FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(Mark One)

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

For the quarterly period ended September 30, 1998

OR

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

For the transition period from _____ to _____

Commission file number: 0-24206

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

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

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

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

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
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(Applicable only to corporate registrants)

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

Title	Outstanding as of November 13, 1998
Common stock par value .01 per share	14,735,630

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

Penn National Gaming, Inc. and Subsidiaries

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Part I. Financial Information

Item 1. Financial Statements

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

	September 30, 1998 (Unaudited)	December 31, 1997
Assets		
Current asset		
Cash and cash equivalents	$ 9,412	$ 21,854
Investment in marketable securities	3,092	-
Accounts receivable	6,503	2,257
Prepaid expenses and other current assets	2,333	1,441
Deferred income taxes	523	469
Prepaid income taxes	472	3,003
Total current assets	22,335	29,024
Property, plant and equipment, at cost		
Land and improvements	26,629	24,643
Building and improvements	66,848	56,298
Furniture, fixtures and equipment	16,548	13,847
Transportation equipment	479	490
Leasehold improvements	9,567	6,778
Leased equipment under capitalized lease	824	824
Construction in progress	532	11,288
	121,427	114,168
Less accumulated depreciation and amortization	14,485	11,007
Net property, plant and equipment	106,942	103,161
Other assets		
Excess of cost over fair market value of net assets acquired(net of accumulated amortization of $1,848 and $1,389, respectively)	22,596	23,055
Deferred financing costs	2,477	3,014
Miscellaneous	1,036	624
Total other assets	26,109	26,693
	$ 155,386	$ 158,878

See accompanying notes to consolidated financial statement

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

	September 30, 1998 (Unaudited)	December 31, 1997
Liabilities and Shareholders' Equity		
Current liabilities		
Current maturities of long-term debt and capital lease obligations	$ 175	$ 204
Accounts payable	9,395	7,405
Purses due horsemen	757	-
Uncashed pari-mutuel tickets	1,342	1,504
Accrued interest	2,156	326
Accrued expenses	886	2,427
Accrued salaries & wages	993	813
Customer deposits	681	470
Taxes, other than income taxes	921	649
Total current liabilities	17,306	13,798
Long term liabilities		
Long-term debt and capital lease obligations net of current maturities	69,105	80,132
Deferred income taxes	11,410	11,092
Total long-term liabilities	80,515	91,224
Commitments and contingencies		
Shareholders' equity		
Preferred stock, $.01 par value authorized 1,000,000 shares; None issued	-	-
Common stock,$.01 par value, authorized 20,000,000 shares, 15,160,330 less treasury stock 424,700 and 15,152,580 issued respectively	152	152
Additional paid in capital	38,012	37,969
Treasury Stock, 424,700 shares at cost	(2,379)	-
Retained earnings	21,780	15,735
Total Shareholders' equity	57,565	53,856
	$ 155,386	$ 158,878

See accompanying notes to consolidated financial statement

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

	Nine Months Ended September 30,	
	1998	1997
Revenue		
Pari-mutuel revenues		
Live races	$ 20,962	$ 18,234
Import simulcasting	50,994	46,766
Export simulcasting	4,403	5,701
Gaming Revenue	26,995	909
Admissions, programs and other racing revenue	4,558	4,388
Concession revenues	7,102	5,570
Total revenues	115,014	81,568
Operating expenses		
Purses, stakes, and trophies	21,821	16,550
Direct salaries, payroll taxes and employee benefits	14,265	12,034
Simulcast expenses	10,479	9,836
Pari-mutuel taxes	7,013	6,917
Lottery taxes and administration	10,613	298
Other direct meeting expenses	17,823	12,878
Off-track wagering concession expenses	5,646	4,283
Other operating expenses	7,879	5,475
Site development and restructuring expense	-	599
Depreciation and Amortization	4,292	2,828
Total operating expenses	99,831	71,698
Income from operations	15,183	9,870
Other income (expenses)		
Interest (expense)	(6,326)	(2,652)
Interest income	627	296
Other (including $140,000 of unrealized investment gain)	110	17
Total other (expenses)	(5,589)	(2,339)
Income before income taxes and extraordinary item	9,594	7,531
Taxes on income	3,549	3,093

See accompanying notes to consolidated financial statements

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

	Nine Months Ended September 30,	
	1998	1997
Income before extraordinary item	6,045	4,438
Extraordinary Item		
Loss of early extinguishment of debt, net of income taxes of $264	-	383
Net income	$ 6,045	$ 4,055
Per share data		
Basic		
Income before extraordinary item	$ 0.40	$ 0.29
Extraordinary item	-	0.03
Net income	$ 0.40	$ 0.26
Diluted		
Income before extraordinary item	$ 0.39	$ 0.29
Extraordinary item	0.03	-
Net income	$ 0.39	$ 0.26
Weighted average shares outstanding		
Basic	15,108	14,851
Diluted	15,463	15,444

See accompanying notes to consolidated financial statements

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

	Three Months Ended September 30,	
	1998	1997
Revenue		
Pari-mutuel revenues		
Live races	$ 8,034	$ 6,837
Import simulcasting	16,881	15,428
Export simulcasting	1,576	2,306
Gaming Revenue	10,835	909
Admissions, programs and other racing revenue	1,573	1,564
Concession revenues	2,675	2,120
Total revenues	41,574	29,164
Operating expenses		
Purses, stakes, and trophies	7,875	6,232
Direct salaries, payroll taxes and employee benefits	5,002	4,614
Simulcast expenses	3,583	3,955
Pari-mutuel taxes	3,328	2,498
Lottery taxes and administration	3,407	298
Other direct meeting expenses	6,260	4,379
Off-track wagering concession expenses	2,193	1,643
Other operating expenses	2,855	2,194
Site development and restructuring expense	-	599
Depreciation and Amortization	1,451	674
Total operating expenses	35,954	27,086
Income from operations	5,620	2,078
Other income (expenses)		
Interest (expense)	(2,082)	(977)
Interest income	176	138
Other (including $140,000 of unrealized investment gain)	110	21
Total other (expenses)	(1,796)	(818)
Income before income taxes	3,824	1,260
Taxes on income	1,451	542
Net income	$ 2,373	$ 718

See accompanying notes to consolidated financial statements

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

	Three Months Ended September 30,	
	1998	1997
Per share data		
Basic		
Net income	$ 0.16	$ 0.05
Diluted		
Net income	$ 0.16	$ 0.05
Weighted average shares outstanding		
Basic	15,021	15,127
Diluted	15,279	15,715

See accompanying notes to consolidated financial statements

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

	Common Stock Shares	Common Stock Amounts	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Total
Balance, January 1, 1998	15,152,580	$ 152	$ 37,969	$ -	$ 15,735	$ 53,856
Issuance of common stock	7,750	-	43	-	-	43
Purchase of treasury stock	(424,700)	-	-	(2,379)	-	(2,379)
Net income for the nine months ended September 30, 1998	-	-	-	-	6,045	6,045
Balance, September 30, 1998	14,735,630	$ 152	$ 38,012	$ (2,379)	$ 21,780	$ 57,565

See accompanying notes to consolidated financial statements

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

	Nine Months Ended September 30, 1998	1997
Cash flows from operating activities		
Net income	$ 6,045	$ 4,055
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization	4,292	2,701
Extraordinary item, loss on early extinguishment of debt, before income tax benefit	-	642
Deferred income taxes	264	204
Decrease (Increase) in		
Accounts receivable	(4,246)	1,133
Investment in marketable securities	(3,092)	-
Prepaid expenses and other current assets	(892)	(1,305)
Prepaid income taxes	2,531	-
Miscellaneous other assets	(412)	(166)
Increase (decrease) in		
Accounts payable	1,990	3,652
Purses due horsemen	757	(834)
Uncashed pari-mutuel tickets	(162)	(134)
Accrued expenses	(1,541)	190
Accrued interest	1,830	-
Accrued salaries & wages	180	-
Customers deposits	211	242
Taxes other than income taxes payable	272	156
Income taxes payble	-	636
Net cash provided by operating activities	8,027	11,172
Cash flows from investing activities		
Expenditures for property, plant and equipment	(7,320)	(26,392)
Acquisition of business (Primarily property and equipment)	-	(16,000)
Prepaid acquisition costs	-	(310)
Net cash (used in) investing activities	(7,320)	(42,702)

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

	Nine Months Ended September 30,	
	1998	1997
Cash flows from financing activities		
Proceeds from sale of common stock	$ 43	$ 23,145
Purchase of treasury stock	(2,379)	-
Tax benefit related to stock option exercised	-	573
Proceeds from long term debt	-	25,667
Principal payments on long-term debt and capital lease obligations	(11,056)	(19,324)
Increase (decrease)in unamortized financing cost	243	(214)
Net cash provided by (used) in financing activities	(13,149)	29,847
Net (decrease) in cash	(12,442)	(1,683)
Cash, at beginning of period	21,854	5,634
Cash, at end of period	$ 9,412	$ 3,951

See accompanying notes to consolidated financial statements

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

1. Basis of Financial Statement Presentation

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

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

2. Wagering Information (in thousands)

	Three months ended September 30, 1998			
	Penn National	Pocono Downs	Charles Town	Total
Pari-mutuel wagering in-state on company live races	$ 21,351	$ 7,806	$ 7,068	$ 36,225
Pari-mutuel wagering on simulcasting:				
Import simulcasting from other racetracks	41,738	34,022	12,129	87,889
Export simulcasting to out of Pennsylvania wagering facilities	43,999	9,084	-	53,083
	85,737	43,106	12,129	140,972
Total pari-mutuel wagering	$ 107,088	$ 50,912	$ 19,197	$ 177,197

Three months ended September 30, 1997

	Penn National	Pocono Downs	Charles Town	Total
Pari-mutuel wagering in-state on company live races	$ 22,142	$ 9,520	$ 6,852	$ 38,514
Pari-mutuel wagering on simulcasting:				
Import simulcasting from other racetracks	39,014	29,710	7,630	76,354
Export simulcasting to out of Pennsylvania wagering facilities	37,026	10,133	-	47,159
	76,040	39,843	7,630	123,513
Total pari-mutuel wagering	$ 98,182	$ 49,363	$ 14,482	$162,027

Nine months ended September 30, 1998

	Penn National	Pocono Downs	Charles Town	Total
Pari-mutuel wagering in-state on company live races	$ 62,566	$ 16,131	$ 16,710	$ 95,407
Pari-mutuel wagering on simulcasting:				
Import simulcasting from other racetracks	129,132	101,340	34,159	264,631
Export simulcasting to out of Pennsylvania wagering facilities	130,583	16,846	-	147,429
	259,715	118,186	34,159	412,060
Total pari-mutuel wagering	$ 322,281	$ 134,317	$ 50,869	$507,467

	Nine months ended September 30, 1997			
	Penn National	Pocono Downs	Charles Town	Total
Pari-mutuel wagering in-state on company live races	$ 69,716	$ 18,763	$ 11,492	$ 99,971
Pari-mutuel wagering on simulcasting:				
Import simulcasting from other racetracks	124,857	89,220	14,275	228,352
Export simulcasting to out of Pennsylvania wagering facilities	113,387	18,960	-	132,347
	238,244	108,180	14,275	360,699
Total pari-mutuel wagering	$ 307,960	$ 126,943	$ 25,767	$460,670

3. Commitments

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

4. Supplemental Disclosures of Cash Flow Information

Cash paid during the nine months ended September 30, 1998 and 1997 for interest was $4,496,000 and $3,010,000 respectively.

Cash paid during the nine months ended September 30, 1998 and 1997 for income taxes was $2,646,000 and $2,741,000, respectively.

5. Potential Tennessee Development Project

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

In April 1998, the Tennessee Commission granted a license to the Company, which would expire on the earlier of (I) December 31, 2000 or (ii)the expiration of Tennessee Racing Commission's term on June 30, 1998, if such term is not extended by the Tennessee. On May 1, 1998, the Tennessee State Legislature voted against extending the life of the Tennessee Commission, allowing the Tennessee Commission's term to expire on June 30, 1998. The Tennessee Commission held a meeting on May 29, 1998 at which it rejected the Company's request: (I) to grant the Company an extension-time frame for the effectiveness of its racing license; (ii) for racing days for the periods ending December 31, 2000; and (iii) to operate a temporary simulcast facility. On July 28, 1998, the Company filed for a preliminary injunction and a declaratory ruling on the legal status of racing in Memphis with the Chancery Court in Shelby County. A full hearing was held before Judge Peete of Shelby County on September 17, 1998. As of November 13, 1998, the Company had not received an opinion from Judge Peete. The Company intends to continue its efforts to obtain a racing license that does not hinge on the existence of a racing commission.There can be no assurance that the Company's efforts to obtain a racing license will be successful.

6. Subsidiary Guarantors

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

September 30, 1998

	Parent Company	Subsidiary Guarantors	Subsidiary Nonguarantors	Eliminations	Consolidated
Current assets	$ 6,872	$ 9,881	$ 5,289	$ 293	$ 22,335
Net property	703	62,666	43,572	1	106,942
Other assets	103,872	152,925	1,655	(232,343)	26,109
Total	111,447	225,472	50,516	(232,049)	155,386
Current liabilities	1,893	16,986	7,311	(8,884)	17,306
Long-term liabilities	72,084	78,895	47,661	(118,125)	80,515
Shareholders' equity	37,470	129,591	(4,456)	(105,040)	57,565
Total	$111,447	$225,472	$ 50,516	$(232,049)	$ 155,386

Three months ended September 30, 1998

Total revenues	$ 2,690	$ 21,830	$ 16,353	$ 701	$ 41,574
Total operating expenses	1,258	19,726	14,269	701	35,954
Income from operations	1,432	2,104	2,084	-	5,620
Other income (expenses)	(1,316)	719	(1,199)	-	(1,796)
Income before income taxes	116	2,823	885	-	3,824
Taxes on income	28	1,423	-	-	1,451
Net income	$ 88	$ 1,400	$ 885	$ -	$ 2,373

	Nine months ended September 30, 1998				
Total revenues	$ 7,865	$ 64,253	$ 41,050	$ 1,846	$ 115,014
Total operating expenses	3,189	57,724	37,072	1,846	99,831
Income from operations	4,676	6,529	3,978	-	15,183
Other income (expenses)	(4,094)	2,064	(3,559)	-	(5,589)
Income before income taxes	582	8,593	419	-	9,594
Taxes on income	55	3,494	-	-	3,549
Net income	$ 527	$ 5,099	$ 419	$ -	$ 6,045

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

7. Year 2000 Compliance

The "Year 2000 Issue" is typically the result of software and hardware being writtem using two digits rather than four to define the applicable year. If the Company's software and hardware with date-sensitive functions are not Year 2000 compliant, these systems may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, interruptions in pari-mutuel wagering or the inability to operate the Company's video lottery machines.

The Company is currently conducting a review of all systems and contacting all software suppliers to determine major areas of exposure to Year 2000 issues. The Company believes that, with minor modifications and testing of its systems, the Year 2000 issue will not pose a significant operations problem. The Compnay is using its internal resources to reprogram or replace and test its software for Year 2000 modificaitons. If the Company is unable to make the required modifications to existing software or convert to new software in a timely manner, the Year 2000 Issue could have a material adverse impact on the Company's operations.

The Company has initiated formal communication with significant suppliers and third party vendors to determine the extent to which the Company's operations are vulnerable to those third parties' failure to remediate their own Year 2000 hardware and software issues. Most of these parties state that they intend to be Year 2000 compliant by 2000. In the event that any of the Company's significant suppliers are unable to become Year 2000 compliant, the Company's business or operations could be adversely affected. There can be no assurance that the systems of other companies on which the Company relies will be compliant by the year 2000 and would not have an adverse effect on operations.

The Company does not expect the total cost associated with required modifications to become Year 2000 compliant to be material to its financial position.

The Company has not yet fully developed a comprehensive

contingency plan addressing situations that may result if the Company is unable to achieve Year 2000 readiness of its critical operations. Contingency plan development is in process and the Company expects to finalize its plan during the remainder of 1998. There can be no assurance that the Company will be able to develop a contingency plan that will adequately address issues that may arise in the year 2000.

8. Johnstown OTW Facility

On July 7, 1998, the Company entered into an agreement with Ladbroke Racing Management-Pennsylvania (Ladbroke) to purchase their Johnstown, Pennsylvania OTW facility. The agreement provides for a purchase price of $1,225,000 for the assignment of the facility lease and the sale of assets and is subject to numerous contingencies, including approval by the Pennsylvania State Horse Racing Commission. Approval for the sale and transfer of the Johnstown OTW was received from the State Harness Racing Commission on August 14, 1998 and the State Horse Racing Commission on August 20, 1998. Under the terms of the agreements, the Company will sub-lease the facility from Ladbroke and operate the facility from September 1, 1998, the effective date of the agreement, through January 4, 1999, the closing date of the agreement, for $12,500 per month, at which time the Company will assume full rights and ownership in the facility. The Johnstown facility will replace the Company's proposed Altoona, Pennsylvania OTW facility.

9. Treasury Stock

From August 21, 1998 to September 10, 1998, the Company purchased 424,700 shares of its commonstock in public market trading. The total cost of these transactions were $2,378,465 or $5.60 per share average price.

10. 10 5/8% Senior Notes

On September 3, 1998, the Company repurchased $11,000,000 of 10 5/8% Senior Notes due 2004 at 97.25% in the principal amount ($10,697,500) plus accrual interest of $253,229 in public market trading. In conjunction with the repurchase of the Notes, the Company recorded a write-off of $337,719 for deferred finance fees associated with this portion of the long-term debt and the recognition of discounts income of $302,500.

11. Investment in Marketable Securities

During the period July 20, 1998 to October 9, 1998, the Company purchased 1,400,000 shares of Casino Magic Corp. stock on the open market at prices ranging from $2.11 to $2.17 per share. Prior to the purchase of Casino Magic stock by the company, Casino Magic and Hollywood Park Inc. shareholders had approved the purchase of Casino Magic by Hollywood Park for $2.27 per share. The purchase was completed on October 20, 1998 and the Company received $3,178,000 for its shares on that date. At September 30, 1998, the Company recorded an unrealized gain on investment in marketable securities of $140,000 to account for this transaction.

12. East Stroudsburg Lease

On July 14, 1998, the Company entered into a lease agreement for an OTW facility in East Stroudsburg. The lease is for approximately 14,000 square feet at the Eagle's Glen Shopping Plaza located in East Stroudsburg, Pennsylvania. The initial term of the lease is for ten years with two additional five-year renewal options available. The agreement is subject to numerous contingencies, including approval by the Pennsylvania State Harness Racing Commission. On November 6, 1998, the Company submitted its application for such approval. If approved by the Racing Commission, the Company expects to have the facility constructed and operational by the end of 1999.

13. Subsequent Events

On October 30, 1998, the Company entered into a joint venture agreement with Greenwood New Jersey, Inc. (GNJI), which has a definitive agreement to purchase Freehold Raceway and secure a long-term lease on Garden State Park, the principal racetrack assets of International Thoroughbred Breeders, Inc. (ITB) for $45 million and an additional $12.5 million contingent upon the expansion of these facilities. GNJI is a wholly-owned subsidiary of Greenwood Racing, Inc., the owner of Philadelphia Park Racetrack. Pursuant to the joint venture, Penn National will acquire a 50% interest in the New Jersey entity, which is purchasing the ITB assets. GNJI has provided notice to the Board of Directors of ITB that it has entered into the joint venture agreement with Penn National. Under the terms of the joint venture agreement, Penn National and GNJI will acquire certain assets of ITB for up to $57.5 million in cash and notes. Penn National intends to fund its portion of the cash payment from cash on hand and available bank lines. The joint venture parties will operate Garden State Park under a lease from ITB, and will share equally in the income and losses derived from Garden State Park and Freehold Raceway. GNJI and Penn National will apply for licensing from the New Jersey Racing Commission and seek other regulatory approvals and they intend to close on the transaction immediately upon securing such approvals.

On November 3, 1998 New Jersey voters passed a Referendum granting the State Legislature decision-making power to approve off-track wagering (OTW) and telephone wagering.

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

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

Total revenue increased by approximately $12.4 million or 42.6% from $29.2 million for the three months ended September 30, 1997 to $41.6 million for the three months ended September 30, 1998. The majority of the gain was attributable to a 230.4% or $11.4 million revenue increase at the Charles Town Races facility which began video lottery machines operations on September 10, 1997. Revenues at Penn National Race Course and its OTW facilities increased by approximately $400,000 due to an 18.4% increase in export simulcast wagering on Penn National races and the addition of the Johnstown OTW facility on September 1, 1998. Revenues at Pocono Downs and its OTW facilities increased by approximately $600,000. The net increase was due to a full quarter of operations for the new facilities at Hazleton and Carbondale ($1.5 million) offset a decrease in revenue at the Wilkes-Barre racetrack ($.9million) due to the opening of the two new OTW facilities.

Total operating expenses increased by $8.9 million or 32.7% from $27.1 million for the three months ended September 30, 1997 to $36.0 million for the three months ended September 30, 1998. Charles Town Races accounted for $8.7 million of the increase due primarily to the video lottery operation and the operation of the racing simulcast center. Penn National Race Course and its OTW facilities had a net decrease in operating expenses of approximately $100,000 due to an increase in expenses from the addition of the Johnstown OTW facility ($171,000) that was offset by a decrease in expenses at the other facilities. ($271,000)Pocono Downs and its OTW facilities had an increase in expenses due to a full quarter of operations for the new facilities at Hazleton and Carbondale ($1.2 million) that was offset by a decrease in expenses at the Wilkes-Barre racetrack ($1.1 million) due to decreased revenue. Depreciation and amortization increased by $776,000 or 115.1% from $674,000 for the three months ended September 30, 1997 to $1,450,000 for the three months ended September 30, 1998. The increase was due primarily to depreciation associated with new facilities for Charles Town Gaming (September 1997), Charles Town Simulcast Facility (January 1998), Hazleton OTW (March 1998) and Carbondale OTW (March 1998). Site development expenses for the three months ended September 30, 1997 consisted of a non-recurring pre-tax charge of $599,000 associated with the Company's failure to obtain approval for the Downingtown OTW and discontinued site development efforts in Indiana.

Other expenses increased by 1.0 million from $.8 million in net interest expense for the three months ended September 30, 1997 to $1.8 million in net interest expense for the three months ended September 30, 1998 (primarily due to the 10 5/8% Senior Notes issued during December 1997).

Income tax expense increased approximately $910,000 or 167.9% from $542,000 for the three months ended September 30, 1997 to $1,452,000 for the three months ended September 30, 1998 due to the increase in net income for the period.

Net income increased approximately $1.7 or 242.9% from $.7 million for the three months ended September 30, 1997 to $2.4 million for the three months ended September 30, 1998 due to the factors described above.

Nine months ended September 30, 1998 compared to nine months ended September 30, 1997

Total revenue increased by approximately $33.4 million or 41.0% from $81.6 million for the nine months ended September 30, 1997 to $115.0 million for the nine months ended September 30, 1998. Charles Town Races, which was purchased in January of 1997 and began racing operations on April 30, 1997 and video lottery machines operations on September 10, 1997, accounted for $33.2 million of the increase. Revenues at Penn National Race Course and its OTW facilities decreased by approximately $.7 million due to a decrease in revenues at its Chambersburg OTW ($.6 million) resulting from the opening of the Charles Town Facility and at the Reading OTW ($.2 million) due to competition in the Reading area. Revenue increased at the Williamsport OTW ($.2 million)due to a full period of operations in 1998 compared to eight months in 1997 and at the Johnstown OTW that opened September 1, 1998. Revenues at Pocono Downs and its OTW facilities resulted in a net increase of approximately $.8 million primarily due to the opening of new facilities in Hazleton and Carbondale ($3.3 million). Revenue decreased at Allentown OTW ($.4 million) and Erie OTW ($.3 million) due to a decrease in wagering at the Wilkes-Barre racetrack ($1.8 million) due to the proximity of the two new OTW facilities.

Total operating expenses increased by $28.1 million or 39.2% from $71.7 million for the nine months ended September 30, 1997 to $99.8 million for the nine months ended September 30, 1998. Charles Town Races accounted for $27.4 million of the increase due primarily to the video lottery operation and the opening of the racing simulcast center. Penn National Race Course and its OTW facilities had a decrease in operating expenses of approximately $1.2 million due to the decrease in revenues. Pocono Downs and its OTW facilities had an increase of approximately $225,000 in expenses due to six months of operations at Hazleton and Carbondale ($2.6 million) offset by decreases at its other facilities ($2.4 million) due to decreased revenue. Corporate expenses increased by $325,000 due to the hiring of additional staff for OTW facility management and human resource management and the leasing of additional office space. Depreciation and amortization increased by $1.8 million or 72.0% from $2.5 million for the nine months ended September 30, 1997 to $4.3 million for the nine months ended September 30, 1998. The increase was due primarily to depreciation associated with new facilities for Charles Town Gaming (September 1997), Charles Town Simulcast Facility (January 1998), Hazleton OTW (March 1998) and Carbondale OTW (March 1998). Site development expenses for the nine months ended September 30, 1997 consisted of a non-recurring pre-tax charge of $599,000 associated with the Company's failure to obtain approval for the Downingtown OTW and discontinued site development efforts in Indiana.

Other expenses increased by $3.3 million from $2.3 million in net interest expense for the nine months ended September 30, 1997 to $5.6 million in net interest expense.consisted of for the nine months ended September 30, 1998 (primarily due to the 10 5/8% Senior Notes issued December 1997).

Income tax expense increased approximately $456,000 or 14.7% from $3.1 million for the nine months ended September 30, 1997 to $3.5 for the nine months ended September 30, 1998 due to the increase in net income for the period.

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

Net income increased approximately $2.0 million or 49.2% from $4.0 million for the nine months ended September 30, 1997 to $6.0 million for the nine months ended September 30, 1998 due to the factors described above.

Liquidity and Capital Resources

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

Net cash provided from operating activities for the nine months ended September 30, 1998 ($8.0 million), consisted of net income and non-cash expenses ($10.3 million), an increase in investment in marketable securities ($3.1 million) for 1,4000,000 shares of Casino Magic common stock, a decrease in prepared income taxes ($2.5 million), an increase in accounts receivable ($4.2 million) from other racetracks primarily due to totalisator settlement delays, an increase in accounts payable ($2.0 million), and a decrease in other changes in working capital ($.5 million).

Cash flows used in investing activities ($7.3 million) consisted of renovations and refurbishment of the Charles Town facility and race track surface ($1.1 million), completion of the Hazleton and Carbondale facilities ($3.2 million), the purchase of the Johnstown OTW facility ($1.3 million), and ($1.7 million) in capital expenditures at the other facilities.

Cash flows from financing activities ($13.1 million) consisted of the purchase of 424,700 shares of the Company's common stock ($2.4 million) and the repurchase of $11 million of 10 5/8% Senior Notes at 97.25% of the principal amount ($10.7 million).

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

During the fourth quarter of 1998, the Company anticipates capital expenditures of approximately $1.9 million. For the existing racetracks and OTW facilities at Penn National Race Course and Pocono Downs, the Company plans to spend an additional $500,000 and $400,000 respectively, on building improvements and equipment. The Company anticipates expending approximately $1.0 million on the refurbishment of the Charles Town Entertainment Complex (excluding the cost of Gaming Machines). If approval of the Tennessee license beyond September 30, 1998 is ultimately received, the Company anticipates expending $9.0 million to complete the first phase of the project.

The Company entered into a credit facility in December 1997 (the "Credit Facility") with Bankers Trust Company, as agent. The Credit Facility provides for, subject to certain terms and conditions, a $12.0 million revolving credit facility and has a five-year term from its closing. The Credit Facility, under certain circumstances, requires the Company to make mandatory prepayments and commitment reductions and to comply with certain covenants, including financial ratios and maintenance tests. In addition, the Company may make optional prepayments and commitment reductions pursuant to the terms of the Credit Facility. Borrowings under the Credit Facility will accrue interest, at the option of the Company, at either a base rate plus an applicable margin of up to 2.0% or a eurodollar rate plus an applicable margin of up to 3.0%. The Credit Facility contains certain covenants that, among additional indebtedness, incur guarantee obligations, repay indebtedness, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restrict corporate activities. The Credit Facility is secured by the assets of the Company and certain financial ratios and maintenance tests.

On September 30, 1998, the Company was in compliance with all applicable ratios. As of November 13, 1998, the Company had not drawn any portion of the Credit Facility (although a $2.0 million letter of credit was issued against such Credit Facility) and had adequate capital resources even without consideration of the Credit Facility.

A portion of the net proceeds of the offering of the 10 5/8% Senior Notes was used to repay amount outstanding immediately prior to the offering under a preexisting, credit facility. The Company currently estimates that proceeds from the offering, cash generated from operations and available borrowings under the Credit Facility will be sufficient to finance its current operations, planned capital expenditure requirements and the costs associated with the Tennessee development project. The Company intends to fund its portion of the joint venture agreement with Greenwood New Jersey, Inc. (up to $28.75 million) from cash on hand, available credit lines and seller financing. There can be no assurance, however, that the Company will not be required to seek additional capital through public or private financing, including equity financing, in addition to that available from the foregoing sources. There can be no assurance that adequate funding will be available as needed or, if available, on terms acceptable to the Company.

Item 3. Changes in Information about Market Risk

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

Part II. Other Information

Item 1. Legal Proceedings

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

Item 6. Exhibits and Reports on Form 8-K

(A) Exhibits

10.78	Lease agreement dated July 14, 1998 between Penn National Gaming, Inc. and Eagle Valley Realty.
10.79	Joint Venture Agreement dated October 30, 1998 between Penn National Gaming, Inc. and Greenwood New Jersey, Inc.
10.80	Amendment dated November 2, 1998 to Joint Venture Agreement between Penn National Gaming, Inc. and Greenwood New Jersey, Inc.

(B) Reports on Form 8-K

None

SIGNATURES

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

Penn National Gaming, Inc.

November 13, 1998 By: /S/ Robert S. Ippolito
- ----------
Date Robert S. Ippolito,
Chief Financial Officer &
Treasurer/Secretary

EXHIBIT INDEX

LEASE AGREEMENT

THIS LEASE made and entered into this 14th day of July 1998, between EAGLE VALLEY REALTY, a Pennsylvania general partnership (hereinafter called "Landlord") and PENN NATIONAL GAMING, INC., a Pennsylvania corporation (hereinafter called "Tenant").

DEMISED PREMISES; DEMISE

Landlord is the owner of shopping center known as the Eagle's Glen Shopping Plaza (the "Shopping Center") located in East Stroudsburg Borough (the "Borough"), Monroe County, Pennsylvania. The current configuration and location of the improvements constituting the Shopping Center are depicted on the site plan (the "Current Site Plan") attached hereto as Exhibit "A". Landlord will seek approval from the relevant governmental bodies to expand the Shopping Center (the "New Plan Approval") by constructing an additional building containing approximately 28,000 square feet (the "Additional Building") and related parking and site improvements (together with the Additional Building, the "Additional Improvements"), which Additional Improvements are depicted on the site plan attached hereto as Exhibit "B" (the "New Site Plan"). Landlord desires to lease to Tenant, and Tenant desires to rent from Landlord, approximately 14,000 square feet of space in the Shopping Center (the "Demised Premises") for use by Tenant as a restaurant and off-track wagering facility, as more particularly described herein.

Landlord has leased approximately 45,600 square feet of the Shopping Center, in the space designated on the Current Site Plan as "Supermarket" (the "BiLo Space"), to a tenant operating a BiLo supermarket ("BiLo"). Subject to the terms of this Article, Landlord shall use its best efforts to enter into an agreement with BiLo, within sixty (60) days after Tenant notifies Landlord that it has satisfied or waived all of the Conditions Precedent (as hereinafter defined) set forth in Article 40 (such date is hereinafter referred to as the "Satisfaction Date"), pursuant to which BiLo and Landlord agree to terminate the existing lease between BiLo and Landlord, which termination and BiLo's vacation of the BiLo Space must occur within four (4) months after the execution of such agreement (the "BiLo Termination Agreement"). The date by which Landlord is obligated to enter into a BiLo Termination Agreement as provided in the previous sentence is hereinafter referred to the "BiLo Termination Date". If the Termination Agreement is executed by Landlord and BiLo, and BiLo vacates the BiLo Space within four (4) months after the execution of the BiLo Termination Agreement, the Demised Premises shall be comprised of approximately 14,000 square feet of the BiLo Space in the location shown cross-hatched on the Current Site Plan. If Tenant satisfies or waives the Conditions Precedent, but Landlord is unable, despite using its best efforts, to enter into a Termination Agreement with BiLo before the BiLo Termination Date, or if BiLo has not vacated the BiLo Space within four (4) months after the execution of the BiLo Termination Agreement, Landlord will be obligated to commence construction of the Additional Improvements as provided in Article 3, in which case the Demised Premises shall be comprised of approximately 14,000 square feet of the Additional Building in the area shown cross-hatched on the New Site Plan. Landlord shall not be obligated to execute a BiLo Termination date until the occurrence of the Satisfaction Date. In addition, Landlord's "best efforts" in entering into a BiLo Termination Agreement shall not be interpreted to require Landlord to make any payments of money to BiLo.

In consideration of the covenants and conditions set forth herein, Landlord does hereby demise and lease to Tenant (for the Term hereinafter stipulated) the Demised Premises, the location of which shall be determined in accordance with the foregoing terms, together with the right to use all parking areas, driveways, roads, alleys, means of ingress and egress and other portions of the Common Areas (as hereafter defined) as reflected on the New Site Plan, in common with the other tenants and occupants of the Shopping Center, and Landlord and Tenant, intending to be legally bound, further agree as follows:

ARTICLE 1

TERM AND USE

A. The primary term (the "Primary Term") shall begin on (the "Commencement Date") the earlier of (a) the date on which Tenant opens for business in the Shopping Center and (b) one hundred fifty (150) days after the later to occur of (x) the date on which Landlord completes Landlord's Work and (y) the Satisfaction Date, and such Primary Term shall expire on the last day of

the month in which the tenth (10th) anniversary of the Commencement Date occurs. As used herein, the term "Lease Year" shall mean the twelve (12) month period beginning on the Commencement Date and ending twelve (12) months thereafter, and each twelve (12) month period thereafter, except that, if the Commencement Date is other than the first day of the month, the first Lease Year shall commence on the Commencement Date and end on the last day of the month in which the one (1) year anniversary of the Commencement Date occurs.

B. Provided Tenant is not in default of any term, condition or covenant contained in this Lease at the time of exercise of an option to renew the Lease Term beyond any period for curing same, Tenant shall have the option of renewing this Lease for two (2) additional terms of five (5) years each ("Renewal Terms") on the same terms and conditions as provided herein except for the rental as shown in Article 3 and Article 13.

Notice of the exercise of such option shall be given by Tenant to Landlord in writing not later than six (6) months prior to expiration of the Primary Term or the previous Renewal Term.

C. The Demised Premises may be used and occupied for the purpose of operating an off-track wagering facility and restaurant that sells and serves alcoholic beverages, or for any other use permitted under applicable law (the "Permitted Use"), provided that Tenant's use of the Demised Premises (other than as an off-track wagering facility and restaurant) does not violate the exclusive uses currently in existence at the Shopping Center, which are attached hereto as Exhibit "C". Notwithstanding the exclusives set forth in Exhibit "C", Tenant shall be permitted to sell and serve Italian cuisine and pizza as an incidental part of its business. In addition, if Tenant intends to change its then current use of the Demised Premises, Tenant shall notify Landlord of the use that Tenant intends to make of the Demised Premises (the "Changed Use"), and Tenant shall have the right to operate such use unless Landlord notifies Tenant that it has entered into a lease or a binding letter of intent with an unrelated party pursuant to which Landlord has agreed to give the tenant under such lease or letter of intent the exclusive right to operate the Changed Use in the Shopping Center. If Tenant fails to commence operating the Changed Use within six (6) months after Tenant notifies Landlord of the same, Tenant may not operate the Changed Use without repeating the foregoing procedure. Tenant shall have no obligation to open for business or to operate a business in the Demised Premises. Landlord represents and warrants to Tenant that there is no tenant or

other occupant of the Shopping Center that has the right to object to Tenant's use of the Demised Premises as on off-track wagering facility and restaurant, and Landlord shall defend, at Landlord's expense, any actions brought against Landlord or Tenant to enjoin such use. If any such action to enjoin or otherwise interrupt such use is successful in a manner that prohibits, interrupts or affects in any way Tenant's right to use the Demised Premises as an off-track wagering facility and restaurant, Tenant shall have the right to terminate this Lease.

D. Notwithstanding anything herein to the contrary, including subsection C. above, Landlord covenants and agrees that during the Primary Term and any Renewal Term, Tenant shall have the exclusive right to conduct a business operating an off-track wagering facility in the Shopping Center. This covenant shall run with the land on which the Shopping Center is located. Landlord agrees to enforce this exclusive use covenant against other tenants in the Shopping Center using all reasonable legal means. In the event of a breach by Landlord of this covenant, Tenant shall have the right to terminate this Lease, in addition to any other remedy permitted at law or in equity.

E. Tenant has entered into this Lease in reliance upon representations by Landlord that the Shopping Center is and will remain primarily retail in character, and, further, no part of same shall be used as a massage parlor, adult book or adult video tape store.

ARTICLE 2
EXHIBITS AND ORIGINAL CONSTRUCTION

A. The exhibits listed below and attached to this Lease are incorporated herein by reference:

EXHIBIT "A" - Current Site Plan

EXHIBIT "B" - New Site Plan

EXHIBIT "C" - Existing Exclusives

EXHIBIT "D" - Landlord's Work

B. Promptly after the execution of this Lease, Landlord shall file applications and submit plans to the necessary governmental bodies to obtain the following, all of which shall be pursued simultaneously by Landlord:

(i) the New Plan Approval;

(ii) approval for the additional parking spaces added to the Shopping Center by Landlord's recent restriping of the parking lot; and

(iii) approval to increase the number of parking spaces shown on the New Site Plan to the amount of spaces that will be required if Tenant operates the Permitted Use at the Shopping Center.

The foregoing approvals referred to in (ii) and (iii) are hereinafter referred to as the "Parking Approvals", and the New Plan Approval and Parking Approvals

are hereinafter collectively referred to as the "Landlord Approvals". If the Landlord has not obtained the Landlord Approvals on or before the Permit Date (as defined in Article 40), the Tenant shall have the right to terminate this Lease.

C. Landlord agrees, at Landlord's expense, to construct the Demised Premises as necessary to deliver to Tenant a "vanilla shell," with the dimensions and configuration shown on Exhibit "A" (if the Demised Premises will be located in the BiLo Space) or Exhibit "B" (if the Demised Premises will be located in the New Building) ("Landlord's Work"). Landlord's Work is described more particularly in Exhibit "D" attached hereto. Landlord shall not remove any existing piping, duct-work or other similar facilities that may be used to furnish HVAC, plumbing and electric service in the Demised Premises.

D. Landlord shall substantially complete Landlord's Work within 90 days after the "Landlord's Construction Commencement Date", in the case that the Demised Premises will be located in the BiLo Space, and within one (1) year in the event that the Demised Premises is located in the New Building (such date of substantial completion is hereinafter referred to as the "Completion Date"). The term "Landlord's Construction Commencement Date" shall be determined as follows:

(i) If Landlord enters into a BiLo Termination Agreement, and BiLo vacates the Existing Building within four (4) months after execution thereof, "Landlord's Construction Commencement Date" shall be ten (10) days after BiLo vacates the Existing Building;

(ii) If Landlord enters into a BiLo Termination Agreement, and BiLo does not vacate the Existing Building within four (4) months after execution thereof, "Landlord's Construction Commencement Date" shall mean the date that is ten (10) days after the expiration of such four (4) month period;

(iii) If Landlord is unable to enter into a BiLo Termination Agreement before the BiLo Termination Date, "Landlord's Construction Commencement Date" shall be the date that is ten (10) days after the BiLo Termination Date.

Notwithstanding anything herein to the contrary, if Landlord has not obtained the Landlord Approvals by Landlord's Construction Commencement Date, as determined above, and Tenant has not terminated this Agreement, Landlord's Construction Commencement Date shall be extended until the date on which Landlord obtains the Landlord Approvals.

E. Upon completion of Landlord's Work, Tenant may commence Tenant's Work, as described herein, in accordance with Tenant's Plans (hereinafter defined). Prior to commencing Tenant's Work, Tenant shall submit a detailed set of plans and drawings ("Tenant's Plans") to Landlord depicting the work that may be performed by Tenant in order to renovate the Demised Premises for Tenant's use ("Tenant's Work"). Within ten (10) days after receipt of Tenant's Plans, Landlord shall notify Tenant of whether it approves of the same. Landlord's approval right, however, shall only apply to changes to the structure of the Demised Premises and the building in which the Demised Premises are located. Landlord shall have no right to consent or otherwise comment on interior renovations or renovations that do not affect the structure of the building. If Landlord fails to reject or approve Tenant's Plans within such ten (10) day period, Tenant's Plans shall be deemed approved. If Landlord rejects Tenant's Plans within the time period described above, and provided

Landlord has the right to object to such plans as described herein, Landlord shall notify Tenant of the reasons for such disapproval, and Tenant shall revise such plans within ten (10) days after receipt of Landlord's rejection notice. The foregoing procedure shall be repeated until Landlord and Tenant agree on Tenant's Plans. Notwithstanding the foregoing, if Landlord and Tenant are unable to agree on Tenant's Plans within sixty (60) days after Tenant's first submission of such plans, Tenant shall have the right to terminate this Lease. Tenant may not commence Tenant's Work unless and until Landlord approves Tenant's Plans as provided in this section. If Landlord has not substantially completed Landlord's Work in accordance with Exhibit "D" on or before the Completion Date, Tenant shall have the right, but not the obligation, to either (i) terminate this Lease or (ii) perform Landlord's Work, in which latter event, Tenant may offset Tenant's reasonable costs in completing the same against the next payments of Annual Base Rent.

F. The term "substantially complete", "substantial completion" and words of similar import shall mean that Landlord's Work is completed in accordance this Exhibit "D", except minor punch list items that do not adversely affect Tenant's ability to open and operate its business in the Demised Premises without interruption or interference. If a punch list is generated, Landlord shall use its best efforts to complete the items on such punch list within thirty (30) days after substantial completion.

ARTICLE 3
DATE ON WHICH RENT BEGINS

A. The Annual Base Rent (as defined herein) and all additional charges shall begin to accrue on the Commencement Date. If the Commencement Date is other than the first day of the month, Annual Base Rent shall commence on the first day of the following month, and rent for the initial partial month shall be paid at that time.

B. Tenant does hereby covenant and agree to pay to Landlord, for the use and occupancy of the Demised Premises, at the times and in the manner hereinafter provided, the following sums of money ("Annual Base Rent"):

YEARS PER	SQUARE FOOT
1-5	$ 8.50
6-10	$ 9.00
11-15	$10.00
16-20	$11.00

to be paid in U.S. dollars, in advance, without notice or invoice from Landlord, on the first day of each and every month during the Term hereof, commencing upon the date on which rental is determined to commence under the provisions of this Article 3 hereof and ending upon the termination date of this Lease. Within ten (10) days after Landlord completes Landlord's Work, Landlord shall cause its architect to measure the Demised Premises in accordance with the following criteria: measurements shall be taken from the exterior face of exterior walls, and from the center of demising walls; and mezzanine space, basement space and other space not designed for usable square footage shall be excluded from the calculation of the size of the Demised Premises. If Tenant disputes such measurement, Tenant shall have the right to confirm such measurement by its architect. If Tenant's architect calculates a different square footage, and the

parties cannot resolve any differences, then Landlord and Tenant shall select a third, neutral architect to measure the Demised Premises, whose costs will be shared by Landlord and Tenant, and such third architect's measurement shall govern. The square footage of the Demised Premises as determined in accordance with this Section shall be used for the purpose of calculating Annual Base Rent and other charges due under this Lease. In the event such rental shall be determined under the provisions of Article 3 hereof to commence on a day other than the first day of a month, then the Annual Base Rent for the period from such rent Commencement Date until the first day of the month next following shall be prorated accordingly. All payments in this Lease provided for (those hereinafter stipulated as well as Annual Base Rent) shall be paid or mailed to:

Eagle Valley Realty
P.O. Box 460
Tunkhannock, PA 18657

or to such other payee or address as Landlord may designate, in writing to Tenant.

ARTICLE 4
SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT

A. Tenant's obligations hereunder shall be contingent upon, among other things, Landlord causing any existing mortgagee and/or ground lesser to enter into a non-disturbance agreement with Tenant in form and substance acceptable to Tenant. In addition, upon written request of Landlord, or any future mortgagee or beneficiary of Landlord, Tenant will in writing, subordinate its rights hereunder to the interest of any future ground lessor of the land upon which the Demised Premises are situated and to the lien of any future mortgage or deed of trust now or hereafter in force against the land and building of which the Demised Premises are a part, and upon any building hereafter placed upon the land of which the Demised Premises are a part and to all advances made or hereafter to be made upon the security thereof; provided, however, that such subordination shall not be effective unless the ground lessor, or the mortgagee or trustee named in said mortgage or deed of trust shall enter into a non-disturbance agreement with Tenant in form and substance that is commercially reasonable and satisfactory to Tenant and Landlord's lender.

B. In the event any proceedings are brought for foreclosure, or in the event of the exercise of the power of sale under any mortgage or deed of trust upon any such foreclosure or sale Tenant agrees to recognize such beneficiary or purchaser as the Landlord under this Lease, provided Tenant's rights under this Lease continue unabated.

ARTICLE 5
REPAIRS AND MAINTENANCE

Landlord covenants and agrees, at its expense without reimbursement or contribution by Tenant, to keep, maintain, repair and replace, if necessary, the foundations, the exterior, structural systems including, without limitation, the roof, roof covering (including interior ceiling if damaged by leakage) and load-bearing walls and floor slabs and exterior masonry walls in good condition and repair, and Landlord shall replace the same as and when necessary. Except for Landlord's obligations, Tenant shall be responsible for all interior maintenance and repairs in the Demised Premises which are required throughout the Term, including, without limitation, all mechanical, plumbing and electrical repairs and maintenance which are required to fixtures or systems located wholly within the Demised Premises. In the event the Demised Premises become or are out of repair and not in good condition due to the failure of Landlord to comply with the terms of this Article 5, and if such repairs are not completed within ten (10) days after Landlord has received written notice from Tenant of such state of disrepair or if such repairs cannot reasonably be completed within such ten (10) day period and Landlord shall fail to commence such repairs within ten (10) days after notice and proceed diligently thereafter, then Tenant may prosecute such repairs itself and apply the cost of such repairs against the next maturing monthly installment or installments of rent due hereunder. Notwithstanding the foregoing, in the case of an emergency, Tenant shall have the right to immediately prosecute any and all necessary repairs and shall deliver contemporaneous notification to Landlord of the emergency and related repairs, provided further that if contemporaneous notice is not practicable, as determined by Tenant in its sole judgment, then Tenant shall provide such notice as soon thereafter as reasonably practicable.

ARTICLE 6
ENVIRONMENTAL MATTERS

A. Landlord represents and warrants that any handling, transportation, storage, treatment or usage of hazardous or toxic substances that has occurred or will occur on the Shopping Center has been and shall be in compliance with all applicable federal, state and local laws, regulations and ordinances. Landlord further represents and warrants that there is no asbestos or asbestos containing materials in the Demised Premises, and no leak, spill, discharge, emission or disposal of hazardous or toxic substances has occurred or will occur on the Shopping Center, and that the soil and groundwater on or under the Shopping Center is and will continue to be free of toxic or hazardous substances. Landlord agrees to indemnify, defend and hold Tenant and its officers, employees and agents harmless from any claims, judgments, damages, fines, penalties, costs. liabilities (including sums paid in settlement of claims) or loss suffered or incurred by Tenant, including attorney's fees, consultant's fees, and expert fees, which arise during or after the Term or any Renewal Term, or in connection with the presence or suspected presence of toxic or hazardous substances in the soil or groundwater, on or under the Shopping Center, except to the extent that such toxic or hazardous substances are present as the result of the negligence or wilful misconduct of Tenant, its officers, employees or agents. Without limiting the generality of the foregoing, this indemnification specifically covers costs incurred in connection with any investigation of site conditions or any cleanup, remedial, removal or restoration work required by any federal, state or local governmental agency or political subdivision because of the presence or suspected presence of toxic or hazardous substances in the soil or groundwater on or under the Shopping Center, unless the toxic or hazardous substances are present as the result of the negligence or wilful misconduct of Tenant, its officers, agents or employees.

Without limiting the generality of the foregoing, this indemnification shall also specifically cover costs in connection with:

1. Toxic or hazardous substances present or suspected to be present in the soil or ground water on or under the Shopping Center before the date hereof; or

2. Toxic or hazardous substances that migrate, flow, percolate, diffuse or in any way move onto or under the Shopping Center after the date hereof; or

3. Toxic or hazardous substances present on or under the Shopping Center as a result of any discharge, dumping, spilling (accidental or otherwise) onto the Shopping Center during or after the Term or any Renewal Term by any person or entity.

B. If Tenant discovers any asbestos or other hazardous materials present on or under the Demised Premises during Tenant's Work or the Primary Term or any Renewal Term, and the presence of the same is not caused by Tenant, Landlord shall promptly remove the same in accordance with all applicable laws, at Landlord's sole cost and expense. If Tenant's use of the Demised Premises is interrupted or affected in any way during such removal, rent and all other charges due hereunder shall abate until full use of the Demised Premises is restored to Tenant. If any of Tenant's personal property, furniture, fixtures or equipment is damaged or removed during such removal, Landlord shall be responsible for reimbursement to Tenant for all such damages and for restoring any such furniture, fixtures, equipment and property.

ARTICLE 7
ALTERATIONS

Except as hereinafter set forth and except for Tenant's Work, Tenant shall not make structural alterations in any portion of the Demised Premises without, in each instance, first obtaining the written consent of Landlord which shall not be unreasonably withheld or delayed. Tenant shall have the right to make any and all interior non-structural alterations or additions as deemed appropriate by Tenant, all without Landlord's consent. Tenant shall have the right to install satellite dishes, antennae and other equipment on the roof of the Demised Premises, and Tenant may make roof penetrations for the purpose of installing and maintaining the same. Tenant shall have access to the roof at all times for the purpose of operating and maintaining any roof structures. Tenant shall have the right to make a "roof cut" for the purpose of obtaining access to the roof from the interior of the Demises Premises. Tenant shall be responsible for any damage caused directly by Tenant's use of the roof. Tenant shall notify Landlord forty-eight (48) hours prior to making any roof penetrations, and Landlord shall have the right to have its roofing contractor present during any such work. Tenant shall perform work on the roof in a manner that does not violate any roof warranty that Landlord possesses, so long as Landlord has provided Tenant, in advance, a copy of any such warranties.

ARTICLE 8
FIXTURES AND PERSONAL PROPERTY

Any trade fixtures, lifts, equipment, inventory, trademarked items, signs, decorative soffit, counters, shelving, showcases, kitchen equipment and other removable personal property installed in or on the Demised Premises by Tenant, at its expense, shall remain the property of the Tenant. Landlord agrees that Tenant shall have the right, at any time or from time to time, to remove any and all of such items, and Tenant shall be obligated to remove all such items upon the expiration or earlier termination of this Lease. Tenant at its expense shall immediately repair any damage occasioned by the removal of its fixtures, signs and other personal property, and upon expiration or earlier termination of this Lease, shall leave the Demised Premises in a neat and clean condition, free of debris, normal wear and tear excepted. Tenant shall pay before delinquency all taxes, assessments, license fees and public charges levied, assessed or imposed upon its business operation in the Demised Premises as well as upon its trade fixtures, merchandise and other personal property in, or upon the Demised Premises. If any such items of property are assessed with property of Landlord, then such assessment shall be equitably divided between Landlord and Tenant to the end that Tenant shall pay only its equitable portion of such assessment. Landlord shall determine the basis of so prorating any such assessments and such determination shall be binding upon both Landlord and Tenant.

ARTICLE 9
SIGNAGE

It is expressly understood and agreed that as an inducement for Tenant to enter into this Lease, Tenant shall have the right, at Tenant's sole cost and expense, to install, subject to applicable law, Tenant's exterior signage. The size, design and location of Tenant's signage shall be determined by Tenant in its sole discretion, so long as the same complies with applicable law. In addition, although there is presently no space available on the existing pylon sign for the Shopping Center, Tenant shall have the right to install a sign panel on any new or additional pylon or monument signs hereafter serving the Shopping Center. Such panel shall be located in the highest position on the pylon or monument sign. Upon expiration or termination of this Lease, all of Tenant's signs shall be removed at Tenant's sole cost and expense and all damage caused by such removal shall be repaired at Tenant's sole cost and expense.

ARTICLE 10
LIENS

Tenant shall not permit to be created nor to remain undischarged any lien, encumbrance or charge arising out of any work or claim of any contractor, mechanic, laborer or material supplied by a materialman which might be, or become, a lien or encumbrance or charge upon the Demised Premises or the Shopping Center of which the Demised Premises is a part and Tenant shall not suffer any other matter or thing whereby the estate, right and interest of Landlord in the Demised Premises or in the Shopping Center of which the Demised Premises is a part might be impaired. If any lien or notice of lien on account of an alleged debt of Tenant or any notice of contract by a party engaged by Tenant or Tenant's contractor to work in the Demised Premises shall be filed against the Demised Premises or the Shopping Center of which the Demised Premises is a part, Tenant shall, within thirty (30) days after notice of the filing thereof, cause the same to be discharged of record by payment, deposit or bond. If Tenant shall fail to cause such lien or notice of lien to be discharged

by either paying the amounts claimed to be due or by procuring the discharge of such lien by deposit or by bonding proceedings, Landlord shall, in addition to such other remedies as may exist under this Lease by reason of a default by Tenant, be entitled, if Landlord so elects, to defend any prosecution of an action for foreclosure of such lien by the lienor. Any money paid by Landlord and all costs and expenses, including attorney's fees, incurred by Landlord in connection therewith, together with ten percent (10%) interest thereon from the respective dates of Landlord's payment or incurring of the cost or expense, shall be paid by Tenant to Landlord on demand. In the event Tenant diligently contests any such claim, Tenant agrees to indemnify, defend, and hold harmless Landlord from any and all costs, liability and damages, including reasonable attorney's fees resulting therefrom, and, if requested, upon demand, immediately to deposit with Landlord cash or surety bond in form and with a company satisfactory to Landlord in an amount equal to the amount of such contested claim.

ARTICLE 11
LAWS AND ORDINANCES

A. Tenant and Landlord agree to comply with all laws, ordinances orders and regulations affecting the use and occupancy of the Demised Premises and the cleanliness, safety or operation thereof, provided that Tenant shall not be obligated to make any structural repairs or replacements to the Demised Premises. Tenant agrees to comply with the reasonable regulations and requirements of any insurance underwriter, inspection bureau or similar agency with respect to that portion of the Demised Premises for which Tenant is responsible to make necessary repairs, provided that Tenant shall not be obligated to make any structural repairs or replacements to the Demised Premises. Tenant also agrees to permit Landlord to comply with such recommendations and requirements with respect to that portion of the Demised Premises for which Landlord is responsible to make necessary repairs. Landlord shall, at its sole cost and expense, comply with all laws and governmental requirements affecting the Common Area and the building of which the Demised Premises are a part.

B. Tenant agrees not to (i) permit any illegal practice to be carried on or committed on the Demised Premises; (ii) make use of or allow the Demised Premises to be used for any purpose that might invalidate or increase the rate of insurance therefor over and above the rates customarily applicable to Tenant's business (iii) use the Demised Premises for any purpose whatsoever which might create a nuisance; (iv) deface or injure the building of the Demised Premises; (v) overload the floor; (vi) commit or suffer any waste; or (vii) install any electrical equipment that overloads lines; it being agreed by Landlord that Tenant's use of the Demised Premises as an off-track wagering facility and restaurant shall not cause a violation of this section.

C. In connection with the installation of any electrical equipment, Tenant shall, at Tenant's own expense, make from time to time whatever changes are necessary to comply with the requirements of the insurance inspectors, underwriters, government authorities and codes.

ARTICLE 12
SERVICES

A. Landlord agrees to cause the necessary mains, conduits and other facilities to be provided to make water, sewer, gas, phone and electricity available to the exterior of the Demised Premises and other occupied space in the Shopping Center so that Tenant can tie into such facilities to obtain service for the Demised Premises.

B. Tenant shall be solely responsible for and shall promptly pay all charges which are separately metered to the Demised Premises for the use and consumption of sewer, gas, electricity, water, phone and all other utility services used within the Demised Premises.

C. Tenant shall contract for and pay for collection and disposal of trash and refuse from the Demised Premises.

D. Landlord shall not be liable to Tenant in damages or otherwise if the said utilities or services are interrupted or terminated because of necessary repairs, installations, or improvements, or any cause beyond the Landlord's reasonable control, unless such interruption is caused by Landlord's negligence, nor shall any such interruption or termination relieve Tenant of the performance of any of its obligations hereunder, except that if Tenant is unable to operate its business in whole or in part as a result thereof, there shall be an abatement of Tenant's rental obligations hereunder so long as and to the extent that Tenant is unable to operate its business. Tenant shall operate the Demised Premises in such a manner as not to waste electricity, water, heating or air conditioning.

ARTICLE 13
COMMON AREAS

A. Landlord covenants and agrees that it shall maintain, repair and replace Common Areas in good order and repair at all times. The "Common Areas" as herein referred to, shall consist of all parking areas, landscaped areas, streets, sidewalks, driveways, loading platforms, washrooms, lounges and shelters and other facilities available for joint use of all the tenants in the Shopping Center, their employees, agents, customers, licensees and invitees. If Landlord fails to perform its oblations hereunder within thirty (30) days after written notice from Tenant, or such longer time as may be reasonable under the circumstances so long as Landlord is diligently pursuing such repair, Tenant may make such repair or replacement and deduct its costs in connection therewith against the next payments of rent due hereunder. Notwithstanding the foregoing, in the event a repair is necessary in the Common Area to cure an emergency or to abate a condition that materially and adversely affects Tenant's use of the Premises, Tenant may make such repair without giving prior notice to Landlord it its intent to do so.

B. Landlord agrees to provide adequate lighting of the Common Areas including the parking lot from thirty (30) minutes before dusk until thirty (30) minutes after Tenant's normal close of business. Landlord acknowledges and agrees that Tenant may remain open until 2:00 A.M. to the extent permitted by applicable law.

C. Tenant shall pay to Landlord, as additional rent, its proportionate share (as defined below) of Landlord's CAM Costs (as hereinafter defined) (such amount is hereinafter referred to as the "CAM Sum"). The CAM Sum shall be payable on an annual basis, in equal monthly installments payable with each monthly installment of Annual Base Rent. Notwithstanding the foregoing, until the end of the fifth (5th) Lease Year, Tenant's CAM Sum payable in any year shall not exceed an amount equal to $2.00 for each square foot of space in the Demised Premises. Within 120 days after the end of each calendar year, Landlord shall furnish to Tenant a detailed statement (the "Statement"), certified by Landlord to be true, complete and correct, which itemizes (i) the actual CAM

Costs incurred by Landlord in the previous year, (ii) the difference between the actual CAM Sum paid by Tenant during such previous year and the amount of payments actually made by Tenant and (iii) Landlord's estimate of Tenant's proportionate share of CAM Costs for following year. If the Statement reflects that Tenant has overpaid or underpaid the CAM Sum for the previous year, any overpayments shall be credited against future payment, or any underpayments shall be paid by Tenant within thirty (30) days after receipt of the Statement, as the case may be. Until Tenant receives the Statement, it shall continue to pay the CAM Sum payable during the previous year. After receipt of the Statement, Tenant shall pay any underpayments with, or shall deduct any overpayments from, the next payments of the CAM Sum, based upon the new CAM Sum determined as provided above. "Tenant's proportionate share" shall mean a fraction, the numerator of which is the leasable square footage of the Demised Premises, and the denominator of which is the leasable square footage of the Shopping Center. Landlord shall maintain its books and records for the CAM Costs for the previous three (3) years, and Tenant shall have the right to audit and copy Landlord's books and records. If Tenant determines that Landlord has overcharged Tenant, such overcharge shall be credited against future payments of the CAM Sum, and if Landlord overcharged Tenant by more than seven percent (7%), Landlord shall pay the costs of Tenant's audit.

D. The term "CAM Costs" shall mean Landlord's actual and reasonable out-of-pocket expenses incurred in operating, maintaining, repairing and insuring the Common Areas, including, but not limited to, cleaning and repairing; lighting, snow, ice, rubbish and garbage removal; painting and striping; landscaping; maintenance, paving, repair of utilities systems (including septic) and parking lots; sign maintenance; the providing of security, including security personnel; the providing of public liability, property damage, fire and extended coverage insurance (except as otherwise provided herein) and such other insurance as Landlord reasonably deems appropriate; fire protection charges; licenses and permit fees; rent paid for the leasing of any such equipment, and an administrative charge equal to five percent (5%) of the total amount paid by Tenant for common area costs for Landlord in maintaining and operating the common area and facilities, not including, however, real estate taxes and insurance costs. CAM Costs shall not include (i) any capital expenses incurred by Landlord, including any expenses incurred in Landlord's planned renovation of the Shopping Center, (ii) administrative expenses, home office expenses, management fees or other similar expenses, (iii) salaries, wages or other payments to Landlord's employees, except to the extent (based upon the percentage of time employed with respect to the Shopping Center) such employees work for the Shopping Center, (iv) repairs for which Landlord is obligated to maintain insurance, or for which Landlord is eligible to receive condemnation awards, (v) repairs or replacements necessary to comply with applicable laws, (vi) repairs made for the benefit of particular tenants or which are required to be made under tenant leases, (vii) legal fees, leasing commissions, accounting fees and other professional fees and payments, (viii) debt service payments or ground lease payments, (ix) real estate taxes, (x) depreciation, or (xi) any other payments or expenses not typically treated as reimbursable common area maintenance costs in community shopping centers in the geographic area of the Shopping Center. In addition, CAM Costs shall specifically include real estate taxes levied or assessed upon the Demises Premises, the Shopping Center and the land on which the same are located, but in no event shall the CAM Sum include Landlord's income taxes, franchise taxes, gross rent taxes, inheritance tax, capital stock tax or estate tax. If Landlord obtains any tax abatements, refunds or reduction in real estate taxes, Tenant shall receive a credit for the same to the extent such taxes were included in the CAM Sum. Landlord shall include copies of all tax bills for the most recent tax year with any Statements (as hereinafter defined) delivered to Tenant.

E. The Common Areas as shown on the New Site Plan are a material consideration for Tenant entering into this Lease, and no structures shall be erected, and no changes shall be made (except landscaping required by the Borough, which will be completed simultaneously with Landlord's Work), by Landlord within that portion of the Common Areas of the Shopping Center which are designated by cross-hatching on the Current Site Plan if the Demised Premises will be located in the BiLo Space, or in the area cross-hatched on the New Site Plan in the event the Demised Premises are located in the New Building. In addition, Landlord shall not change the existing driveways, curb-cuts and entrance-ways to the Shopping Center without the prior written consent of Tenant. However, Landlord may make other changes to the Common Areas, including but not limited to the configuration of the Common Areas, lighting, curbing, building heights and stories, and the height of landscaping, without the consent of Tenant, provided that such changes do not substantially affect Tenant's visibility, access or parking availability.

ARTICLE 14
DAMAGE TO PREMISES

In the event the Demised Premises are hereafter damaged or destroyed or rendered partially untenantable for their accustomed use, by fire or other casualty insured or which should have been insured under the coverage which Landlord is obligated to carry pursuant to Article 15(A) hereof, then Landlord shall within sixty (60) days after such casualty commence repair of said Demised Premises and within one hundred eighty (180) days after commencement of such repair restore the same to substantially the condition in which it was delivered to Tenant in accordance with Article 2 above, except that Landlord shall also restore any work performed by Tenant to the extent the same is covered by Landlord's insurance policy. In no event shall Landlord be required to repair or replace Tenant's stock in trade, fixtures, equipment, furniture, furnishings, wall covering, carpeting and drapes (except as provided in the foregoing sentence). From the date of such casualty until the Demised Premises are so repaired and restored, Annual Base Rent payments and all other charges and items payable hereunder shall abate in such proportion as the part of the Demised Premises thus destroyed or rendered untenantable bears to the total Demised Premises. In the event that fifty percent (50%) or more of the Demised Premises is destroyed or rendered untenantable by fire or other casualty (based upon the cost to replace the Demised Premises damaged or destroyed as compared with the market value of the improvements on said premises immediately prior to such fire or other casualty as shown by certificate of Landlord's architect), or if the Demised Premises cannot be fully restored within 240 days after such casualty, or if the Demised Premises are damaged or destroyed in the last two (2) years of the Primary Term or any Renewal Term, Tenant shall have right to terminate this Lease effective as of the date of the casualty, by giving Landlord, within thirty (30) days of such casualty, written notice of termination. Furthermore, Tenant shall have the right to terminate this Lease in the event of a fire or other casualty which destroys fifty percent (50%) or more of the leasable square footage in the Shopping Center by giving written notice of such termination within thirty (30) days after such casualty, and such termination shall be effective as of the date of the casualty. If said notice of termination is given within this thirty (30) day period, the Lease shall terminate and Annual Base Rent and all other charges shall abate as aforesaid from the date of such casualty, and Landlord shall promptly repay to Tenant any rent paid in advance which has not been earned as of the date of such casualty. If said notice is not given and Landlord is required or elects to repair or rebuild the Demised Premises as herein provided, then Tenant shall repair and replace its merchandise, trade fixtures, furnishings and equipment to at least their condition prior to the damage or destruction. Except as herein expressly provided to the contrary, this Lease shall not terminate nor shall there be any abatement of rent or other charges or items of additional rent as the result of a fire or other casualty.

ARTICLE 15
INSURANCE

A. Landlord agrees to carry, or cause to be carried, during the term hereof, Comprehensive General Liability insurance on the Common Areas, providing coverage of not less than Three Million Dollars ($3,000,000.00), combined bodily injury and property damage liability, naming Tenant as an additional insured.

Landlord also agrees to carry, during the term hereof, all risk property insurance covering fire and extended coverage, vandalism and malicious mischief, sprinkler leakage and all other perils of direct physical loss or damage insuring the improvements and betterments located in the Shopping Center, including the Demised Premises and all appurtenances thereto (excluding Tenant's merchandise, trade fixtures, furnishings, equipment and personal property) for the full replacement value thereof.

B. Tenant agrees to carry Comprehensive General Liability insurance on the Demised Premises during the term hereof covering both Tenant and Landlord as their interest may appear. Such insurance shall be for limits of not less than One Million Dollars ($l,000,000.00) combined bodily injury and property damage liability.

Tenant further agrees to carry all risk property insurance covering fire and extended coverage, vandalism and malicious mischief, sprinkler leakage and all other perils of direct physical loss or damage for at least eighty percent (80%) of the replacement value of all of Tenant's merchandise, trade fixtures, furnishings, wall coverings, carpeting, drapes, equipment, and all other items of personal property of Tenant located on or within the Demised Premises.

C. Landlord and Tenant and all parties claiming under them mutually release and discharge each other from all claims and liabilities arising from or caused by any casualty or hazards covered or required hereunder to be covered in whole or in part by insurance, even if caused by the negligence of either party, and Landlord and Tenant waive any right of subrogation which might otherwise exist in or accrue to any person on account thereof.

D. Tenant shall be responsible for the maintenance and replacement of the plate glass in or on the Demised Premises.

E. The company or companies writing any insurance which either party is required to carry and maintain or cause to be carried or maintained pursuant to this Lease, shall be licensed to do business in Pennsylvania and shall have an A.M. Best Rating of A or better and a size class of VII or larger. Comprehensive general liability insurance policies evidencing such insurance shall name the other party and/or its designee(s) as additional insured. All policies shall be primary and non-contributory, and shall also contain a provision by which the insurer agrees that such policy shall not be cancelled, materially changed or not renewed without at least thirty (30) days' advance notice to the other party. Each such policy, or a certificate thereof, shall be deposited with the other party promptly upon commencement of this Lease.

ARTICLE 16
INDEMNIFICATION

A. Tenant hereby indemnifies and holds Landlord harmless from and against any and all claims, demands, liabilities, and expenses, including attorney's fees, arising from Tenant's obligations or use of the Demised Premises or from any act permitted, or any omission to act, in or about the Demised Premises by Tenant or its agents, employees, or contractors, or from any breach or default by Tenant of this Lease, except to the extent the same is caused by Landlord's negligence or willful misconduct. In the event any action or proceeding shall be brought against Landlord by reason of any such claim, Tenant shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord.

B. Landlord hereby indemnifies and holds Tenant harmless from and against any and all claims, demands, liabilities and expenses, including attorney's fees, arising from Landlord's obligations or use of the Shopping Center or Common Areas or from any act permitted, or any omission to act, in or about the Shopping Center or Common Areas by Landlord or its agents, employees, contractors, or invitees, or from any breach or default by Landlord of this Lease, except to the extent the same is caused by Tenant's negligence or willful misconduct. In the event any action or proceeding shall be brought against Tenant by reason of any such claim, Landlord shall defend the same at Landlord's expense by counsel reasonably satisfactory to Tenant.

ARTICLE 17
ASSIGNMENT, SUBLETTING AND OWNERSHIP

Tenant shall have the right to assign, mortgage, pledge, encumber or otherwise transfer its interest in this Lease, and/or sublet, license or concession all or any part of the Demised Premises, to any party, with Landlord's approval, which approval shall not be unreasonably withheld, delayed or conditioned. Notwithstanding the foregoing, Tenant shall have the right to assign this Lease or sublease all or any part of the Demised Premises to Tenant's parent, subsidiary or affiliated corporations or entities, or in connection with (i) a sale by Tenant of all or substantially all of its stock or assets or (ii) the merger, consolidation or other reorganization of Tenant, as long as Tenant remains fully liable for full performance of all its obligations under this Lease. In the event of any assignment hereunder, the assignee shall be bound by all of the terms of this Lease, including Article 1.

ARTICLE 18
ACCESS TO PREMISES

Upon reasonable prior notice, but in no event less than twenty four (24) hours (except in the case of an emergency), Landlord may enter the Demised Premises during Tenant's business hours for purposes of inspection, to show the Demised Premises to prospective purchasers and lenders, or to perform maintenance and repair obligations imposed upon Landlord by this Lease. Should Landlord unreasonably interfere with Tenant's business by such entry so as to render the Tenant unable to use the Demised Premises for a period in excess of twenty-four (24) hours, then in addition to any other rights Tenant may have, Tenant shall be entitled to an abatement in rent and other charges proportionate to the degree of interference with its business in connection with Landlord's entry into the Demised Premises.

ARTICLE 19
DEFAULTS BY TENANT

A. The occurrence of any of the following shall constitute a material default and breach of this Lease by Tenant:

(i) Any failure by Tenant to pay the rental or make any other payment required to be made by Tenant hereunder within ten (10) days after receipt of written notice from the Landlord.

(ii) A failure by Tenant to observe and perform any other material provision of this Lease to be observed or performed by the Tenant, where such failure continues for thirty (30) days after written notice thereof by Landlord to Tenant, except that this thirty (30) day period shall be extended for a reasonable period of time if the alleged default is not reasonably capable of cure within said thirty (30) day period and Tenant proceeds to diligently cure the default.

(iii) The making by Tenant of any general assignment for the benefit of creditors, the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt, or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within sixty (60) days); the appointment of a trustee or receiver to take possession that is not restored to Tenant within thirty (30) days, or the attachment, execution or other judicial seizure that is not discharged within thirty (30) days.

B. In the event of any such default by Tenant, thereupon at the option of Landlord, this Lease shall be terminated and become absolutely void without any right on the part of Tenant to reinstate the Lease by the payment of any sum due or by other performance of any condition, term or covenant broken, whereupon Landlord shall be entitled to recover damages for such breach in an amount equal to the present value of the amount of rent reserved for the balance of the term of this Lease less the fair rental value of the Demised Premises for the remainder of the term, except that if Tenant shall continue to pay Landlord on a monthly basis all rentals and charges due hereunder, Landlord shall not have the right to terminate this Lease. In the alternative, if Landlord elects to not terminate this Lease, Landlord shall have the right to sue Tenant for rents and other charges due hereunder as and when the same become payable under this Lease, without the right to accelerate rents.

C. In the event of default as above set forth, Landlord, or anyone acting on Landlord's behalf, at Landlord's option:

(i) May rent the Demised Premises or any part thereof to such person or persons as Landlord may determine in its sole discretion, and Tenant shall be liable for the loss of rent for the balance of the then current term. Any such re-entry or re-letting by Landlord under the terms hereof shall be without prejudice to Landlord's claim for actual damages and shall under no circumstances release Tenant from liability for such damages arising out of the breach of any of the covenants, terms and conditions of this Lease;

(ii) May have and exercise any and all other rights and/or remedies granted or allowed landlords by any existing or future statute, act or other law of this state in cases where a landlord seeks to enforce rights arising out of a lease agreement against a tenant who has defaulted or otherwise breached the terms of such lease agreement, subject, however, to all other rights granted or created by any such statute, act or other law of its state existing for the protection and benefit of such tenants and subject to the terms of this Lease to the contrary; and

(iii) May have and exercise any and all other rights and remedies to which Landlord may be entitled at law or in equity, subject to the terms of this Lease to the contrary.

D. If Landlord obtains possession of the Demised Premises as a result of the Tenant's abandonment of same or by a decree from a court of competent jurisdiction, this shall not be construed as an election to terminate this Lease unless Landlord provides Tenant with a written notice of this election.

E. Notwithstanding anything herein to the contrary, in the event of a default by Tenant and Landlord terminates this Lease or Tenant's right to possession of the Demised Premises, Landlord shall use reasonable efforts to re-let the Demised Premises.

ARTICLE 20
DEFAULTS BY LANDLORD

If Landlord should be in default in the performance of any of its obligations under this Lease, which default continues for a period of more than thirty (30) days after receipt of written notice from Tenant specifying such default, or if such default is of a nature to require more than thirty (30) days for remedy and continues beyond the time reasonably necessary to cure (and Landlord has not undertaken procedures to cure the default within such thirty (30) day period and diligently pursued such efforts to complete cure), Tenant may terminate this Lease and/or, in addition to any other remedy available at law or in equity, at its option, upon written notice, incur any expense necessary to perform the obligation of Landlord specified in such notice and deduct such expense from the rents or other charges next becoming due. Tenant may not terminate this Lease, however, unless an arbitration panel appointed as provided below determines that Tenant's use of the Demised Premises is materially and adversely affected, which may include, without limitation, inability of Tenant or its customers to obtain access to the Shopping Center or the Premises, or a material obstruction of parking in or visibility of the Premises. In the event that Tenant elects to terminate this Lease as provided herein, Tenant shall notify Landlord, whereupon Landlord or Tenant shall file formal demand for arbitration with the office of the American Arbitration Association ("AAA") in the county in which the Shopping Center is located. Each party shall thereafter conform with the schedule for the selection of arbitrators (who shall be three in number unless the parties otherwise agree) imposed by AAA; and thereafter the parties shall conform with such schedule and rules of procedure as shall be determined by AAA or such selected arbitrators, including without limitation such schedule as may be determined for any and all discovery, and for the presentation of the case by each. The scope of permitted discovery, and the rules of discovery and procedure to be followed by the parties, shall be determined exclusively by the arbitrators, after consultation with the parties; and the judgment of such arbitrators concerning such rules and scope shall be final. Such arbitrators shall render their determination whether Tenant's use of the Demised Premises has been materially and adversely affected. If so, Tenant may terminate this Lease. If such arbitrators determine that use of the Demised Premises has not been materially and adversely affected, Tenant may not terminate this Lease, and Tenant's remedies shall be limited to those available under this Lease (except termination) or those available at law or in equity.

ARTICLE 21
SURRENDER OF PREMISES

Tenant shall, upon expiration of the Term granted herein, or any earlier termination of this Lease for any cause, surrender to Landlord the Demised Premises, including, without limitation, all building apparatus and equipment then upon the Demised Premises, and all alterations, improvements and other additions which may be made or installed by either party to, in, upon or about the Demised Premises, other than trade fixtures, signs, and other personal property which, remain the property of Tenant as provided in Article 8 hereof, without any damage, injury or disturbance thereto, or payment therefor.

ARTICLE 22
EMINENT DOMAIN

A. (i) In the event that any portion of the Demised Premises shall be appropriated or taken under the power of eminent domain by any public or quasi-public authority, then at the election of Tenant, this Lease shall terminate and expire as of the date of such taking, and both Landlord and Tenant shall thereupon be released from any liability thereafter accruing hereunder.

(ii) In the event that more than ten percent (10%) of the square footage of the parking area within 300 feet of the Demised Premises is taken under the power of eminent domain by any public or quasi-public authority, or if Tenant shall not have access to at least 200 parking spaces directly in front of or adjacent to the Demised Premises, or if any accessway or driveway to the Shopping Center is condemned, or if more than thirty percent (30%) of the leasable square footage of the Shopping Center is taken, then in any of such events Tenant shall have the right to terminate this Lease as of the date of the taking. If less than thirty percent (30%) of the applicable parking is so taken by eminent domain, then the Landlord shall provide adequate substitute parking to the Tenant that is reasonably satisfactory to the Tenant.

(iii) Notice of any termination relating to such eminent domain proceeding must be made by the party electing to terminate the Lease within sixty (60) days after receipt of written notice of such taking.

(iv) In the event of such termination, both Landlord and Tenant shall thereupon be released from any liability thereafter accruing hereunder.

B. Whether or not this Lease is terminated, nothing herein shall be deemed to affect Tenant's right to receive compensation or damages separately awarded to Tenant for its fixtures and personal property. If this Lease is terminated as herein above provided, all items of rent, additional rent and other charges for the last month of Tenant's occupancy shall be prorated and Landlord agrees to refund to Tenant any rent, additional rent or other charges paid in advance.

C. If both Landlord and Tenant elect not to so terminate this Lease, Tenant shall remain in that portion of the Demised Premises which shall not have been appropriated or taken as herein provided, and Landlord agrees, at Landlord's cost and expense, to, as soon as reasonably possible, restore the remaining portion of the Demised Premises to a complete unit of like quality and character as existed prior to such appropriation or taking, and thereafter all rental and payment obligations of Tenant shall be adjusted on an equitable basis, taking into account the relative value of the portion taken as compared to the portion remaining. For the purpose of this Article, a voluntary sale or conveyance in lieu of condemnation, but under threat or condemnation shall be deemed an appropriation or taking under the power of eminent domain.

D. Tenant shall have the right to pursue its own claim for damages in connection with any eminent domain proceeding.

ARTICLE 23
ATTORNEY'S FEES

In the event that at any time during the term of this Lease either Landlord or Tenant shall institute any action or proceeding against the other relating to the provisions of this Lease, or any default hereunder, the unsuccessful party in such action or proceeding agrees to reimburse the successful party for the reasonable expenses of attorney's fees and paralegal fees and disbursements incurred therein by the successful party. Such reimbursement shall include all legal expenses incurred prior to trial, at trial and at all levels of appeal and post judgment proceedings.

ARTICLE 24
NOTICES

Notices and demands required, or permitted, to be sent to those listed hereunder shall not be effective unless sent in writing by certified mail, return receipt requested, postage prepaid, or by Federal Express or other reputable overnight courier service and shall be deemed to have been given upon the date the same is postmarked if sent by certified mail or the day deposited with Federal Express or such other reputable overnight courier service, but shall not be deemed received until one (l) business day following deposit with Federal Express or other reputable overnight courier service or three (3) days following deposit in the United States Mail if sent by certified mail to the address shown below, and addressed to:

If to TENANT:

Penn National Gaming, Inc.
825 Berkshire Blvd.
Wyomissing, PA

With a copy to:

Jeffrey L. Silberman, Esquire
KAPLIN STEWART MELOFF REITER & STEIN, P.C.
P. O. Box 3037
Blue Bell, PA 19422

If to LANDLORD:

EAGLE VALLEY REALTY
490 North Main Street
Pittston, PA 18460

With a copy to:

R.W. Piper
P.O. Box 460
Tunkhannock, PA 18657

or at such other address requested in writing by either party upon thirty (30) days notice to the other party.

ARTICLE 25
REMEDIES

All rights and remedies of Landlord and Tenant herein created or otherwise extending at law are cumulative, and the exercise of one or more rights or remedies may be exercised and enforced concurrently or consecutively and whenever and as often as deemed desirable.

ARTICLE 26

SUCCESSORS AND ASSIGNS

All covenants, promises, conditions, representations and agreements herein contained shall be binding upon, apply and inure to the parties hereto and their respective heirs, executors, administrators, successors and assigns; it being understood and agreed, however, that the provisions of Article 17 are in nowise impaired by this Article 26.

ARTICLE 27
WAIVER

The failure of either Landlord or Tenant to insist upon strict performance by the other of any of the covenants, conditions, and agreements of this Lease shall not be deemed a waiver of any subsequent breach or default in any of the covenants, conditions and agreements of this Lease. No surrender of the Demised Premises by Tenant shall be affected by Landlord's acceptance of rental or by other means whatsoever unless the same is evidenced by Landlord's written acceptance of the surrender.

ARTICLE 28
HOLDING OVER

If Tenant or any party claiming under Tenant remains in possession of the Demised Premises or any part thereof after any termination or expiration of this Lease, Landlord, in Landlord's sole discretion, may treat such holdover as an automatic renewal of this Lease for a month to month tenancy subject to all the terms and conditions of this Lease provided herein on the terms that existed immediately prior to such holdover.

ARTICLE 29
INTERPRETATION

The parties hereto agree that it is their intention hereby to create only the relationship of Landlord and Tenant, and no provision hereof, or act of either party hereunder, shall ever be construed as creating the relationship of principal and agent, or a partnership, or a joint venture or enterprise between the parties hereto.

ARTICLE 30
COVENANT OF TITLE AND QUIET ENJOYMENT

Landlord covenants that it has full right, power and authority to make this Lease, subject to the rights of beneficiaries of deeds of trust or mortgagees for which non-disturbance and attornment agreements have been executed, and that Tenant or any permitted assignee or sublessee of Tenant, upon the payment of the rentals and performance of the covenants hereunder, shall and may peaceably and quietly have, hold and enjoy the Demised Premises and improvements thereon during the Term or any renewal or extension thereof.

Additionally, Landlord shall take no action that will interfere with Tenant's intended usage of the Demised Premises.

ARTICLE 31
ESTOPPEL

At any time and from time to time either party, upon request of the other party, will execute, acknowledge and deliver an instrument, stating, if the same be true, that this Lease is a true and exact copy of the Lease between the parties hereto, that there are no amendments hereof (or stating what amendments there may be), that the same is then in full force and effect and that, to the best of its knowledge, there are no offsets, defense or counterclaims with respect to the payment of rent reserved hereunder or in the performance of the other terms, covenants and conditions hereof on the part of Tenant or Landlord, as the case may be, to be performed, and that as of such date no default has been declared hereunder by either party or if not, specifying the same. Such instrument will be executed by the other party and delivered to the requesting party within fifteen (15) days of receipt, or else the statements made in the proposed estoppel request shall be deemed to be correct.

ARTICLE 32
RECORDING

Tenant shall not record this Lease. The parties shall join in the execution of a memorandum or so-called "short-form" of this Lease for the purposes of recordation. Any recording costs associated with the memorandum or short form of this Lease shall be borne by the party requesting recordation.

ARTICLE 33
FORCE MAJEURE

In the event that either party hereto shall be delayed or hindered in or prevented from performance required hereunder by reason of strikes, lockouts, labor troubles, failure of power, riots, insurrection, war, acts of God, or other reason of like nature not the fault of the party delayed in performing work or doing the acts, such party shall be excused for the period of delay. The

period for the performance of any such act shall then be extended for the period of such delay. The foregoing shall not apply to the "DEMISED PREMISES; DEMISE" section of this Lease or Article 1 hereof.

ARTICLE 34
CONSENT

Wherever in this Lease Landlord or Tenant is required to give its consent or approval, such consent or approval shall not be unreasonably withheld, conditioned or delayed. Except as otherwise provided in this Lease, if no written response to a consent or request for approval is provided within ten (10) days from the receipt of the request, then the consent shall be presumed to have been given. Any such request for approval or consent shall be accompanied by a statement that Article 34 is being invoked and a failure to respond within ten (10) days shall result in the approval or request being granted by the other party.

ARTICLE 35
ZONING, DEED RESTRICTIONS, ETC.

Landlord further covenants, warrants, represents and agrees to fully cooperate and provide assistance which shall include, but not be limited to, assistance in obtaining certificates of occupancy, building permits, sign permits and any variances.

ARTICLE 36
SEVERABILITY

Any provision of this Lease which shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provisions hereof and such other provisions shall remain in full force and effect.

ARTICLE 37
GOVERNING LAW AND VENUE

This Lease shall be governed by the laws of the state in which the Shopping Center is located.

ARTICLE 38
BROKERS

Tenant and Landlord represent that they have had no dealing with any real estate brokers or agents in connection with the negotiation of this Lease. Landlord and Tenant will indemnify and hold each other harmless from and against any and all liability and cost which Landlord or Tenant may suffer in connection with real estate brokers claiming by, through, or under either party seeking any commission, fee or payment in connection with this Lease.

ARTICLE 39
ENTIRE AGREEMENT

This Lease contains all of the agreements of the parties hereto with respect to matters covered or mentioned in this Lease and no prior agreement, letters, representations, warranties, promises, or understandings pertaining to any such matters shall be effective for any such purpose. The Lease may be amended or added to only by an agreement in writing signed by the parties hereto or their respective successors in interest.

ARTICLE 40
CONDITIONS PRECEDENT

Tenant's obligation to lease the Demised Premises is contingent, in its entirety, on the satisfaction by Tenant of the conditions set forth in this Article 40, subparagraphs A. through H., inclusive ("Conditions Precedent").

A. Variances, Waivers and Special Exceptions. The Tenant shall have obtained all final and unappealable variances, approvals of conditional uses, special exceptions, and/or waivers required to lawfully improve and operate the Demised Premises. If the Tenant is unable to obtain any such variance, waiver, approval of conditional use or special exception, the Tenant may either lease the Demised Premises despite not having obtained such variance, waiver, approval of conditional use or special exception or terminate this Lease.

B. Zoning Permit. Landlord and Tenant submitted an application to the Borough's zoning officer (the "Zoning Officer") to obtain a zoning permit to operate the Permitted Use in the portion of the BiLo Space proposed to be leased to Tenant. By letter dated May 20, 1998 from the Zoning Officer to Landlord and Tenant, the Borough rejected the zoning application and stated that the parties require a special exception from the Borough to operate the Permitted Use. Tenant has appealed the Zoning Officer's decision to the Borough's Zoning Hearing Board ("ZHB"). A hearing is scheduled for Thursday, July 16, 1998 to consider such appeal. If the appeal is rejected, Tenant shall appeal such

decision to the Monroe County Court of Common Pleas, and Tenant shall have the right to prosecute such other actions to obtain the zoning permits necessary to operate the Permitted Use.

In addition, the parties are aware that the Borough is contemplating an amendment to its zoning ordinance to regulate off-track wagering facilities in a manner that would prohibit the operation of the Permitted Use at the Shopping Center (the "Ordinance Amendment"). If the Ordinance Amendment is used a basis on which to interfere with the operation of the Permitted Use at the Shopping Center, Tenant shall file suit in the Court of Common Pleas contesting the authority of the Borough to regulate the location of off-track wagering facilities or the number of parking spaces required for off-track wagering facilities.

Accordingly, it shall be a condition of Tenant's obligations hereunder that Tenant obtains the final and unappealable zoning permits necessary to operate the Permitted Use in the Shopping Center.

C. Building Permits. The Tenant shall have obtained all final and unappealable building permits from the Borough necessary to permit the renovation of the Demised Premises for Tenant's Permitted Use.

D. Department of Labor and Industry Approval. The Tenant shall have obtained final and unappealable use and occupancy certificates and approvals from the Pennsylvania Department of Labor and Industry to construct Tenant's Work and to operate and occupy the improvements on the Demised Premises for the Permitted Use.

E. Utility Service. The Tenant shall have obtained written confirmation that electric, cable television, telephone, sanitary sewer, water and all other utility services are readily available with adequate capacity to serve the Demised Premises at standard costs and rates of the companies serving that portion of East Stroudsburg Borough in which the Demised Premises is located.

F. Harness Racing Commission Approval. The Tenant shall have obtained final and unappealable approvals and permits from the Pennsylvania State Harness Racing Commission to operate the Permitted Use at the Demised Premises.

G. Other Approval and Permits. The Tenant shall have obtained all other final and unappealable permits, approvals, and agreements required to be obtained in order to construct and operate the Permitted Use in the Demised Premises. For purposes of this Lease, the approvals and permits shall not be deemed final and unappealable, unless and until 35 days have elapsed without an appeal of any kind having been filed, or if an appeal has been filed, it has been dismissed.

H. 1. Due Diligence. Commencing upon the execution of this Lease and for a period of sixty (60) days consecutive days thereafter (the "Due Diligence Period") Tenant shall have the right at Tenant's sole cost and expense, to enter upon the Demised Premises at all times to conduct engineering studies, insurance inspections, surveys, soil borings, and other examinations of the Demised Premises, and to determine the feasibility of operating the Permitted Use at the Demised Premises. Tenant acknowledges that Landlord may not be able to provide access to the BiLo Space during the time that BiLo's lease is in effect, but Landlord agrees to use diligent efforts to obtain BiLo's permission to give Tenant access to the BiLo Space.

2. Cooperation of Landlord and Tenant. The Landlord shall reasonably cooperate with the Tenant and will not act in any manner to hinder, obstruct, delay or prevent Tenant from obtaining all necessary permits and approvals for the Permitted Use upon the Demised Premises. The Landlord agrees to join with the Tenant as a petitioner or applicant whenever required on any applications to obtain the approvals and permits described above, provided that the Landlord shall not be obligated to incur any material costs or expenses in connection therewith. The Landlord hereby grants to Tenant the necessary permission to execute on behalf of Landlord such applications as may be required to obtain such approvals and permits as are necessary for the project.

3. Right to Terminate. If the Tenant is not able to obtain the satisfaction of all Conditions Precedent within 180 days after the date hereof (the "Permit Period"), in Tenant's sole discretion, then and in such event, Tenant may terminate this Lease at any time before the expiration of the Permit Period by written notice to Landlord, whereupon this Lease shall terminate and the parties shall have no further rights or obligations hereunder. If all of the Conditions Precedent have not been satisfied within twenty-four (24) months after the date hereof, either Landlord or Tenant may terminate this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Lease on the day and year first mentioned, the corporate party or parties by its or their proper officers thereto duly authorized.

LANDLORD:

EAGLE VALLEY REALTY

By: /S/ Leonard Insalaco

TENANT:

PENN NATIONAL GAMING, INC., a Pennsylvania corporation

By: /S/ Joseph Lashinger
Attest:/S/Tina Seger

LIST OF EXHIBITS

EXHIBIT "A" - Current Site Plan

EXHIBIT "B" - New Site Plan

EXHIBIT "C" - Existing Exclusives

EXHIBIT "D" - Landlord's Work

EXHIBIT "A"

CURRENT SITE PLAN

See Attached

EXHIBIT "B"

NEW SITE PLAN

SEE ATTACHED

EXHIBIT "C"

EXCLUSIVES

SEE ATTACHED

EXHIBIT "D"

LANDLORD'S WORK

SEE ATTACHED

JOINT VENTURE AGREEMENT
RELATING TO NEW JERSEY ASSETS

This Joint Venture Agreement is made and entered into as of the 30th day of October, 1998 by and between GREENWOOD NEW JERSEY, INC., a New Jersey corporation ("GNJ") and PENN NATIONAL GAMING, INC., a Pennsylvania corporation ("PNG").

BACKGROUND

GNJ, as Buyer, is a party to an Asset Purchase Agreement dated July 2, 1998, wherein International Thoroughbred Breeders, Inc. ("ITB") and certain subsidiaries of ITB have agreed to sell to GNJ substantially all of the assets of the Sellers related to the operation of Garden State Park in Cherry Hill, New Jersey ("GSP") and Freehold Raceway in Freehold, New Jersey ("Raceway"); and the operation of pari-mutuel wagering at GSP and Raceway, including the real estate associated with the operation of Freehold Raceway, all on the terms and conditions set forth in the Asset Purchase Agreement. Certain terms herein are defined in the Asset Purchase Agreement, and shall have the same meaning herein as defined in the Asset Purchase Agreement.

GNJ and PNG have agreed that they desire to act jointly in connection with the acquisition of the Assets and subsequent operation of the Business. This Joint Venture Agreement sets forth the basis on which the parties will cooperate and act to accomplish this objective.

This Joint Venture Agreement contemplates that GNJ will consummate its acquisition as soon as all conditions to that acquisition have been met and closing is feasible. Thereafter, PNG will be sold an interest in GNJ, or otherwise will acquire 50% interest in the entities that acquire the Assets and conduct the Business. However, if possible, and if all conditions to permit PNG to acquire a 50% interest in the Asset Purchase Agreement prior to the closing, the transactions will be structured in that manner (the "Restructuring"). This Restructuring may require, among other things, the approval of ITB and the Sellers, and New Jersey governmental approvals, any of which may preclude the Restructuring prior to the closing of the transactions under the Asset Purchase Agreement. It is the intention of the parties that this Joint Venture Agreement not delay the possible closing of the acquisition contemplated by the Asset Purchase Agreement beyond the earliest possible date for such closing.

NOW, THEREFORE, IN CONSIDERATION OF THE FOREGOING and the mutual covenants contained herein, and intending to be legally bound, the parties agree as follows:

1. Joint Ownership. Regardless of the specific form of the transactions necessary to accomplish the objective, GNJ and PNG agree that the acquisition of the Assets and the operation of the Business will be as a joint equally owned venture with the obligations, costs, responsibilities, liabilities and risks borne equally by the parties.

2. Most Likely Scenario. PNG will cooperate with GNJ to assist GNJ's obtaining all necessary consents, approvals and meeting all conditions to the purchase of the Assets. GNJ will consummate the closing under the Asset Purchase Agreement as promptly as possible. Thereafter, and upon the obtaining of any and all necessary approvals and meeting all conditions to permit PNG to acquire a 50% interest in each entity which acquires any of the assets and to thereafter have a 50% ownership and participation in the Business, the parties will take all necessary actions, transfers and steps to accomplish this result (the "Joint Venture Closing"). PNG will at the Joint Venture Closing, in this scenario, reimburse GNJ 50% of all cash payments made by GNJ at the ITB closing, and will assume 50% of all obligations assumed at the ITB closing. Conditions to the admission of PNG for this purpose might include, but shall not be limited to, New Jersey, regulatory approvals, Hart-Scott-Rodino compliance, creditor approvals and approvals by the Sellers and ITB (the "Joint Venture Approvals"). The parties will cooperate in a prompt and diligent manner to pursue each of these conditions.

3. Alternative Scenario. To the extent all conditions set forth herein can be met and all Joint Venture Approvals are obtained prior to GNJ's consummation of the purchase of the assets, PNG will be admitted as a party to the Asset Purchase Agreement and will participate at the closing of the transactions contemplated by the Asset Purchase Agreement as a 50% participant.

4. Operation of the Business. The Business will be operated as a joint venture and all entities controlling any of the Assets related to the Business or any aspect of the Business will be under the joint ownership and control of the parties. Representation on any board of directors, management committees, and other governing provisions will reflect this equal joint ownership. Concurrent with the Joint Venture Closing, the parties will enter into such shareholder agreements, partnership agreements or other documents necessary and appropriate to implement the concept set forth herein.

5. Scope of the Business. The joint venture provided for in this Joint Venture Agreement relates to the Business and Assets being acquired. This joint venture shall also be applicable to any OTB Facilities permitted to be operated in New Jersey now or hereafter by virtue of the operation of the Business in New Jersey. It shall also apply to any phone betting operations established in New Jersey, as permitted now or hereafter due to the operation of the Business in New Jersey. However, each party conducts other related businesses outside of New Jersey, including competing businesses, and this Agreement shall not apply to any such other activities; nor shall it prevent the parties from individually engaging in additional activities both within and outside of New Jersey which are not related to the Business.

6. Indemnification; Assumption of Liabilities. This joint venture is intended to result in the parties having equal responsibilities and liabilities and each will indemnify the other for any losses assumed by either related to the Business of the joint venture. For example, the guarantee of the Purchase Price Notes referred to in the Asset Purchase Agreement by Greenwood Racing, Inc. could result in payments by Greenwood Racing, Inc. to the Sellers. In that event, PNG would reimburse Greenwood Racing, Inc. to the extent of 50% of any such payments.

7. Lincoln Property Company. PNG has advised GNJ that it is a party to a letter agreement with Lincoln Property Company ("Lincoln") concerning a joint proposal to acquire the Assets and the Business by submission of a Superior Proposal to ITB and the Sellers which would substitute for GNJ's Asset Purchase Agreement. PNG has further advised it intends to discuss with Lincoln a modification of the letter agreement to permit PNG to proceed with the Joint Venture with GNJ. PNG agrees to use its best efforts to obtain the approval of Lincoln and any other approvals required and to proceed in accordance with this Joint Venture Agreement. GNJ has no objection to Lincoln's acquisition of the GSP real estate, subject to Buyer's rights set forth in the GSP Lease. In the event that PNG is unable to obtain the approval of Lincoln to modify the letter agreement by 11:59 PM on Monday, November 2, 1998 this Joint Venture Agreement will automatically terminate.

8. Due Diligence to Date. PNG has and it will continue to conduct its own due diligence in connection with its participation in the joint venture and is not relying upon GNJ's due diligence. Furthermore, GNJ is making no representation or warranty as to the contemplated transactions, the Assets, the future prospects of the Business or otherwise inducing PNG to enter into this joint venture. Upon the creation of the joint venture, PNG will reimburse GNJ for 50% of all out-of-pocket expenses incurred by GNJ in the connection with the Asset Purchase Agreement through the date hereof, exclusive of legal fees which have been incurred by GNJ. Following the date hereof, the parties will each bear their own expenses in connection with the joint venture, except for expenses of the joint venture borne directly by the joint venture.

9. Governing Law; Counterparts. This joint venture agreement shall be governed by the laws of the Commonwealth of Pennsylvania. This joint venture agreement may be signed in one or more counterparts, all of which taken together shall be deemed one original.

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

GREENWOOD NEW JERSEY, INC.

By: /S/ HAL HANDEL
Hal Handel, President

PENN NATIONAL GAMING, INC.

By: /S/ WILLIAM J. BORK
William J. Bork, President

PENN NATIONAL GAMING, INC.
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 203
Wyomissing, PA 19610

November 2, 1998

Hal Handel, President
Greenwood New Jersey, Inc.
3001 Street Road
P. O. Box 1000
Bensalem, PA 19020-8512

Re: Joint Venture Agreement relating to New Jersey Assets

Dear Mr. Handel:

In connection with our Joint Venture Agreement entered into on Friday, October 30, 1998, we have further reviewed our memorandum of understanding with Lincoln Property Company ("Lincoln") referred to in our Joint Venture Agreement. For a variety of reasons, including the fact that our joint venture does not preclude Lincoln from obtaining the economic benefit sought in our memorandum of understanding, the fact that the joint proposal of Lincoln and Penn National to ITB has not been accepted by ITB, and other factors, Penn National has determined that it does not require the prior consent of Lincoln to proceed with the joint venture with Greenwood New Jersey.

Therefore, we are hereby eliminating as a condition of our Joint Venture Agreement the approval of Lincoln, or any action by Lincoln to enable us to proceed with the joint venture with you.

We understand that you have had no prior agreement with Lincoln and that Penn National Gaming, Inc. shall remain responsible for any liabilities associated with its prior arrangements with Lincoln. Specifically, Penn National will indemnify Greenwood New Jersey and its affiliates from any and all claims, liabilities, losses, damages, costs and expenses, including reasonable counsel fees and costs related thereto, arising from any claim related to the prior arrangements between Penn National and Lincoln relating to the New Jersey assets.

Assuming that the foregoing is acceptable to you, we would appreciate your signing below and faxing to us a copy of this letter containing your signature.

We look forward to proceeding with our joint venture.

Very truly yours,

/S/ WILLIAM J. BORK
William J. Bork, President

Agreed to, this 2nd day of November, 1998.

GREENWOOD NEW JERSEY, INC.

By: /S/ HAL HANDEL
Hal Handel, President

(Replace this text with the legend)

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