection and priority of liens securing the Credit Facilities.

(xiii) Full disclosure of all material information.

Events of Default: Those typical for these types of facilities and any additional ones appropriate in the context of the proposed transaction, including without limitation:

(i) Failure to make payments when due.

(ii) Defaults under other agreements or instruments of indebtedness in excess of specified amounts.

(iii) Noncompliance with covenants.

(iv) Breaches of representations and warranties.

(v) Bankruptcy.

(vi) Judgments in excess of specified amounts.

(vii) Invalidity of guaranties.

(viii) Impairment of security interest in collateral.

(ix) Change of control of the Borrower.

Required

Lenders:	Lenders holding a majority of the aggregate commitments and/or outstanding Term Loans pursuant to the Credit Facilities.

AMENDED AND RESTATED
OPTION AGREEMENT

THIS AMENDED AND RESTATED OPTION AGREEMENT (the "Agreement"), is made and entered into as of February 17, 1995, by and between CHARLES TOWN RACING LIMITED PARTNERSHIP, a West Virginia limited partnership ("Racing"), CHARLES TOWN RACES, INC., a West Virginia corporation ("CTR", Racing and CTR are herein collectively referred to as "Optionor"), and PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY, a West Virginia limited liability company ("PCTG").

WHEREAS, Racing is the owner of the fee simple interest, and CTR is the owner of the tenancy interest, in approximately two hundred fifty (250) acres of real property and improvements thereon located in Jefferson County, West Virginia, known as the Charles Town Race Track and Shenandoah Downs and a right of first refusal on approximately two hundred fifty acres of adjacent property, described in Annex 1 attached hereto, together with certain tangible and intangible personalty more particularly described below (collectively the "Property") and CTR leases such Property from Racing;

WHEREAS, PCTG is interested in acquiring the Property for the purpose of continuing thoroughbred horse racing and legally operating video lottery terminals thereon;

WHEREAS, on or about February 17, 1995, Optionor granted to a third party an option to purchase the Property, which option was subsequently assigned to Bryant Development Company ("BDC"), and further assigned by BDC to PCTG; and

WHEREAS, Optionor and PCTG desire to amend and restate the option on the terms and conditions set forth herein.

NOW, THEREFORE, in consideration of Ten Dollars ($10.00) and other good and valuable consideration, the receipt and adequacy of which is hereby acknowledged, the parties hereby agree as follows:

1. Grant of Option. Subject to and under the terms, covenants and conditions hereinafter set forth, Optionor hereby grants to PCTG the exclusive right and sole option (the "Option") to purchase Optionor's entire fee and leasehold interest in the real estate constituting the Property and all personalty relating to the operation of the Property and service contracts, trade names (including but not limited to "Charles Town Race Track" and "Shenandoah Downs"), equipment (including but not limited to trucks, tractors, tote boards, starting gates, grandstands, and the like) relating thereto, and a

right of first refusal on approximately two hundred fifty acres of adjacent property except for certain apartment buildings owned by Racing in Berkeley County, West Virginia, the Property's general manager's automobile and house on Belvedere Avenue in Charles Town, and any cash on hand or in any bank accounts, for the purchase price of Eighteen Million Dollars ($18,000,000). Said purchase price shall be reduced, dollar for dollar, by (i) any sales proceeds received as a result of any transfer of a portion of the Property permitted by Section 4(c) below, (ii) $1.60 for each $1 borrowed by Optionor under that certain line of credit (the "Line") under those certain loan documents (the "Loan Documents") between Optionor and PCTG (it being understood that only the receipt of funds by Optionor upon its request under the Line, and not the mere execution of the Line, will reduce the purchase price, and it being further understood that the reduction in the purchase price shall not in any manner affect Optionor's obligation to repay such indebtedness pursuant to the terms and provisions of the Loan Documents; (iii) all amounts of principal and interest outstanding under the Line as of the Closing Date; and (iv) any payments made pursuant to Section 11 below. Subject to the terms hereof, this Option is irrevocable and coupled with an interest.

2. Registered Holder; Extension; Termination. Optionor acknowledges and agrees that (a) PCTG is the sole holder of the Option; and (b) that the prior holders of this Option and PCTG have, prior to the date hereof, made aggregate payments to Optionor in the sum of Seven Hundred Fifty Thousand Dollars ($750,000) and the Option Period has been extended until December 31, 1996 (the "Extension Date"); and (c) upon the recording of this Agreement in accordance with Section 6 hereof, PCTG will be the sole record holder of the Option. The Agreement contained in subsections (a) and (c) are based solely upon Optionors review of that certain Second Assignment of Option dated as of March 29, 1996 by and between BDC and PCTG and its assumption that said assignment is valid, binding and enforceable. Such payments are non-refundable unless Optionor fails to convey title to the Property in the condition it is in as of the date hereof, less and except any monetary encumbrances, liens, accrued taxes, and the like or Optionor is otherwise in breach of this Agreement. This Option shall terminate at 11:59 P.M. Eastern Standard Time on the Extension Date, unless the November 5, 1996 referendum fails (or if the question of permitting video lottery games in Jefferson County, West Virginia is not placed on the ballot for the referendum), in which case the Option shall remain outstanding and may be exercisable at any time during which the Line is outstanding or PCTG has any obligation to make loans to Optionor under the Loan Documents, whether by extension, default or otherwise, notwithstanding anything to the contrary contained or implied in this Agreement or in any other agreement between or among the parties hereto (the date the Option terminates is referred to herein as the "Termination Date");

3. Method of Exercise. The Option may be exercised by delivery of

written notice to Optionor at any time from the date hereof to the Termination Date (the "Option Period") and fixing a date not more than sixty (60) days in advance for the closing of title to the Property and the other items set forth in Section 8 below. In the event the Option is exercised, Optionor shall sell and PCTG shall purchase the Property and the parties will otherwise consummate the transactions contemplated hereby on the terms and conditions set forth herein and in the Related Agreements (as defined in Section 8 below).

4. Representations, Warranties and Covenants of Optionor. Optionor hereby represents, warrants and covenants to PCTG to the best of Optionor's actual knowledge and belief as provided herein. "Optionor's actual knowledge" means the actual knowledge of D. Keith Wagner, Chief Operating Officer of CTR, as of the date hereof.

(a) Good Title; Acreage. Optionor is seized of fee simple title to the real estate portion of the Property, and is the sole owner of and has authority to convey and transfer all Property, rights, and benefits which are the subject matter of this Agreement, subject only to the exceptions set forth in Schedule 4(a) hereto (the "Permitted Exceptions"). The Property includes approximately two hundred fifty (250) acres of land, more or less Any liens either on real estate or personalty or other monetary title exceptions shall be paid by Optionor at closing.

(b) Litigation; Compliance with Laws. Optionor has no knowledge, nor has Optionor received any notice, of any actual or pending litigation or proceeding by any organization, person, individual or governmental agency against Optionor with respect to the Property, or any part thereof, nor does Optionor know of any basis for any such action; and Optionor has no knowledge, nor has Optionor received any notice, of any violations of law, municipal or county ordinances, or other legal requirements with respect to the Property, or any part thereof, or with respect to the use, occupancy or construction thereof, nor does Racing know of any basis for such violations. Optionor has no knowledge of any proceeding to change such currently applicable laws and regulations.

(c) No Other Transfers. Other than the Permitted Exceptions, or documents executed with the prior written consent of PCTG, Optionor has not executed and will not execute any document or instrument granting, conveying assigning, or otherwise transferring, or in which Optionor has agreed to grant, convey, assign, or otherwise transfer, all or any part of Optionor's interest in

the Property. PCTG hereby consents to the sale of approximately 100,000 square feet of land situated at State Route 17 and US Route 340. Notwithstanding the foregoing, after providing PCTG with prior written notice, Optionor may encumber the Property with additional deeds of trust and UCC liens subject to the restrictions set forth in Section 11 below and may execute options on the Property to third parties provided the same are expressly subordinate to this Agreement

(d) Condemnation. There is no pending or threatened condemnation proceeding with respect to all or any portion of the Property by any governmental authority having the power of eminent domain, nor is there any contemplated sale of all or any portion of the Property proposed to be made in lieu of any such pending or threatened condemnation or eminent domain proceeding. In the event of a condemnation, PCTG shall have the option of terminating this Agreement or proceeding to closing with an assignment of any condemnation proceeds or claims therefor.

(e) Environmental. No portion of the Property contains any hazardous substance or hazardous waste, as said terms are used in the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. subsections 9601 et seq., the Resources Conservation and Recovery Act, as amended, 42 U.S.C. subsections 6901 et seq., or any West Virginia environmental protection statute.

(f) Solvency. Neither Optionor nor any of Optionor's general partners has (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by any of its or their creditors; (iii) suffered the appointment of a receiver to take possession of all or substantially all, of its or their assets; or (iv) suffered the attachment or other judicial seizure of all, or substantially all, of its or their assets; or (v) admitted in writing its inability to pay its debts as they come due; (vi) made an offer of settlement, extension or composition to its creditors generally.

(g) Leases. There are no written leases with respect to the Property except (i) the unrecorded year-to-year lease (the "Lease") between Racing and CTR dated January 1, 1992, amended January 1, 1993, and no subleases or agreements with respect thereto (except collateral assignments in favor of One Valley Bank, Inc.); and (ii) Concert Rental and Exclusive Option with IMP, Inc. dated May 17, 1993, as amended July 27, 1994, and which terminates on December 31, 1999 (the "IMP Agreement"). Optionor shall not execute any other

leases or amend or extend the above leases without the consent of PCTG, except for (i) annual renewals of the Leases; or (ii) after prior written notice to PCTG, extension of the IMP Agreement in each case for not more than twelve months. The Lease shall be terminated as of the closing of the transfer of the Property to PCTG, and PCTG shall have no liability (whether for lease payments accrued prior to the date of such termination or otherwise), in connection with the Lease.

(h) Service Contracts. There are no operating contracts with respect to the Property ("Service Contracts") with affiliates of Optionor.

(i) Insurance. Optionor has and will maintain such casualty insurance policy as may be required by the Optionor's institutional lender, and, from the date hereof through closing, PCTG will be an additional insured, loss payee and notice party thereunder (provided PCTG will bear any cost associated with it being included in such coverage). In the event of a casualty to the Property, PCTG shall have the option of terminating this Agreement or proceeding to closing with an assignment of insurance proceeds or claims therefor.

(j) Taxes. Optionor shall pay all real estate taxes and other taxes accrued with respect to the Property through the date of closing upon the sooner of (i) closing, or (ii) such times pending closing as may be necessary to avoid a loss of title to the Property.

(k) Authorization; Consent. Optionor is properly organized and in good standing in the State of West Virginia, and has the full corporate or partnership (as applicable) authority to enter into and perform its respective obligations under this Agreement and the transactions contemplated hereby. Optionor has taken all corporate and/or partnership actions necessary to authorize execution and performance of this Agreement and the Related Agreements, and the persons executing this Agreement and the Related Agreements on its behalf have full authorization to do so. All necessary consents from third parties, including but not limited to Optionor's lenders, have been obtained. Neither the execution and the delivery of this Agreement nor the consummation of the transactions contemplated hereby, will (i) violate any constitution, statute, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any government, governmental agency, or court to which Optionor is subject, or any provision of the charter or bylaws or of the Certificate of Limited Partnership or the Partnership Agreement of Optionor (as applicable), or (ii) conflict with, result in a breach of, constitute a default under, result in the acceleration of, create in any party the right to accelerate, terminate, modify, or cancel, or require any notice or consent under any agreement, contract, lease, license, instrument, or other

arrangement to which Optionor is a party or by which Optionor is bound or to which any of Optionor's assets is subject, and which is to be assigned to PCTG hereunder or under any Related Agreement; or (iii) result in the imposition of any Lien upon any of Optionor's assets.

(l) Operating License. Optionor will take all commercially reasonable actions necessary or appropriate to operate the Property as Charles Town Race Track pending closing, and to maintain in good standing all licenses and permits necessary for same.

Optionor shall take no actions inconsistent with the foregoing pending closing of the transaction contemplated by this Agreement, and will promptly notify PCTG of any fact which renders the above inaccurate. All representations and warranties herein shall be true and correct as of the date of closing, and shall survive recordation of the deed to the Property and the closing of the transactions contemplated by this Agreement. The representations and warranties contained in this Agreement (including any Schedules hereto) and in the Related Agreements (including any schedules thereto) do not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements and information contained herein or therein not misleading.

5. Inspection Rights.

(a) The physical condition of the Property shall be "as is, where is." Optionor's only obligations with respect to same shall be to provide routine maintenance and repairs as may be necessary for continued operation. During the Option Period, PCTG and PCTG's experts, engineers and consultants shall have the right and opportunity to conduct reasonable studies of the Property, including, but not limited to, review of the records possessed by Optionor relating to the use, occupancy, operation, and physical condition of the Property. Within three (3) business days from the commencement of the Option Period, Optionor shall either deliver to PCTG, or make available to PCTG or PCTG's experts, engineers and consultants during normal business hours, at the Property, documents relating to the Property, including but not limited to the following to the extent the same are in the custody or control of Optionor:

(i) Current tenant roll, existing leases and rental agreements, side letters, occupancy agreements, licenses or other agreements affecting the use and occupancy of the Property, existing mortgages and trust deeds, and insurance policies.

(ii) Accounting records, property tax bills, and copies of tax returns filed for the previous two calendar years and the current year to date, actual utility bills and other original bills or invoices for goods and services rendered to the Property.

(iii) Environmental site assessments.

(iv) Litigation files, plans and specifications, and statement of receivables and payables.

(v) Engineering surveys and reports.

(vi) Building material design surveys for asbestos-containing materials.

(vii) Title reports and surveys.

(viii) Service Contracts.

(ix) Leases.

(x) Such other records as PCTG may reasonably request.

(xi) Promptly after execution of this Agreement, Optionor shall, at the request of PCTG order and deliver to PCTG an owner's title insurance commitment from Lawyers Title Insurance Corporation on current ALTA form for the real estate portion of the Property. Optionor shall pay for the cost of its attorneys certifying title to Lawyers Title Corporation and PCTG shall pay for the premiums for issuance of any final policy and any cancellation fee if such final policy is not purchased prior to the expiration of the commitment.

The information provided by Optionor to PCTG in connection with the foregoing shall not intentionally contain any untrue statement of a material fact or intentionally omit to state any material fact or other relevant information necessary in order to make the information provided not misleading or incomplete.

(b) During the Option Period, PCTG and PCTG's experts, engineers and consultants shall have the opportunity with the prior written consent of Optionor not to be unreasonably withheld:

(i) To inspect the structural condition of the Property and all major components thereof, including, without limitation, heating, air conditioning, roof, elevators, utility systems, appliances, and conduct such geological and soil tests and engineering studies as Showboat shall require.

(ii) To inspect the personal property inventory of the Property.

(iii) To commission a survey by a licensed asbestos removal contractor regarding the cost of removal or encapsulation of asbestos from the Property (if applicable).

(iv) To commission a survey by a licensed contractor regarding the cost of installation of a sprinkler system in the Property (if applicable).

(v) To inspect such other aspects of the physical elements of the Property, and make all such other inquiries of third parties, including governmental authorities, as PCTG and PCTG's experts, engineers and Consultants deem necessary or appropriate with respect to the Property.

(c) PCTG may terminate this Agreement on the basis of its findings during the Option Period by giving notice of such termination to Optionor prior to the expiration of the Option Period or any permitted extension thereof. In the event of such termination not, Optionor may retain any consideration paid by PCTG hereunder and the parties shall have no further obligation to each other except for obligations hereunder which expressly survive such termination.

(d) PCTG hereby indemnifies and holds Optionor harmless from and against any and all loss, cost, damage, liability or expense (including reasonable attorneys' fees) arising from the activities of PCTG, its agents, employees, contractors and consultants, at or with respect to the Property during the Option Period. The terms of this indemnification shall survive expiration or termination of this Agreement.

6. Recordation. PCTG may, at its expense, record a memorandum of this Agreement in the land records of Jefferson County, West Virginia in a form reasonably acceptable to Optionor. In the event the Option is not exercised or closing fails to occur as provided herein, PCTG shall execute an appropriate release to remove said memorandum from such land records.

7. Disclosure. Neither PCTG nor Optionor shall disclose to third parties (other than their respective counsel, accountants, lenders and other professionals working on the acquisition) any proprietary or otherwise confidential information disclosed by the other pursuant to this Agreement and the transactions contemplated hereby. PCTG shall advise Optionor of the groups

that shall have access to the due diligence information, and Optionor shall not unreasonably withhold its consent to such groups having access to such information. The parties agree that such information shall not be disclosed to Martin & Seibert, L.C. unless such disclosure is required by law.

8. Closing. At Closing, taxes (which shall be re-prorated when actual tax bills are available), rents, operating costs and the like shall be pro-rated, and Optionor shall deliver or take the following actions:

(a) A special warranty deed and bill of sale for the Property; cancel the Lease; assign all Service Contracts which shall be assumed if not Cancelable; execute a mechanic's lien affidavit in favor of the PCTG or its title insurer;

(b) An operating transition agreement in form and substance agreed to by the parties hereto;

(c) Optionor shall deliver a certificate recertifying all representations set forth in Section 4 hereof; and

(d) Optionor shall do all things and execute and deliver all documents reasonably necessary to consummate the transaction contemplated by this Agreement, but limited solely to Optionor's obligations set forth herein.

Transfer stamps shall be shared equally. Each party shall bear its own attorney's fees.

9. No Liabilities Transferred. Except as otherwise expressly provided herein or in any Related Agreement, Optionor shall not transfer, and PCTG shall not assume, any obligations or liabilities with respect to the Property or otherwise with respect to Optionor or Optionor's business.

10. Notices. All notices, demands, requests, consents, approvals, or other communications required or permitted to be given hereunder or which are given with respect to this Agreement ("Notices") shall be in writing, and shall be deemed to have been given (i) when delivered personally, (ii) by telecopy (provided that a confirmation copy is sent by the means set forth in (iii) or (iv) below within twenty-four (24) hours), or (iii) one (1) business day after being sent by confirmed air courier, or (iv) three (3) business days after being mailed by United States registered or certified mail, return receipt requested, postage prepaid. All Notices shall be addressed as follows:

To PCTG: William Bork, President
Penn National Gaming, Inc.
c/o Wyomissing Professional Center
825 Berkshire Boulevard, Suite 203
Wyomissing, PA 19610
Telecopy Number: (610) 376-2842

Copy to: Robert P. Krauss, Esquire
Mesirov Gelman Jaffe Cramer
& Jamieson
1735 Market Street
Philadelphia, PA 19103-7598
Telecopy Number: (215) 994-1111

To Racing: D. Keith Wagner, President
Charles Town Races
Post Office Box 551
Charles Town, West Virginia 25414
Telecopy Number: (304) 725-6979

Copy to: Michael Keller, Esquire
Bowles Rice McDavid Graff & Love
105 West Burke Street
P.O. Box 1419
Martinsburg, West Virginia 25401
Telecopy Number: (304) 267-3822

or to such other address as such party shall have specified most recently by like Notice. Any Notices given or delivered by other means shall not be effective.

11. Deeds of Trust. Optionor represents and warrants to PCTG that the only deeds of trust affecting the Property as of the date hereof are those of record in favor of One Valley Bank, Inc. and PCTG (the "Existing Deeds of Trust"). Optionor covenants to give PCTG prompt notice of any event of default or notice of default with respect to the Existing Deeds of Trust. Optionor irrevocably authorizes PCTG to contact any lender with respect to the Existing Deeds of Trust (or subsequent lenders provided below) from time to time, either in PCTG's own name or as Optionor's attorney-in-fact, (i) as to whether Optionor is in default thereunder, and (ii) to cure any such default if PCTG so chooses. The costs of any such cure, together with incidental expenses including but not limited to reasonable attorneys fees (the "Cure Costs") shall, at PCTG's sole option, (i) be credited, dollar for dollar, against the purchase price set forth in Section 1 hereof in the event PCTG exercises the Option or (ii) be repaid by

Optionor on demand, together with interest thereon at the lesser of (X) the prime rate as reported in the Wall Street Journal from time to time plus 4% and (Y) the maximum rate of interest allowed by law. Optionor shall execute such letters to such lenders in confirmation of this section, and such documents as may be necessary to create a security interest in and to the Property in favor of PCTG to adequately secure monies paid pursuant to this provision as PCTG may request. Said security instrument shall be executed promptly upon request following such payment. Optionor shall not suffer any liens on the Property other than Permitted Exceptions except that Optionor may encumber the Property with additional deeds of trust provided that (i) PCTG receives prior written notice of such deeds of trust, and (ii) the total deeds of trust on the Property, including any Existing Deeds of Trust, at any one time shall not exceed Ten Million Dollars ($10,000,000).

12. Remedies. In the event Optionor fails to perform its obligations hereunder, including failure to convey the Property at closing, PCTG shall be entitled to maintain an action for specific performance to compel such transfer and/or maintain an action for money damages. In the event a representation or warranty in Section 4 hereof is false when made or re-certified and the misrepresentation was made willfully and intentionally for the purpose of fraudulently obtaining the Option money, then, Optionor shall be liable for all consideration paid for the Option or any extension thereof together with such other money damages as may be available at law. The parties acknowledge that the representations made in Section 4 hereof were made by D. Keith Wagner in his capacity as an officer of CTR only, and he shall not be named as a party in any lawsuit hereunder unless he is a general partner of Racing and it is necessary to name him in order to maintain an action against Racing.

13. Time. Time is of the essence.

14. Governing Law. The law of West Virginia shall govern this Agreement.

15. Assignment. This Agreement is binding upon the parties, their successors and assigns.

16. Final Agreement. This Agreement is the final understanding of the parties and all prior or contemporaneous negotiations are merged herein. This Agreement may not be modified except in writing signed by all parties. This Agreement is not intended to and shall not modify, amend or supersede the Loan Documents entered into in connection with a certain line of credit previously entered into between Optionor and PCTG, or that certain Cooperation Agreement previously entered into between Optionor and PCTG.

17. Severability. In the event that a court of competent jurisdiction determines that one or more provisions of this Agreement are not enforceable, such provision or provisions shall be deemed to be severed from this Agreement and the remaining terms hereof shall be accorded full force and effect.

18. Press Releases and Public Announcements. Neither PCTG nor Optionor shall issue any press release or make any public announcement relating to the subject matter of this Agreement without the prior written approval of the other; provided however, Penn National Gaming, Inc. may make any public disclosure it deems appropriate in connection with its status as a public company or that it believes is required by applicable law or any listing or trading agreement concerning its publicly-traded securities (in which case Penn National Gaming, Inc. will use its best efforts to advise Optionor prior to making the disclosure and to provide Optionor the opportunity to comment upon the disclosure).

WITNESS the hand and seal of the parties as of the date and year first above written.

PNGI CHARLES TOWN GAMING LIMITED
LIABILITY COMPANY

By: PENN NATIONAL GAMING OF WEST
VIRGINIA, its Managing Member

By:/s/ William Bork(SEAL)
WILLIAM BORK
Its: President

CHARLES TOWN RACING LIMITED PARTNERSHIP

By: D.K.W. INC., its general partner

By: /s/ D. Keith Wagner(SEAL)
D. KEITH WAGNER
Its: President

CHARLES TOWN RACES, INC.

By: /s/ Rodger Ramey (SEAL)
ROGER RAMEY
Its: President

STATE OF West Virginia)
)
COUNTY OF Berkeley)

Before me, a notary public in and for the above jurisdiction, appeared D. KEITH WAGNER, President of D.K.W. Inc., known to me to a general partner of Charles Town Racing Limited Partnership, a West Virginia limited partnership, and acknowledged that he executed the within instrument as his act and deed and the act and deed of said partnership.

(SEAL) /s/ Deborah Grissinger

Notary Public in and for
the State of West Virginia

Deborah Grissinger
Name printed or typed
My commission expires:April 14, 2003

STATE OF West Virginia)
)
COUNTY OF Jefferson)

Before me, a notary public in and for the above jurisdiction, appeared ROGER RAMEY, known to me to be the President of Charles Town Races, Inc., a West Virginia corporation, and acknowledged that he executed the within instrument as his act and deed and the act and deed of said corporation.

(SEAL) /s/ Charlotte L. Burner

Notary Public in and for
the State of West Virginia

Charlotte L. Burner
Name printed or typed
My commission expires:November 1, 2001

STATE OF West Virginia)
)
COUNTY OF Berkeley)

Before me, a notary public in and for the above jurisdiction, appeared WILLIAM BORK, known to me to be the President of Penn National Gaming of West Virginia, Inc., Managing Member of PNGI Charles Town Gaming Limited Liability Company, a West Virginia limited liability company, and acknowledged that he executed the within instrument as his act and deed and the act and deed of said company.

(SEAL)

/s/ Deborah Grissinger

Notary Public in and for
the State of West Virginia

Deborah Grissinger
Name printed or typed
My commission expires:April 14, 2003

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