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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2008

OR

o **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.)
825 Berkshire Blvd., Suite 200 Wyomissing, Pennsylvania	**19610**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (610) 373-2400
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
None	None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, par value $.01 per share
Series B Preferred Stock, par value $.01 per share
(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No ☒

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer ☒	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by a check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No ☒

As of June 30, 2008 (the last business day of the registrant's most recently completed second fiscal quarter), the aggregate market value of the voting Common Stock held by non-affiliates of the registrant was approximately $2.4 billion. Such aggregate market value was computed by reference to the closing price of the Common Stock as reported on the NASDAQ Global Select Market on June 30, 2008. For purposes of making this calculation only, the registrant has defined affiliates as including all directors, executive officers and beneficial owners of more than ten percent of the Common Stock of the Company.

The number of shares of the registrant's Common Stock outstanding as of February 12, 2009 was 78,319,880.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2009 annual meeting of shareholders are incorporated by reference into Part III.

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IMPORTANT FACTORS REGARDING FORWARD-LOOKING STATEMENTS

This document includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). These statements are included throughout the document, including the section entitled "Risk Factors," and relate to our business strategy, our prospects and our financial position. These statements can be identified by the use of forward-looking terminology such as "believes," "estimates," "expects," "intends," "may," "will," "should" or "anticipates" or the negative or other variation of these or similar words, or by discussions of future events, strategies or risks and uncertainties. Specifically, forward-looking statements may include, among others, statements concerning:

- our expectations of future results of operations or financial condition;
- our expectations for our properties;
- the timing, cost and expected impact of planned capital expenditures on our results of operations;
- the impact of our geographic diversification;
- our expectations with regard to further acquisitions and development opportunities, as well as the integration of any companies we have acquired or may acquire;
- the outcome and financial impact of the litigation in which we are or will be periodically involved;
- the actions of regulatory, legislative, executive or judicial decisions at the federal, state or local level with regard to our business and the impact of any such actions;
- our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for new businesses; and
- our expectations for the continued availability and cost of capital.

Although we believe that the expectations reflected in such forward-looking statements are reasonable, they are inherently subject to risks, uncertainties and assumptions about our subsidiaries and us, and accordingly, our forward-looking statements are qualified in their entirety by reference to the factors described below and in the information incorporated by reference herein. Important factors that could cause actual results to differ materially from the forward-looking statements include, without limitation, risks related to the following:

- the passage of state, federal or local legislation that would expand, restrict, negatively impact, further tax or prevent gaming operations in or adjacent to the jurisdictions in which we do business;
- increases in the effective rate of taxation at any of our properties or at the corporate level;
- the activities of our competitors and the emergence of new competition;
- successful completion of the various capital projects at our facilities;
- the existence of attractive acquisition candidates and development opportunities, the costs and risks involved in the pursuit of those acquisitions and opportunities and our ability to integrate those acquisitions and opportunities;
- our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for new businesses;
- our dependence on key personnel;

- the effects of local and national economic, energy, credit, and capital markets on the economy in general and on the gaming and lodging industries in particular;
- the availability and cost of financing;
- the impact of weather on our operations;
- the maintenance of agreements with our horsemen, pari-mutuel clerks and other organized labor groups;
- the impact of terrorism and other international hostilities; and
- other factors as discussed in our filings with the United States ("U.S.") Securities and Exchange Commission.

All subsequent written and oral forward-looking statements attributable to us or persons acting on our behalf are expressly qualified in their entirety by the cautionary statements included in this document. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law. In light of these risks, uncertainties and assumptions, the forward-looking events discussed in this document may not occur.

PART I

ITEM 1. BUSINESS

Overview

We are a leading, diversified, multi-jurisdictional owner and manager of gaming and pari-mutuel properties. The Company was incorporated in Pennsylvania in 1982 as PNRC Corp. and adopted its current name in 1994, when the Company became a public company. In 1997, we began our transition from a pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. Since 1997, we have continued to expand our gaming operations through strategic acquisitions, including the acquisitions of Hollywood Casino Bay St. Louis and Boomtown Biloxi, CRC Holdings, Inc., the Bullwhackers properties, Hollywood Casino Corporation, Argosy Gaming Company ("Argosy"), Black Gold Casino at Zia Park, and Sanford-Orlando Kennel Club. We currently own or manage nineteen facilities in fifteen jurisdictions, including Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia, and Ontario.

We believe that our portfolio of assets provides us with a diversified cash flow from operations. We intend to continue to expand our gaming operations through the implementation of a disciplined capital expenditure program at our existing properties and the continued pursuit of strategic acquisitions of gaming properties in attractive markets. In this Annual Report on Form 10-K, the terms "we," "us," "our," "the Company" and "Penn National" refer to Penn National Gaming, Inc. and subsidiaries, unless the context indicates otherwise.

Merger Announcement and Termination

On June 15, 2007, we announced that we had entered into a merger agreement that, at the effective time of the transactions contemplated thereby, would have resulted in our shareholders receiving $67.00 per share. Specifically, we, PNG Acquisition Company Inc. ("Parent") and PNG Merger Sub Inc., a wholly-owned subsidiary of Parent ("Merger Sub"), announced that we had entered into an Agreement and Plan of Merger, dated as of June 15, 2007 (the "Merger Agreement"), that provided, among other things, for Merger Sub to be merged with and into us (the "Merger"), as a result of which we would have continued as the surviving corporation and would have become a wholly-owned subsidiary of Parent. Parent is indirectly owned by certain funds managed by affiliates of Fortress Investment Group LLC ("Fortress") and Centerbridge Partners, L.P. ("Centerbridge").

On July 3, 2008, we entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, we agreed to receive a total of $1.475 billion, consisting of a nonrefundable $225 million cash termination fee (the "Cash Termination Fee") and a $1.25 billion, zero coupon, preferred equity investment (the "Investment"). Pursuant to the terms of the preferred equity purchase agreement, the purchasers made a nonrefundable $475 million payment to us on July 3, 2008, in addition to the payment of the Cash Termination Fee. Under the terms of the purchase agreement, the purchasers deposited the remaining preferred equity investment purchase consideration with an escrow agent, with the funds to be released from escrow upon the issuance of the Preferred Stock. On October 30, 2008, following the receipt of required regulatory approvals and the satisfaction of certain other conditions, we closed the sale of the Investment and received the remaining preferred equity investment purchase consideration of $775 million from the escrow agent.

Properties

The following table summarizes certain features of our owned properties and our managed property as of December 31, 2008:

	Location	Type of Facility	Approx. Gaming Square Footage	Gaming Machines	Table Games(1)	Hotel Rooms
Owned Properties:						
Charles Town Entertainment Complex	Charles Town, WV	Land-based gaming/ Thoroughbred racing	184,348	5,032	—	153
Argosy Casino Lawrenceburg	Lawrenceburg, IN	Dockside gaming	74,300	2,516	59	300
Hollywood Casino at Penn National Race Course(2)	Grantville, PA	Land-based gaming/ Thoroughbred racing	94,300	2,227	—	—
Hollywood Casino Aurora	Aurora, IL	Dockside gaming	53,000	1,172	20	—
Empress Casino Hotel	Joliet, IL	Dockside gaming	50,000	1,194	20	100
Argosy Casino Riverside	Riverside, MO	Dockside gaming	56,400	1,975	39	258
Hollywood Casino Baton Rouge	Baton Rouge, LA	Dockside gaming	28,000	1,145	27	—
Argosy Casino Alton	Alton, IL	Dockside gaming	23,000	1,100	18	—
Hollywood Casino Tunica	Tunica, MS	Dockside gaming	54,000	1,301	28	494
Hollywood Casino Bay St. Louis	Bay St. Louis, MS	Land-based gaming	40,000	1,192	21	291
Argosy Casino Sioux City	Sioux City, IA	Dockside gaming	20,500	702	19	—
Boomtown Biloxi	Biloxi, MS	Dockside gaming	51,665	1,228	18	—
Hollywood Slots Hotel and Raceway(3)	Bangor, ME	Land-based gaming/ Harness racing	30,000	1,000	—	152
Bullwhackers	Black Hawk, CO	Land-based gaming	12,785	666	—	—
Black Gold Casino at Zia Park	Hobbs, New Mexico	Land-based gaming/ Thoroughbred racing	18,460	750	—	—
Raceway Park	Toledo, OH	Harness racing	—	—	—	—
Freehold Raceway(4)	Monmouth, NJ	Harness racing	—	—	—	—
Sanford-Orlando Kennel Club	Longwood, FL	Greyhound racing	—	—	—	—
Managed Property:						
Casino Rama	Orillia, Ontario	Land-based gaming	93,000	2,535	105	289
Total			883,758	25,735	374	2,037

(1) Excludes poker tables.

(2) Hollywood Casino at Penn National Race Course includes our Pennsylvania casino that opened on February 12, 2008, as well as the Penn National Race Course and four off-track wagering facilities ("OTWs").

(3) On July 1, 2008, the permanent Hollywood Slots at Bangor facility, which is called the Hollywood Slots Hotel and Raceway, was opened.

(4) Pursuant to a joint venture with Greenwood Limited Jersey, Inc., a subsidiary of Greenwood Racing, Inc.

Owned Properties

Charles Town Entertainment Complex

The complex is located within approximately a one-hour drive of the Baltimore, Maryland and Washington, D.C. markets, and is the only gaming property located conveniently west of these two cities. The Charles Town Entertainment Complex has 184,348 square feet of gaming space, with 5,032 gaming machines, and a 153-room hotel, which opened to the public on September 5, 2008. The complex also features live thoroughbred racing at a refurbished, $^{3}/_{4}$-mile all-weather, lighted thoroughbred racetrack with a 3,000-seat grandstand, parking for 6,048 vehicles and simulcast wagering and dining.

Argosy Casino Lawrenceburg

The Argosy Casino Lawrenceburg is located on the Ohio River in Lawrenceburg, Indiana, approximately 15 miles west of Cincinnati and is the closest casino to the Cincinnati metropolitan area, its principal target market. The casino also services the major metropolitan markets of Dayton and Columbus, Ohio and, to a lesser extent, Indianapolis, Indiana and Lexington, Kentucky. The casino has 74,300 square feet of gaming space on three levels with 2,516 slot machines, 59 table games and 17 poker tables. The complex also features a 300-room hotel, a land-based entertainment pavilion and support facility featuring a 350-seat buffet restaurant, two specialty restaurants, an entertainment lounge, a 1,710 space parking garage and a 1,640 space remote parking lot.

We are moving forward with our Hollywood-theme expansion at the Argosy Casino Lawrenceburg property. The expansion includes a 1,500 space parking garage and pedestrian walkway, which opened in May 2008, and a two-level 270,000 square foot gaming vessel, which is expected to open in the second quarter of 2009. The new riverboat will allow 3,617 positions on one level and another 660 positions will be added to the second level, along with restaurants and other amenities on the gaming vessel.

Hollywood Casino at Penn National Race Course

Hollywood Casino at Penn National Race Course is located in Grantville, Pennsylvania, which is 15 miles northeast of Harrisburg, 100 miles west of Philadelphia and 200 miles east of Pittsburgh. Hollywood Casino at Penn National Race Course opened on February 12, 2008. The Hollywood Casino at Penn National Race Course is a 365,000 square foot facility, and is sized for 3,000 slot machines, with approximately 2,200 positions currently operating. The new facility also includes a food court, entertainment bar and lounge, trackside dining room, a sports bar, a buffet and high-end steakhouse, as well as a simulcast facility and viewing area for live racing. The facility also includes a connected five-story self parking garage, with capacity for approximately 2,200 cars and approximately 1,500 surface parking spaces for self and valet parking.

The property includes a one-mile all-weather, lighted thoroughbred racetrack, and a $^{7}/_{8}$-mile turf track. The property also includes approximately 400 acres that are available for future expansion or development. Penn National Race Course is one of only three operating thoroughbred racetracks in Pennsylvania.

Hollywood Casino Aurora

Hollywood Casino Aurora, part of the Chicagoland market, is located in Aurora, Illinois, the second largest city in Illinois, approximately 35 miles west of Chicago. The facility is easily accessible from major highways, can be reached by train from downtown Chicago, and is approximately 30 miles from both the O'Hare International and Midway airports. Hollywood Casino Aurora has a 53,000 square foot single-level dockside casino facility with 1,172 gaming machines, 20 gaming tables and 5 poker tables.

The facility features two upscale lounges, a steakhouse, a buffet, a fast food outlet, and a private dining room for premium players. Hollywood Casino Aurora also has two parking garages with approximately 1,564 parking spaces and a gift shop.

Empress Casino Hotel

The Empress Casino Hotel, part of the Chicagoland market, is located on the Des Plaines River in Joliet, Illinois, approximately 40 miles southwest of Chicago. This barge-based casino provides 50,000 square feet of gaming space on two levels with 1,194 slot machines, 20 table games and 3 poker tables.

The casino features a 150,000 square foot entertainment pavilion with three restaurants, an entertainment lounge and banquet/conference facilities. The complex also includes a 100-room hotel, surface parking areas with approximately 1,616 spaces and an 80-space recreational vehicle park. On February 19, 2008, the Illinois Gaming Board resolved to allow us to retain the Empress Casino Hotel. Previously, in connection with our acquisition of Argosy, we entered into an agreement with the Illinois Gaming Board in which we agreed, in part, to enter into an agreement to divest the Empress Casino Hotel by December 31, 2006, which date was later extended to June 30, 2008, subject to us having the right to request that the Illinois Gaming Board review and reconsider the terms of the agreement. As a result of this decision, we plan to invest $55 million in the facility, in order to improve its competitive position in the market. We began these facility enhancements in late 2008 and expect the gaming vessel, food, beverage, VIP amenity upgrades and external improvements to be completed in the fourth quarter of 2009.

Argosy Casino Riverside

The Argosy Casino Riverside is located on the Missouri River approximately five miles from downtown Kansas City in Riverside, Missouri. The casino primarily attracts customers who reside in the northern and western regions of the Kansas City metropolitan area. This Las Vegas-style casino features approximately 56,400 square feet of gaming space with 1,975 slot machines, 39 table games and 8 poker tables.

This state-of-the-art Mediterranean-themed casino features an innovative "floating" casino floor that provides a seamless transition between the casino and land-based support areas, which include a Mediterranean-themed, nine-story, 258-room hotel and spa, an entertainment facility featuring 6 food and beverage areas, including a buffet, steakhouse, deli, coffee bar, VIP lounge and sports/entertainment lounge and 19,000 square feet of banquet/conference facilities. Argosy Casino Riverside currently has parking for approximately 3,000 vehicles.

Hollywood Casino Baton Rouge

Hollywood Casino Baton Rouge is currently one of two dockside riverboat gaming facilities operating in Baton Rouge, Louisiana. The Hollywood Casino Baton Rouge property features a riverboat casino reminiscent of a nineteenth century Mississippi River paddlewheel steamboat. The riverboat features approximately 28,000 square feet of gaming space, 1,145 gaming machines and 27 table games.

The facility also includes a two-story, 58,000-square foot dockside building featuring a variety of amenities, including a steakhouse, a 268-seat buffet, a premium players' lounge, a nightclub that doubles as a players' event area, a lobby bar, a public atrium, two meeting rooms, 1,548 parking spaces, a players' club booth and a gift shop.

In December 2007, we agreed to acquire 3.8 acres of adjacent land and to pay for half of the construction costs (subject to a ceiling of $3.8 million) for a railroad underpass with the seller of the land. The underpass will provide unimpeded access to the casino property and to property owned by the seller for future development. Subject to the satisfaction of various conditions, construction on the underpass may begin in the second quarter of 2009.

Argosy Casino Alton

The Argosy Casino Alton is located on the Mississippi River in Alton, Illinois, approximately 20 miles northeast of downtown St. Louis. The target customers of the Argosy Casino Alton are drawn largely from the northern and eastern regions of the greater St. Louis metropolitan area, as well as portions of central and southern Illinois. The Argosy Casino Alton is a three-deck gaming facility featuring 23,000 square feet of gaming space with 1,100 slot machines and 18 table games.

The Argosy Casino Alton includes an entertainment pavilion and features a 124-seat buffet, a restaurant and a 400-seat main showroom. The facility includes parking areas with 1,258 spaces.

Hollywood Casino Tunica

Hollywood Casino Tunica is located in Tunica, Mississippi. Tunica County is the closest resort gaming jurisdiction to, and is easily accessible from, the Memphis, Tennessee metropolitan area. The Tunica market has become a regional destination resort, attracting customers from surrounding markets such as Nashville, Tennessee, Atlanta, Georgia, St. Louis, Missouri, Little Rock, Arkansas, and Tulsa, Oklahoma. Hollywood Casino Tunica features 54,000 square feet of gaming space at a single-level casino with 1,301 slot machines, 28 table games and 6 poker tables.

Hollywood Casino Tunica's 494-room hotel and 123-space recreational vehicle park provide overnight accommodations for its patrons. The casino includes multimedia displays of memorabilia from famous adventure motion pictures. Additional entertainment amenities include a steakhouse, the Hollywood Epic Buffet®, a 1950's-style diner, an entertainment lounge, a premium players' club, a themed bar facility, a non-smoking slot room, an indoor pool and showroom as well as banquet and meeting facilities. There is also an 18-hole championship golf course adjacent to the facility that is owned and operated through a joint venture of three gaming companies. In addition, Hollywood Casino Tunica offers parking for 1,635 cars.

Hollywood Casino Bay St. Louis

Hollywood Casino Bay St. Louis is located in Bay St. Louis, Mississippi. Hollywood Casino Bay St. Louis offers a 40,000 square foot casino, and features 21 table games, 6 poker tables and 1,192 slot machines.

The waterfront Hollywood Hotel features 291 rooms and a 10,000 square foot ballroom, including nine separate meeting rooms offering more than 17,000 square feet of meeting space. Hollywood Casino Bay St. Louis offers live concerts and various entertainment on weekends in the ballroom. The property also features The Bridges golf course, an 18-hole championship golf course. Hollywood Casino Bay St. Louis has three restaurants including Tuscany Steaks & Seafood® (fine dining), the Hollywood Epic Buffet and Jackpot Java®, a 24-hour cafe. Other amenities include a RV Park with 100 sites and Tokens gift shop.

Argosy Casino Sioux City

The Argosy Casino Sioux City is located on the Missouri River in downtown Sioux City, Iowa. The riverboat features 20,500 square feet of gaming space with approximately 702 slot machines, 19 table games and 4 poker tables. The casino is complemented by adjacent barge facilities featuring dining facilities, meeting space, and 389 parking spaces.

Boomtown Biloxi

Boomtown Biloxi is located in Biloxi, Mississippi. On January 18, 2008, we reopened our buffet which was closed for the first few weeks of 2008 for an approximately $4.0 million renovation to expand the offerings, change the décor, and create separate live-action cooking stations. In conjunction with the renovation, we also opened the Grill, which is a 24-hour deli which also houses our famous bakery. Boomtown Biloxi offers 51,665 square feet of gaming space with 1,228 slot machines, 18 table games and 5 poker tables.

Hollywood Slots Hotel and Raceway

Hollywood Slots Hotel and Raceway is situated near historic Bass Park, where Bangor Raceway is also located, in Bangor, Maine. The permanent facility opened on July 1, 2008. The facility includes two eateries, Hollywood Epic Buffet and Take2, a small entertainment stage, four-story parking with 1,500 parking spaces and 30,000 square feet of gaming space with 1,000 slot machines and a 152-room hotel.

Bangor Raceway is located at historic Bass Park in downtown Bangor, Maine. Harness racing has been conducted continuously at Bass Park since 1893 and it was once part of racing's Grand Circuit during the 1920s. In 2008, Bangor Raceway conducted 54 days of harness racing from late April through early November on its one-half mile track. We plan to increase the number of racing days to 61 for the same period in 2009. With over 12,000 square feet of space, Bangor Raceway can seat 3,500 patrons and features a small cocktail lounge.

Bullwhackers

The Bullwhackers properties include the Bullwhackers Casino and the adjoining Bullpen Casino. On August 21, 2008, the Silver Hawk Casino, which had been a Bullwhackers property, was closed for business. The Bullwhackers properties, which are located in Black Hawk, Colorado, include 12,785 square feet of gaming space and 666 slot machines. The properties also include a 344-car parking area.

Black Gold Casino at Zia Park

Black Gold Casino at Zia Park includes the Black Gold Casino and the adjoining Zia Park Racetrack. Black Gold Casino at Zia Park is located in Hobbs, New Mexico and includes 18,460 square feet of gaming space and 750 slot machines. The property operates three restaurants consisting of the Black Gold Buffet offering lunch and dinner, the Black Gold Steakhouse offering dinner nightly, and the Homestretch Bar & Grill serving burgers and sandwiches daily for lunch and dinner with live entertainment on the weekends. The property also includes a one-mile oval quarter/thoroughbred racetrack, which was utilized for 53 days in 2008, and a simulcast parlor, which is utilized year-round. Banquet services are available in the Turf Club, which also offers food and beverage services during the live racing season.

Raceway Park

Raceway Park is a 58,250 square foot facility, with a $^{5}/_{8}$-mile harness racing track located in Toledo, Ohio. The facility also features simulcast wagering and has a 1,977 theatre-style seating capacity and parking for 3,000 vehicles.

Freehold Raceway

Through our joint venture, we own 50% of Freehold Raceway, located in Freehold in Western Monmouth County, New Jersey. The property features a half-mile oval harness track and a 150,000 square foot grandstand.

Sanford-Orlando Kennel Club

Sanford-Orlando Kennel Club is a $^{1}/_{4}$ mile greyhound facility located in Longwood, Florida. The facility has a capacity for 6,500 patrons, with seating for 4,000 and parking for 2,500 vehicles. The facility conducts year-round greyhound racing, as well as year-round horse racing simulcasts. The first race meeting at Sanford-Orlando Kennel Club was in 1935.

Off-track Wagering Facilities

Our OTWs and racetracks provide areas for viewing import simulcast races of thoroughbred and harness horse racing, televised sporting events, placing pari-mutuel wagers and dining. We operate four of the seventeen OTWs currently in operation in Pennsylvania. Only licensed racing associations can operate OTWs or accept customer wagers on simulcast races. We have been transmitting simulcasts of our races to other OTWs, thoroughbred and harness horse racetracks, and greyhound dog racetracks throughout the world, and receiving simulcasts of races from other thoroughbred and harness horse racetracks for wagering by customers at our OTWs and our horse racetrack facilities, year-round, for many years. Import simulcasts typically include races from premier horse racetracks such as Belmont Park, Churchill Downs, Gulfstream Park, Hollywood Park, Santa Anita and Saratoga.

Account Wagering/Internet Wagering

In 1983, we pioneered Telebet®, the complete account wagering operation for Penn National Race Course. The platform offers account wagering on more than 80 United States ("U.S.") racetracks, and currently has more than 12,900 active account betting customers from the 14 U.S. states that permit account wagering as well as the U.S. Virgin Islands.

We have also developed strategic relationships to further our wagering activities. In August 1999, we entered into an agreement with eBet Limited, an Internet wagering operation in Australia, to license their eBetUSA.com technology in the U.S. Through eBetUSA.com, Inc., our wholly-owned subsidiary, we use the eBetUSA.com technology to permit on-line pari-mutuel horseracing wagering over the internet in selected jurisdictions with the approval of the Pennsylvania State Horse Racing Commission and applicable federal and state laws, rules and regulations, as permitted. We currently accept wagers from residents of 14 U.S. states and the U.S. Virgin Islands.

Managed Gaming Property

Casino Rama

Through CHC Casinos Canada Limited, our indirectly wholly-owned subsidiary, we manage Casino Rama, a full service gaming and entertainment facility, on behalf of the Ontario Lottery and Gaming Corporation, an agency of the Province of Ontario. Casino Rama is located on the lands of the Rama First Nation, approximately 90 miles north of Toronto. The property has approximately 93,000 square feet of gaming space, 2,535 gaming machines, 105 table games and 12 poker tables. In addition, the property includes a 5,000-seat entertainment facility, a 289-room hotel and 3,170 parking spaces.

The Development and Operating Agreement (the "Agreement"), which we refer to as the management service contract for Casino Rama, sets out the duties, rights and obligations of CHC Casinos Canada Limited and our wholly-owned subsidiary, CRC Holdings, Inc. CHC Casinos Canada Limited substantially relies on our experience, know-how, guidance and assistance to carry out the duties and obligations under the Agreement. The compensation under the Agreement is a base fee equal to 2.0% of gross revenues of the casino and an incentive fee equal to 5.0% of the casino's net operating profit.

The Agreement terminates on July 31, 2011, and the Ontario Lottery and Gaming Corporation has the option to extend the term of the Agreement for two successive periods of five years each, commencing on August 1, 2011.

Trademarks

We own a number of trademarks registered with the U.S. Patent and Trademark Office ("U.S. PTO"), including but not limited to, "Telebet," "The World Series of Handicapping," and "Players' Choice." We also have a number of trademark applications pending with the U.S. PTO.

BTN, Inc., our wholly-owned subsidiary, entered into a License Agreement with Boomtown, Inc., dated August 8, 2000 pursuant to which it uses "Boomtown" and other trademarks.

As a result of our acquisitions of Hollywood Casino Corporation and Argosy, we own the service marks "Hollywood Casino" and "Argosy" which are registered with the U.S. PTO. We believe that our rights to the "Hollywood Casino" and "Argosy" service marks are well established and have competitive value to the Hollywood Casino and Argosy properties. We have also acquired other trademarks used by the Hollywood Casino and Argosy facilities and their related services. These marks are either registered or are the subject of pending applications with the U.S. PTO.

Competition

Gaming Operations

The gaming industry is characterized by a high degree of competition among a large number of participants, including riverboat casinos, dockside casinos, land-based casinos, video lottery and poker machines not located in casinos, Native American gaming, Internet gaming and other forms of gambling in the U.S. In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including shopping, high school, collegiate and professional athletic events, television and movies, concerts and travel. Legalized gaming is currently permitted in various forms throughout the U.S., in several Canadian provinces and on various lands taken into trust for the benefit of certain Native Americans in the U.S. and Canada. Other jurisdictions, including states adjacent to states in which we currently have facilities (such as proposed sites in Kansas and Maryland), may legalize and implement gaming in the near future. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion or relocation of existing gaming operations. New, relocated or expanded operations by other persons will increase competition for our gaming operations and could have a material adverse impact on us.

Charles Town, West Virginia. Our gaming machine operations at the Charles Town Entertainment Complex face competition in the neighboring states of Pennsylvania, Delaware and New Jersey. On June 9, 2007, the citizens of Jefferson County, West Virginia, voted against the placement of table games at the Charles Town Entertainment Complex. According to the West Virginia Lottery Racetrack Table Games Act, we are required to wait at least two years from June 9, 2007 before we can propose another table games referendum vote. In Pennsylvania, slot operations have commenced at Philadelphia Park, Mohegan Sun at Pocono Downs, Chester Downs, The Meadows, Mount Airy Casino Resort and Hollywood Casino at Penn National Race Course (which is also our property). These additions have had a negative impact on our business from Pennsylvania, however, we estimate that less than 7% of our slot revenue is derived from this region. In November 2008, the citizens of Maryland approved a referendum to allow up to 15,000 slot machines at five locations throughout the state. These locations include a facility in each of Cecil, Allegany, Anne Arundel, Baltimore City and Worchester counties. Applications for each of the gaming zones were submitted in February 2009. Any significant increase in the competition in the region could negatively impact the operations of Charles Town Entertainment Complex.

Lawrenceburg, Indiana. The Argosy Casino Lawrenceburg is the closest casino to the Cincinnati metropolitan area, and faces competition from two other riverboat casinos in the Cincinnati market, plus two recently opened racetrack casinos in the greater Indianapolis area. The nearest competitor is located approximately 15 miles further south of Lawrenceburg in Rising Sun, Indiana. Another competitor is located 40 miles from Lawrenceburg in Switzerland County, Indiana. In 2007, the Indiana Legislature passed a law allowing up to 2,000 slot machines at each of two racetracks in Indianapolis, approximately 90 miles northwest of Lawrenceburg. Both of these racetracks re-opened with slots in June 2008. One of the two racinos opened their slot operations in a temporary facility and will open a permanent structure in March 2009. These two Indianapolis racinos have adversely affected our total

market share by as much as 15%, on a combined basis. Casino gaming is not currently permitted under the laws of either Ohio or Kentucky. The Ohio legislature has considered, at various times, legislation that would allow Ohio voters to approve certain types of casino gaming at racetracks. In November 2008, "Issue 6" was defeated by Ohio voters and, if approved, would have allowed for one operator to open one land-based casino in the state, located north of Cincinnati on Interstate 71, between Cincinnati and Columbus. In 2006, Ohio voters also rejected a proposed constitutional amendment that would have established a tuition grant program for Ohio students to attend public or private colleges in the state by allowing up to 3,500 slot machines at each of the state's seven existing racetracks and two locations in downtown Cleveland. Legislation has been introduced in Kentucky to allow gaming at racetracks and casinos, subject to referendum. To date, neither Ohio nor Kentucky has enacted such proposed legislation. The commencement of casino gaming in Ohio or Kentucky could have an adverse effect on the financial results of our Lawrenceburg casino.

Grantville, Pennsylvania. The Pennsylvania Race Horse Development and Gaming Act, which was signed in 2004, authorized up to 5,000 slot machines at each of seven harness/thoroughbred racetracks and five stand-alone slot facilities, as well as 500 slot machines at each of two authorized resort facilities. Currently, slot machines are authorized and operating at six of the seven existing racetrack facilities, as well as one stand-alone facility, with a second stand-alone facility in Bethlehem expected to be open in the second quarter of 2009. Hollywood Casino at Penn National Race Course faces competition from these other Pennsylvania facilities, as well as casinos located in Delaware, New Jersey, and West Virginia. In addition, in November 2008, the citizens of Maryland approved a referendum to allow up to 15,000 slot machines at five locations throughout the state, for which applications were submitted in February 2009. Any other significant increase in the competition in the region, including the approval to operate table games at our property in West Virginia, could negatively impact the operations of Hollywood Casino at Penn National Race Course. In 2008, the Commonwealth of Pennsylvania passed legislation which authorized a partial ban on smoking in casino facilities, including a limit on the amount of casino floor space that could be designated as "smoking." For the last four months of 2008, Hollywood Casino at Penn National Race Course was limited to smoking sections on only 25% of its casino floor. Under terms of the legislation, early in 2009, Hollywood Casino at Penn National Race Course was able to expand smoking sections to 50% of its casino floor. The legislation does not allow any further expansion of smoking areas. In addition, the Governor of Pennsylvania recently included in his 2009-2010 budget proposal a plan to legalize video lottery terminals at bars and private clubs across the state; approval of this could significantly impact the gaming business in Grantville.

Chicagoland. Aurora and Joliet are part of the Chicagoland market that includes properties in the Chicago suburbs in both Illinois and northern Indiana. Hollywood Casino Aurora and Empress Casino Hotel face competition from numerous other riverboat casinos in the Chicago-area market, dockside casinos that are located in Illinois and dockside casinos that are located in Indiana. Due to significantly higher gaming taxes imposed on Illinois riverboats, the Indiana riverboats have been able to spend greater amounts on marketing and other amenities, which has significantly increased their ability to compete with the Illinois riverboats. Any increase in gaming taxes or admission fees imposed on Illinois riverboats could have an adverse impact on the financial results of our Chicagoland casinos. Effective January 1, 2008, casinos in Illinois became smoke-free due to state legislation and smoking areas are required to be outside of the facility. The casinos in Indiana continue to have smoking permitted in all areas providing them with a significant competitive advantage. In addition, after a major remodel, Harrah's reopened the Horseshoe casino in northern Indiana in August 2008.

New competition in Illinois is currently limited by state legislation. The Illinois Riverboat Gambling Act and the regulations promulgated by the Illinois Gaming Board under the Riverboat Gambling Act authorize only 10 owner licenses for riverboat gaming operations in Illinois and permit a maximum of 1,200 gaming positions at any time for each of the 10 licensed sites. All authorized

owners' licenses have now been granted, with the final license, which was dormant for several years, being issued in December 2008. The new gaming operation is expected to be opened in eighteen to twenty-four months in Des Plaines, Illinois. We will face additional competition as the facility will be located in the suburban area northwest of Chicago. The legislature has considered, at various times, legislation that would expand gaming in the state of Illinois. Should the Illinois legislature enact such gaming-expansion legislation, the financial results of our Chicagoland casinos could be adversely affected.

In May 2006, the Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including our Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the Grand Victoria Casino in Elgin, and filed suit in Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law unconstitutional. Empress Casino Hotel and Hollywood Casino Aurora began paying the 3% tax surcharge into a protest fund which accrues interest during the pendency of the lawsuit. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, Empress Casino Hotel and Hollywood Casino Aurora continued paying the 3% tax surcharge into the protest fund until May 25, 2008, when the 3% tax surcharge expired. The State of Illinois appealed the ruling to the Illinois Supreme Court. On June 5, 2008, the Illinois Supreme Court reversed the trial court's ruling and issued a decision upholding the constitutionality of the 3% tax surcharge. On January 21, 2009, the four casino plaintiffs filed a petition for certiorari, requesting the U.S. Supreme Court to hear the case. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

On December 15, 2008, former Illinois Governor Rod Blagojevich signed Public Act No. 95-1008 requiring the same four casinos to continue paying the 3% tax surcharge to subsidize Illinois horse racing interests. On January 8, 2009, the four casinos filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois, asking the Court to declare the law unconstitutional. The 3% tax surcharge being paid pursuant to Public Act No. 95-1008 is paid into a protest fund where it accrues interest. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

Riverside, Missouri. The Argosy Casino Riverside currently faces competition from three other casinos in its market. In November 2008, legislation was enacted in Missouri that increased gaming taxes, while removing the loss limit in the state. The Kansas legislature has approved legislation to expand casino gaming in its state, but the Kansas regulators have yet to award licenses in gaming zones which could compete with Argosy Casino Riverside. The expansion of casino gaming, when implemented in Kansas, could have an adverse effect on our Riverside casino's financial results.

Baton Rouge, Louisiana. Hollywood Casino Baton Rouge faces competition from land-based and riverboat casinos throughout Louisiana and on the Mississippi Gulf Coast, casinos on Native American lands and from non-casino gaming opportunities within Louisiana. The principal competitor to Hollywood Casino Baton Rouge is the Belle of Baton Rouge, which is the only other licensed riverboat casino in Baton Rouge. We face competition from eleven casinos on the Mississippi Gulf Coast, which is approximately 120 miles east of Baton Rouge; many of these casinos are destination resorts that attract customers from the Baton Rouge area. Subsequent to Hurricane Katrina, Mississippi Gulf Coast casinos are allowed to operate as land-based facilities. Hollywood Casino Baton Rouge also faces competition from two major riverboat casinos, one land-based casino in the New Orleans area, which is approximately 75 miles from Baton Rouge, and three Native American casinos in Louisiana. The two closest Native American casinos are land-based facilities located approximately 45 miles southwest and

approximately 65 miles northwest of Baton Rouge. We face competition from a racetrack located approximately 55 miles from Baton Rouge operating approximately 1,500 gaming machines. We also face competition from approximately 3,000 video poker machines located in truck stops, restaurants, bars and off-track betting facilities located in certain surrounding parishes. In addition, another gaming operator received approval from the Louisiana Gaming Control Board for a third riverboat casino in Baton Rouge that was subject to a local option referendum subsequently approved by East Baton Rouge Parish voters on February 9, 2008. If the project receives the remaining local approvals and entitlements, and the operator is successful in raising the capital required to construct the facility, the financial results of Hollywood Casino Baton Rouge could be adversely affected.

Alton, Illinois. The Argosy Casino Alton faces competition from five other riverboat casinos currently operating in the St. Louis, Missouri area, including one other Illinois licensee. In addition, a casino project in south St. Louis County is in development and a competitor of the Argosy Casino Alton has announced that they intend, subject to regulatory approval, to relocate their license north of their current site to a location closer to Argosy Casino Alton, which could adversely affect business. Effective January 1, 2008, casinos in Illinois became smoke-free due to state legislation. The casinos in Missouri continue to have smoking permitted in all areas, providing them with a significant competitive advantage, and have recently repealed their $500 loss limit. Should the Illinois legislature enact gaming-expansion legislation or increase admission or gaming taxes, our Alton casino's financial results could be adversely affected.

Tunica County, Mississippi. Hollywood Casino Tunica faces intense competition from nine other casinos operating in north Tunica County and Coahoma County. The Tunica County market is segregated into two casino clusters, Casino Center and Casino Strip, where Hollywood Casino Tunica is located, as well as three stand-alone properties. In addition, we compete with another casino located approximately 40 miles south of the Casino Strip cluster in Coahoma County. The close proximity of the casinos in Tunica County has contributed to the competition between casinos because it allows consumers to visit a variety of casinos in a short period of time. The Mississippi Gaming Control Act does not limit the number of licenses that may be granted. Any significant increase in new competition in or around Tunica County could negatively impact the operations of Hollywood Casino Tunica.

Hollywood Casino Tunica also competes to some extent with a land-based casino complex operated by the Mississippi Band of Choctaw Indians in central Mississippi, approximately 200 miles south and east of Memphis, Tennessee. In addition, Hollywood Casino Tunica may eventually face competition from the opening of gaming casinos closer to Memphis, such as in DeSoto County, Mississippi, which is the only county between Tunica County and the Tennessee border. DeSoto County has defeated gaming proposals on three separate occasions, the last being in November 1996. In November 2006, Southland Park Gaming & Racing, formerly Southland Greyhound Park, in West Memphis, Arkansas, opened a $40 million gaming facility with nearly 1,000 electronic "games of skill." The facility is located across the Mississippi River from Memphis. Casino gaming is not currently legalized in Tennessee; however, the legalization of gaming in Tennessee could have an adverse impact on Hollywood Casino Tunica.

Mississippi Gulf Coast. As a result of Hurricane Katrina's direct hit on the Mississippi Gulf Coast on August 29, 2005, two of our casinos, Hollywood Casino Bay St. Louis and Boomtown Biloxi, were significantly damaged, many employees were displaced and operations ceased at the two properties. Boomtown Biloxi reopened on June 29, 2006 and Hollywood Casino Bay St. Louis reopened on August 31, 2006. Prior to Hurricane Katrina, dockside gaming grew rapidly on the Mississippi Gulf Coast, increasing from no dockside casinos in March 1992 to twelve operating dockside casinos on December 31, 2004. Nine of these facilities were located in Biloxi, two were located in Gulfport and one was located in Bay St. Louis. As of December 31, 2008, eight of the casinos in Biloxi re-opened, including our casinos, one of the Gulfport casinos reopened and two Bay St. Louis properties opened in 2006. Prior to Hurricane Katrina, our Bay St. Louis property was the only casino in the Bay

St. Louis market, whereas there are now two casinos in the Bay St. Louis market. In addition, in the Bay St. Louis market, there are various proposals for casinos in development, as well as expansions at existing properties, that may take place in the next few years, though none are anticipated to be completed in 2009.

During the 2005 special session of the Mississippi legislature, a bill to allow Gulf Coast casinos to rebuild on land was approved and signed by the Governor of Mississippi. In addition, the Mississippi Gaming Control Act does not limit the number of licenses that may be granted and there are a number of additional sites located in the Gulf Coast region that are in various stages of development. Any significant increase in the competition in the region could negatively impact our existing operations.

Sioux City, Iowa. The Argosy Casino Sioux City competes primarily with land-based Native American casinos that are not required to report gaming revenues and other operating statistics, therefore market comparisons cannot be made. In June 2006, Wild Rose Casino & Resort opened in Emmetsburg, Iowa. We also compete with certain providers and operators of video gaming in the neighboring state of South Dakota. Additionally, to a lesser extent, we compete with slot machines at a pari-mutuel racetrack in Council Bluffs, Iowa, and with two riverboat casinos in the Council Bluffs/Omaha, Nebraska market, approximately 90 miles south of Sioux City.

Bangor, Maine. Hollywood Slots Hotel and Raceway is the only facility with slot machines in the state of Maine. The closest competitors offering slot machines are Foxwoods and Mohegan Sun in Connecticut, Newport Grand Casino in Rhode Island and Horizon's Edge casino cruise ship operating in Lynn, Massachusetts, all approximately 300 miles away.

Black Hawk, Colorado. The Black Hawk gaming market is characterized by intense competition. The primary competitive factors in the market are location, availability and convenience of parking, number of slot machines and gaming tables, promotional incentives, types and pricing of non-gaming amenities, name recognition and overall atmosphere. There are currently 18 gaming facilities in the Black Hawk market and six gaming facilities in nearby Central City.

Hobbs, New Mexico. The closest competitors to Black Gold Casino at Zia Park are located in New Mexico, and are approximately 190 and 250 miles from Hobbs. Hobbs is located very close to the Texas border, and the political developments in Texas are monitored closely. Currently, there is no legalized gaming in Texas which, if legalized, could greatly impact Black Gold Casino at Zia Park. In New Mexico, the Governor signed a new compact with the tribal casinos limiting the future expansion of gaming facilities in the state.

Ontario. Casino Rama faces competition in Ontario from three other commercial casinos, six charity casinos and 17 racetracks with gaming machines in the province. All of the casinos (including Casino Rama) and gaming machine facilities are operated by or on behalf of the Ontario Lottery and Gaming Corporation, an agency of the Province of Ontario.

There are two charity casinos and seven racetracks with gaming machine facilities that directly affect Casino Rama. The two charity casinos together have 114 gaming tables and 1,059 gaming machines. The number of gaming machines at the racetracks ranges from 200 to over 2,009 each. There are also two commercial casinos located in Niagara Falls, Ontario, 80 miles southwest of Toronto with a total of 172 gaming tables and 4,823 gaming machines.

Racing Operations

Our racing operations face significant competition for wagering dollars from other racetracks and OTWs, some of which also offer other forms of gaming, as well as other gaming venues such as casinos. Our account wagering operations compete with other providers of such services throughout the country. We also may face competition in the future from new OTWs, new racetracks or new providers

of account wagering. From time to time, states consider legislation to permit other forms of gaming. If additional gaming opportunities become available near our racing operations, such gaming opportunities could have an adverse effect on our business, financial condition and results of operations.

U.S. and Foreign Revenues

Our net revenues from continuing operations in the U.S. for 2008, 2007 and 2006 were approximately $2,406.4 million, $2,419.5 million and $2,226.4 million, respectively. Our revenues from operations in Canada for 2008, 2007 and 2006 were approximately $16.7 million, $17.3 million and $18.1 million, respectively.

Segments

In accordance with Statement of Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information," we view each property as an operating segment, and aggregate all of our properties into one reportable segment, as we believe that they are economically similar, offer similar types of products and services, cater to the same types of customers and are similarly regulated.

Management

Name	Age	Position
Peter M. Carlino	62	Chief Executive Officer
Timothy J. Wilmott	50	President and Chief Operating Officer
William J. Clifford	51	Senior Vice President-Finance and Chief Financial Officer
Thomas P. Burke	52	Senior Vice President-Regional Operations
John V. Finamore	50	Senior Vice President-Regional Operations
Robert S. Ippolito	57	Vice President, Secretary and Treasurer
Jordan B. Savitch	43	Senior Vice President and General Counsel
Steven T. Snyder	48	Senior Vice President-Corporate Development

Peter M. Carlino. Mr. Carlino has served as our Chairman of the Board of Directors and Chief Executive Officer since April 1994. Since 1976, Mr. Carlino has been President of Carlino Capital Management Corp. (formerly known as Carlino Financial Corporation), a holding company that owns and operates various Carlino family businesses, in which capacity he has been continuously active in strategic planning and monitoring the operations.

Timothy J. Wilmott. Mr. Wilmott joined us in February 2008 as President and Chief Operating Officer. Mr. Wilmott most recently served as Chief Operating Officer of Harrah's Entertainment, a position he held for approximately four years. In this position, he oversaw the operations of all of Harrah's revenue-generating businesses, including 48 casinos, 38,000 hotel rooms and 300 restaurants. All Harrah's Division Presidents, Senior Vice Presidents of Brand Operations, Marketing and Information Technology personnel reported to Mr. Wilmott in his capacity as Chief Operating Officer. Prior to his appointment to the position of Chief Operating Officer, Mr. Wilmott served from 1997 to 2002 as Division President of Harrah's Eastern Division with responsibility for the operations of eight Harrah's properties.

William J. Clifford. Mr. Clifford joined us in August 2001 and was appointed to his current position as Senior Vice President-Finance and Chief Financial Officer in October 2001. From March 1997 to July 2001, Mr. Clifford served as the Chief Financial Officer and Senior Vice President of Finance with Sun International Resorts, Inc., Paradise Island, Bahamas. From November 1993 to February 1997, Mr. Clifford was Financial, Hotel and Operations Controller for Treasure Island Hotel

and Casino in Las Vegas. From May 1989 to November 1993, Mr. Clifford was Controller for Golden Nugget Hotel and Casino, Las Vegas. Prior to May 1989, Mr. Clifford held the positions of Controller for the Dunes Hotel and Casino, Las Vegas, Property Operations Analyst with Aladdin Hotel and Casino, Las Vegas, Casino Administrator with Las Vegas Hilton, Las Vegas, Senior Internal Auditor with Del Webb, Las Vegas, and Agent, Audit Division, of the Nevada Gaming Control Board, Las Vegas and Reno.

Thomas P. Burke. Mr. Burke joined us in November 2002, and was appointed to his current position of Senior Vice President-Regional Operations effective October 2008. In this position, Mr. Burke is responsible for overseeing all facets of our facilities located in Colorado, Iowa, Louisiana, Mississippi, Missouri, and New Mexico. Previously, Mr. Burke served as Vice President and General Manager of our Argosy Casino Riverside from June 2006 until October 2008 and as President and General Manager of our Bullwhackers properties from November 2002 until June 2006. Prior to joining us, Mr. Burke held senior management positions at Ameristar Casinos, Station Casinos, Trump Taj Mahal Casino Resort and Trump Castle Hotel/Casino, American Gaming and Entertainment and the Majestic Star Casino.

John V. Finamore. Mr. Finamore joined us in November 2002 as Senior Vice President-Regional Operations. In this position, Mr. Finamore is responsible for overseeing all facets of our facilities located in Florida, Illinois, Maine, New Jersey, Ohio, Ontario, Pennsylvania, and West Virginia. Prior to joining us, Mr. Finamore served as President of Missouri Operations for Ameristar Casinos, Inc. from December of 2000 until February of 2002 and President of Midwest Operations for Station Casinos, Inc. from July 1998 until November 2000. Mr. Finamore has over 28 years of gaming industry and hotel management experience.

Robert S. Ippolito. In July 2001, we appointed Mr. Ippolito to the position of Vice President, Secretary and Treasurer. Mr. Ippolito has served as our Secretary and Treasurer since April 1994 and as our Chief Financial Officer from April 1994 until July 2001. Mr. Ippolito brings more than 24 years of gaming and racing experience to the management team both as a manager at a major accounting firm and as an officer of companies in the racing business.

Jordan B. Savitch. Mr. Savitch joined us in September 2002 as Senior Vice President and General Counsel. From June 1999 to April 2002, Mr. Savitch served as a director and senior executive at iMedium, Inc., a venture-backed software company offering innovative software solutions for increasing sales effectiveness. From 1995 to 1999, Mr. Savitch served as senior corporate counsel at Safeguard Scientifics, Inc., a NYSE-listed company specializing in identifying, developing and operating emerging technology companies. Mr. Savitch also spent four years in private practice as an associate at Willkie Farr & Gallagher, LLP in New York, New York.

Steven T. Snyder. Mr. Snyder joined us in May 1998, and from 1998 through 2001 served as Vice President of Corporate Development. In June 2003, he accepted the position of Senior Vice President of Corporate Development and is responsible for identifying and conducting internal and industry analysis of potential acquisitions, partnerships and other opportunities. Prior to joining us, Mr. Snyder was a partner with Hamilton Partners, Ltd., as well as Managing Director of Municipal and Corporate Investment Banking for Meridian Capital Markets. Mr. Snyder began his career in finance at Butcher & Singer, where he served as First Vice President of Public Finance.

Governmental Regulations

The gaming and racing industries are highly regulated, and we must maintain our licenses and pay gaming taxes to continue our operations. Each of our facilities is subject to extensive regulation under the laws, rules and regulations of the jurisdiction where it is located. These laws, rules and regulations generally concern the responsibility, financial stability and character of the owners, managers, and persons with financial interests in the gaming operations. Violations of laws or regulations in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is contained in Exhibit 99.1 to this Annual Report on Form 10-K, which is incorporated herein by reference.

Our businesses are subject to various federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted. Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect our operating results.

Employees and Labor Relations

As of December 31, 2008, we had 14,693 full- and part-time employees.

We are required to have agreements with the horsemen at each of our racetracks to conduct our live racing and simulcasting activities, with the exception of our tracks in Ohio and New Mexico. In addition, in order to operate gaming machines in West Virginia, we must maintain agreements with each of the Charles Town Horsemen, pari-mutuel clerks and breeders.

At the Charles Town Entertainment Complex, we have an agreement with the Charles Town Horsemen with an initial term expiring on December 31, 2011, and an agreement with the breeders that expires on June 30, 2009. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks, which expires on December 31, 2010.

Our agreement with the Pennsylvania Thoroughbred Horsemen at Penn National Race Course expires on September 30, 2011. We have a collective bargaining agreement with Local 137 of the Sports Arena Employees (AFL-CIO) at Penn National Race Course with respect to pari-mutuel clerks, admissions and Telebet personnel which expires on December 31, 2011. We also have an agreement in place with the Sports Arena Employees Local 137 (AFL-CIO) with respect to pari-mutuel clerks and admission personnel at our OTWs, which will expire on September 30, 2009.

Our agreement with the Maine Harness Horsemen Association at Bangor Raceway expired at the end of the 2008 racing season. The parties are currently working cooperatively on a three-year extension, which is expected to be executed before the start of the 2009 racing season.

Pennwood Racing, Inc. also has an agreement in effect with the horsemen at Freehold Raceway, which expires in May 2009.

Throughout our Argosy properties, the Seafarers Entertainment and Allied Trade Union represents approximately one thousand nine hundred of our employees. At the Empress Casino Hotel, the Hotel Employees and Restaurant Employees Union ("UNITE/HERE") Local 1 represents approximately three hundred employees under a collective bargaining agreement which expires on March 31, 2010. At certain of our Argosy properties, the Seafarer International Union of North America, Atlantic, Gulf, Lakes and Inland Waters District/NMU, AFL-CIO, the International Brotherhood of Electrical Workers, the Security Police and Fire Professionals of America, the American Maritime Officers Union, the International Brotherhood of Electronic Workers Local 176, and UNITE/HERE Local 10 represent certain of our employees. We have collective bargaining agreements with these unions that

expire at various times between July 2009 and October 2015. None of these unions individually represent more than fifty of our employees.

Available Information

For more information about us, visit our web site at www.pngaming.com. Our electronic filings with the U.S. Securities and Exchange Commission (including all annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, and any amendments to these reports), including the exhibits, are available free of charge through our web site as soon as reasonably practicable after we electronically file them with or furnish them to the U.S. Securities and Exchange Commission.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

A substantial portion of our revenues is derived from our Charles Town, West Virginia and Lawrenceburg, Indiana facilities.

For the fiscal year ended December 31, 2008, approximately 37.5% of our net revenues were collectively derived from our Charles Town and Lawrenceburg operations. Our ability to meet our operating and debt service requirements is substantially dependent upon the continued success of these facilities. The operations at these facilities and any of our other facilities could be adversely affected by numerous factors, including:

- risks related to local and regional economic and competitive conditions, such as a decline in the number of visitors to a facility, a downturn in the overall economy in the market, a decrease in consumer spending on gaming activities in the market or an increase in competition within and outside the state in which each property is located (for example, the effect on Charles Town of the new gaming venues now possible in Maryland and the impact of Indianapolis Downs and Hoosier Downs on Lawrenceburg);

- changes in local and state governmental laws and regulations (including changes in laws and regulations affecting gaming operations and taxes) applicable to a facility;

- impeded access to a facility due to weather, road construction or closures of primary access routes; and

- the occurrence of floods and other natural disasters.

If any of these events occur, our operating revenues and cash flow could decline significantly.

We may face disruption in integrating and managing facilities we may acquire in the future.

We expect to continue pursuing expansion opportunities, and we regularly evaluate opportunities for acquisition of other properties, which evaluations may include discussions and the review of confidential information after the execution of nondisclosure agreements with potential acquisition candidates, some of which may be potentially significant in relation to our size.

We could face significant challenges in managing and integrating our expanded or combined operations and any other properties we may acquire. The integration of any other properties we may acquire will require the dedication of management resources that may temporarily divert attention from our day-to-day business. The process of integrating properties that we may acquire also could interrupt the activities of those businesses, which could have a material adverse effect on our business, financial condition and results of operations.

Management of new properties, especially in new geographic areas, may require that we increase our managerial resources. We cannot assure you that we will be able to manage the combined operations effectively or realize any of the anticipated benefits of our acquisitions. We also cannot

assure you that if acquisitions are completed, that the acquired businesses will generate sufficient revenue to offset the associated costs.

Our ability to achieve our objectives in connection with any acquisition we may consummate may be highly dependent on, among other things, our ability to retain the senior level property management teams of such acquisition candidates. If, for any reason, we are unable to retain these management teams following such acquisitions or if we fail to attract new capable executives, our operations after consummation of such acquisitions could be materially adversely affected.

The occurrence of some or all of the above described events could have a material adverse effect on our business, results of operations and financial condition.

We face risks related to the development and expansion of our current properties.

We expect to use a portion of our cash on hand, cash flow from operations and available borrowings under our revolving credit facility for significant capital expenditures at certain of our properties. Any proposed enhancement may require us to significantly increase the size of our existing work force at those properties. We cannot be certain that management will be able to hire and retain a sufficient number of employees to operate and manage these facilities at their optimal levels. The failure to employ the necessary work force could adversely affect our operations and ultimately harm profitability. In addition, these enhancements could involve risks similar to construction risks including cost over-runs and delays, market deterioration and timely receipt of required licenses, permits or authorizations. Our failure to complete any new development or expansion project as planned, on schedule, within budget or in a manner that generates anticipated profits, could have a material adverse effect on our business, financial condition and results of operations.

We face a number of challenges prior to opening new or upgraded gaming facilities.

No assurance can be given that, when we endeavor to open new or upgraded gaming facilities, the expected timetables for opening such facilities will be met in light of the uncertainties inherent in the development of the regulatory framework, the licensing process, legislative action and litigation.

We face significant competition from other gaming operations.

The gaming industry is characterized by a high degree of competition among a large number of participants, including riverboat casinos, dockside casinos, land-based casinos, video lottery and poker machines not located in casinos, Native American gaming, Internet gaming and other forms of gambling in the U.S. In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including shopping, high school, collegiate and professional athletic events, television and movies, concerts and travel. Legalized gaming is currently permitted in various forms throughout the U.S., in several Canadian provinces and on various lands taken into trust for the benefit of certain Native Americans in the U.S. and Canada. Other jurisdictions, including states adjacent to states in which we currently have facilities (such as proposed sites in Kansas and Maryland), may legalize and implement gaming in the near future. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion or relocation of existing gaming operations. New, relocated or expanded operations by other persons will increase competition for our gaming operations and could have a material adverse impact on us.

Gaming competition is intense in most of the markets where we operate. As competing properties and new markets are opened (for instance, the potential new markets in Kansas and Maryland, the potential competition in Baton Rouge and the new properties in St. Louis and Indianapolis), our operating results may be negatively affected. In addition, some of our direct competitors in certain markets may have superior facilities and/or operating conditions. There could be further competition in our markets as a result of the upgrading or expansion of facilities by existing market participants, the entrance of new gaming participants into a market or legislative changes.

We expect each existing or future market in which we participate to be highly competitive. The competitive position of each of our casino properties is discussed in detail in the subsection entitled "Competition—Gaming Operations" of this Annual Report on Form 10-K.

Our management service contract for Casino Rama expires on July 31, 2011.

Through CHC Casinos Canada Limited, our indirectly wholly-owned subsidiary, we manage Casino Rama, a full service gaming and entertainment facility, on behalf of the Ontario Lottery and Gaming Corporation, an agency of the Province of Ontario. Casino Rama is located on the lands of the Rama First Nation, approximately 90 miles north of Toronto. The property has approximately 93,000 square feet of gaming space, 2,535 gaming machines, 105 table games and 12 poker tables. In addition, the property includes a 5,000-seat entertainment facility, a 289-room hotel and 3,170 parking spaces.

The Development and Operating Agreement (the "Agreement"), which we refer to as the management service contract for Casino Rama, sets out the duties, rights and obligations of CHC Casinos Canada Limited and our wholly-owned subsidiary, CRC Holdings, Inc. CHC Casinos Canada Limited substantially relies on our experience, know-how, guidance and assistance to carry out the duties and obligations under the Agreement. The compensation under the Agreement is a base fee equal to 2.0% of gross revenues of the casino and an incentive fee equal to 5.0% of the casino's net operating profit.

The Agreement terminates on July 31, 2011, and the Ontario Lottery and Gaming Corporation has the option to extend the term of the Agreement for two successive periods of five years each, commencing on August 1, 2011.

There can be no assurance that the Agreement will be extended beyond August 1, 2011.

We are or may become involved in legal proceedings that, if adversely adjudicated or settled, could impact our financial condition.

From time to time, we are defendants in various lawsuits relating to matters incidental to our business. The nature of our business subjects us to the risk of lawsuits filed by customers, past and present employees, competitors, business partners and others in the ordinary course of business. As with all litigation, no assurance can be provided as to the outcome of these matters and, in general, litigation can be expensive and time consuming. We may not be successful in these lawsuits, which could result in settlements or damages that could significantly impact our business, financial condition and results of operations (see, for example, the lawsuits described in Item 3 below).

We face extensive regulation from gaming and other regulatory authorities.

Licensing requirements. As owners and managers of gaming and pari-mutuel wagering facilities, we are subject to extensive state, local and, in Canada, provincial regulation. State, local and provincial authorities require us and our subsidiaries to demonstrate suitability to obtain and retain various licenses and require that we have registrations, permits and approvals to conduct gaming operations. Various regulatory authorities, including the Colorado Limited Gaming Control Commission, the Florida Department of Business and Professional Regulation-Division of Pari-Mutuel Wagering, the Illinois Gaming Board, the Indiana Gaming Commission, the Iowa Gaming and Racing Commission, the Louisiana Gaming Control Board, the Maine Gambling Control Board, the Maine Harness Racing Commission, the Mississippi State Tax Commission, the Mississippi Gaming Commission, the Missouri Gaming Commission, the New Jersey Racing Commission, the New Mexico Gaming Control Board, the New Mexico Racing Commission, the Ohio State Racing Commission, the Pennsylvania Gaming Control Board, the Pennsylvania State Horse Racing Commission, the West Virginia Racing Commission, the West Virginia Lottery Commission, and the Alcohol and Gaming Commission of Ontario, have broad discretion, and may, for any reason set forth in the applicable legislation, rules and regulations, limit, condition, suspend, fail to renew or revoke a license or registration to conduct gaming operations or prevent us from owning the securities of any of our gaming subsidiaries or prevent another person from owning an equity interest in us. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses or

registrations and have the suitability of certain of our directors, officers and employees approved. We cannot assure you that we will be able to obtain such renewals or approvals. Regulatory authorities have input into our operations, for instance, hours of operation, location or relocation of a facility, numbers and types of machines and loss limits. Regulators may also levy substantial fines against or seize our assets or the assets of our subsidiaries or the people involved in violating gaming laws or regulations. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

We have demonstrated suitability to obtain and have obtained all governmental licenses, registrations, permits and approvals necessary for us to operate our existing gaming and pari-mutuel facilities. We cannot assure you that we will be able to retain them or demonstrate suitability to obtain any new licenses, registrations, permits or approvals. In addition, the loss of a license in one jurisdiction could trigger the loss of a license or affect our eligibility for a license in another jurisdiction. As we expand our gaming operations in our existing jurisdictions or to new areas, we may have to meet additional suitability requirements and obtain additional licenses, registrations, permits and approvals from gaming authorities in these jurisdictions. The approval process can be time-consuming and costly and we cannot be sure that we will be successful.

Gaming authorities in the U.S. generally can require that any beneficial owner of our securities file an application for a finding of suitability. If a gaming authority requires a record or beneficial owner of our securities to file a suitability application, the owner must generally apply for a finding of suitability within 30 days or at an earlier time prescribed by the gaming authority. The gaming authority has the power to investigate such an owner's suitability and the owner must pay all costs of the investigation. If the owner is found unsuitable, then the owner may be required by law to dispose of our securities.

Potential changes in legislation and regulation of our operations. Regulations governing the conduct of gaming activities and the obligations of gaming companies in any jurisdiction in which we have or in the future may have gaming operations are subject to change and could impose additional operating, financial or other burdens on the way we conduct our business.

Moreover, legislation to prohibit or limit gaming may be introduced in the future in states where gaming has been legalized. In addition, from time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations or which may otherwise adversely impact our operations in the jurisdictions in which we operate. Any expansion of gaming or restriction on or prohibition of our gaming operations or enactment of other adverse regulatory changes could have a material adverse effect on our operating results. For example, in October 2005, the Illinois House of Representatives voted to approve proposed legislation that would eliminate riverboat gambling. If the Illinois Senate had passed a bill eliminating riverboat gambling, our business would have been materially impacted. In addition, legislation banning smoking appears to be gaining momentum in a number of jurisdictions where we operate (including passage in Illinois, Colorado and Pennsylvania in 2008). If these bans continue to be enacted, our business could be adversely affected.

Taxation and fees. We believe that the prospect of significant revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state, local and provincial legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, worsening economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws. Such changes, if adopted, could have a material adverse effect on our business, financial condition and results of operations. The large number of state and local governments with significant current or projected budget deficits makes it more likely that those governments that currently permit gaming will seek to fund such deficits with new or increased gaming taxes, and worsening economic conditions could intensify those efforts. Any

material increase, or the adoption of additional taxes or fees, could have a material adverse effect on our future financial results.

Compliance with other laws. We are also subject to a variety of other rules and regulations, including zoning, environmental, construction and land-use laws and regulations governing the serving of alcoholic beverages. If we are not in compliance with these laws, it could have a material adverse effect on our business, financial condition and results of operations.

We depend on our key personnel.

We are highly dependent on the services of Peter M. Carlino, our Chairman and Chief Executive Officer, Timothy J. Wilmott, our President and Chief Operating Officer, and other members of our senior management team. Our ability to retain key personnel is affected by the competitiveness of our compensation packages and the other terms and conditions of employment, our continued ability to compete effectively against other gaming companies and our growth prospects. The loss of the services of any of these individuals could have a material adverse effect on our business, financial condition and results of operations.

Compliance with changing regulation of corporate governance and public disclosure may result in additional expenses and compliance risks.

Changing laws and regulations relating to corporate governance and public disclosure, including U.S. Securities and Exchange Commission regulations, generally accepted accounting principles, and NASDAQ Global Select Market rules, are creating uncertainty for companies. These changing laws and regulations are subject to varying interpretations in many cases due to their lack of specificity, recent issuance and/or lack of guidance. As a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. In addition, further regulation of financial institutions and public companies is possible in light of recent economic events. This could result in continuing uncertainty and higher costs regarding compliance matters. Due to our commitment to maintain high standards of compliance with laws and public disclosure, our efforts to comply with evolving laws, regulations and standards have resulted in and are likely to continue to result in increased general and administrative expense. In addition, we are subject to different parties' interpretation of our compliance with these new and changing laws and regulations. A failure to comply with any of these laws or regulations could have a materially adverse effect on us. For instance, if our gaming authorities, the U.S. Securities and Exchange Commission, our independent auditors or our shareholders and potential shareholders conclude that our compliance with the regulations is unsatisfactory, this may result in a negative public perception of us, subject us to increased regulatory scrutiny, penalties or otherwise adversely affect us.

Inclement weather and other conditions could seriously disrupt our business and have a material adverse effect on our financial condition and results of operations.

The operations of our facilities are subject to disruptions or reduced patronage as a result of severe weather conditions, natural disasters and other casualties. Because many of our gaming operations are located on or adjacent to bodies of water, these facilities are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, forces of nature, mechanical failure, extended or extraordinary maintenance, flood, hurricane or other severe weather conditions. For example, in late August 2005, we closed Hollywood Casino Bay St. Louis in Bay St. Louis, Mississippi, Boomtown Biloxi in Biloxi, Mississippi and Hollywood Casino Baton Rouge in Baton Rouge, Louisiana in anticipation of Hurricane Katrina. Hollywood Casino Baton Rouge subsequently reopened on August 30, 2005. However, due to the extensive damage sustained, operations at Boomtown Biloxi and Hollywood Casino Bay St. Louis did not resume until June 29, 2006 and August 31, 2006, respectively. In addition, several of our casinos are subject to risks generally associated with the movement of vessels on inland waterways, including risks of collision or casualty due to river turbulence and traffic. Many of our casinos operate in areas which are subject to periodic flooding that has caused us to experience decreased attendance and increased operating expenses. Any

flood or other severe weather condition could lead to the loss of use of a casino facility for an extended period.

The extent to which we can recover under our insurance policies for damages sustained at our properties in the event of future hurricanes, as well as changes in the local gaming market as a result of a hurricane could adversely affect our business.

On August 28, 2005, we closed Hollywood Casino Bay St. Louis in Bay St. Louis, Mississippi and Boomtown Biloxi casino in Biloxi, Mississippi in anticipation of Hurricane Katrina. Due to the extensive damage sustained, operations at Boomtown Biloxi and Hollywood Casino Bay St. Louis did not resume until June 29, 2006 and August 31, 2006, respectively. We maintain significant property insurance, including business interruption coverage, for both Hollywood Casino Bay St. Louis and Boomtown Biloxi. However, there can be no assurances that we will be fully or promptly compensated for weather-related losses at any of our facilities in the event of future hurricanes. Our experience demonstrates that the infrastructure damage caused by hurricanes to the surrounding communities can adversely affect the local gaming markets by making travel and staffing more difficult.

We are subject to environmental laws and potential exposure to environmental liabilities.

We are subject to various federal, state and local environmental laws and regulations that govern our operations, including emissions and discharges into the environment, and the handling and disposal of hazardous and nonhazardous substances and wastes. Failure to comply with such laws and regulations could result in costs for corrective action, penalties or the imposition of other liabilities or restrictions. From time to time, we have incurred and are incurring costs and obligations for correcting environmental noncompliance matters. To date, none of these matters have had a material adverse effect on our business, financial condition or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

We also are subject to laws and regulations that impose liability and clean-up responsibility for releases of hazardous substances into the environment. Under certain of these laws and regulations, a current or previous owner or operator of property may be liable for the costs of remediating contaminated soil or groundwater on or from its property, without regard to whether the owner or operator knew of, or caused, the contamination, as well as incur liability to third parties impacted by such contamination. The presence of contamination, or failure to remediate it properly, may adversely affect our ability to sell or rent property. The Bullwhackers properties are located within the geographic footprint of the Clear Creek/Central City Superfund Site, a large area of historic mining activity which is the subject of state and federal clean-up actions. Although we have not been named a potentially responsible party for this Superfund Site, it is possible that as a result of our ownership and operation of these properties (on which mining may have occurred in the past), we may incur costs related to this matter in the future. Furthermore, we are aware that there is or may be soil or groundwater contamination at certain of our facilities resulting from current or former operations. These matters are in various stages of investigation, and we are not able at this time to estimate the costs that will be required to resolve them. Additionally, certain of the gaming chips used at many gaming properties, including ours, have been found to contain some level of lead. Analysis by third parties has indicated the normal handling of the chips does not create a health hazard. We are in the process of evaluating potential environmental issues and our disposal alternatives. To date, none of these matters or other matters arising under environmental laws has had a material adverse effect on our business, financial condition, or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

The concentration and evolution of the slot machine manufacturing industry could impose additional costs on us.

A majority of our revenues are attributable to slot machines operated by us at our gaming facilities. It is important, for competitive reasons, that we offer the most popular and up to date slot machine games with the latest technology to our customers.

We believe that a substantial majority of the slot machines sold in the U.S. in recent years were manufactured by a few select companies. In addition, we believe that one company in particular provided a majority of all slot machines sold in the U.S. in recent years.

In recent years, the prices of new slot machines have escalated faster than the rate of inflation. Furthermore, in recent years, slot machine manufacturers have frequently refused to sell slot machines featuring the most popular games, instead requiring participation lease arrangements in order to acquire the machines. Participation slot machine leasing arrangements typically require the payment of a fixed daily rental. Such agreements may also include a percentage payment of coin-in or net win. Generally, a participation lease is substantially more expensive over the long term than the cost to purchase a new machine.

For competitive reasons, we may be forced to purchase new slot machines or enter into participation lease arrangements that are more expensive than our current costs associated with the continued operation of our existing slot machines. If the newer slot machines do not result in sufficient incremental revenues to offset the increased investment and participation lease costs, it could hurt our profitability.

We depend on agreements with our horsemen and pari-mutuel clerks.

The Federal Interstate Horseracing Act of 1978, as amended, the West Virginia Racing Act and the Pennsylvania Racing Act require that, in order to simulcast races, we have written agreements with the horse owners and trainers at our West Virginia and Pennsylvania race tracks. In addition, in order to operate gaming machines in West Virginia, we are required to enter into written agreements regarding the proceeds of the gaming machines with a representative of a majority of the horse owners and trainers, a representative of a majority of the pari-mutuel clerks and a representative of a majority of the horse breeders.

Effective October 1, 2004, we signed an agreement with the Pennsylvania Thoroughbred Horsemen at Penn National Race Course that expires on September 30, 2011. At the Charles Town Entertainment Complex, we have an agreement with the Charles Town Horsemen with an initial term expiring on December 31, 2011, and an agreement with the breeders that expires on June 30, 2009. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks which expires on December 31, 2010. Our agreement with the Maine Harness Horsemen Association at Bangor Raceway expired at the end of the 2008 racing season. The parties are currently working cooperatively on a three-year extension, which is expected to be executed before the start of the 2009 racing season. Pennwood Racing, Inc. also has an agreement in effect with the horsemen at Freehold Raceway, which expires in May 2009.

If we fail to maintain operative agreements with the horsemen at a track, we will not be permitted to conduct live racing and export and import simulcasting at that track and OTWs and, in West Virginia, we will not be permitted to operate our gaming machines. In addition, our simulcasting agreements are subject to the horsemen's approval. If we fail to renew or modify existing agreements on satisfactory terms, this failure could have a material adverse effect on our business, financial condition and results of operations.

Work stoppages, organizing drives and other labor problems could negatively impact our future profits.

Some of our employees are currently represented by labor unions. A lengthy strike or other work stoppages at any of our casino properties or construction projects could have an adverse effect on our business and results of operations. Labor unions are making a concerted effort to recruit more employees in the gaming industry. In addition, organized labor may benefit from new legislation or legal interpretations by the current presidential administration. We cannot provide any assurance that we will not experience additional and more successful union activity in the future.

Risks Related to Our Capital Structure

Our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our debt.

We continue to have a significant amount of indebtedness. Our substantial indebtedness could have important consequences to our financial health. For example, it could:

- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to debt service, thereby reducing the availability of our cash flow to fund working capital, capital expenditures, acquisitions and other general corporate purposes;
- limit our flexibility in planning for, or reacting to, changes in our business and the industry in which we operate;
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds; and
- result in an event of default if we fail to satisfy our obligations under our debt or fail to comply with the financial and other restrictive covenants contained in our debt, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

Any of the above listed factors could have a material adverse effect on our business, financial condition and results of operations. In addition, we may incur substantial additional indebtedness in the future, including to fund acquisitions. The terms of our existing indebtedness do not, and any future debt may not, fully prohibit us from doing so. If new debt is added to our current debt levels, the related risks that we now face could intensify.

The volatility and disruption of the capital and credit markets and adverse changes in the global economy may negatively impact our revenues and our ability to access financing.

While we intend to finance expansion and renovation projects with existing cash, cash flow from operations and borrowing under our $2.725 billion senior secured credit facility, we may require additional financing to support our continued growth. However, due to the existing uncertainty in the capital and credit markets, our access to capital may not be available on terms acceptable to us or at all. Further, if adverse regional and national economic conditions persist or worsen, we could experience decreased revenues from our operations attributable to decreases in consumer spending levels and could fail to satisfy the financial and other restrictive covenants to which we are subject under our existing indebtedness.

The availability and cost of financing could have an adverse effect on business.

We intend to finance some of our current and future expansion and renovation projects primarily with cash flow from operations, borrowings under our current $2.725 billion senior secured credit facility and equity or debt financings. Depending on the state of the credit markets, if we are unable to finance our current or future expansion projects, we could have to adopt one or more alternatives, such as reducing or delaying planned expansion, development and renovation projects as well as capital expenditures, selling assets, restructuring debt, obtaining additional equity financing or joint venture partners, or modifying our $2.725 billion senior secured credit facility. Depending on credit market conditions, these sources of funds may not be sufficient to finance our expansion, and other financing may not be available on acceptable terms, in a timely manner or at all. In addition, our existing indebtedness contains certain restrictions on our ability to incur additional indebtedness. If we are unable to secure additional financing, we could be forced to limit or suspend expansion, acquisitions, development and renovation projects, which may adversely affect our business, financial condition and results of operations.

Our indebtedness imposes restrictive covenants on us.

Our existing $2.725 billion senior secured credit facility requires us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, our existing $2.725 billion senior secured credit facility restricts, among other things, our ability to incur additional indebtedness, incur guarantee obligations, repay indebtedness or amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restrict corporate activities. A failure to comply with the restrictions contained in our $2.725 billion senior secured credit facility and the indentures governing our existing senior subordinated notes could lead to an event of default thereunder which could result in an acceleration of such indebtedness. In addition, the indentures relating to our senior subordinated notes restrict, among other things, our ability to incur additional indebtedness (excluding certain indebtedness under our $2.725 billion senior secured credit facility), make certain payments and dividends or merge or consolidate. A failure to comply with the restrictions in any of the indentures governing the notes could result in an event of default under such indenture which could result in an acceleration of such indebtedness and a default under our other debt, including our existing senior subordinated notes and our $2.725 billion senior secured credit facility.

To service our indebtedness, we will require a significant amount of cash, which depends on many factors beyond our control.

Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our existing $2.725 billion senior secured credit facility will be adequate to meet our future liquidity needs for the next few years. We cannot assure you, however, that our business will generate sufficient cash flow from operations, or that future borrowings will be available to us under our existing $2.725 billion senior secured credit facility in amounts sufficient to enable us to fund our liquidity needs, including with respect to our indebtedness. In addition, if we consummate significant acquisitions in the future, our cash requirements may increase significantly. As we are required to satisfy amortization requirements under our existing $2.725 billion senior secured credit facility or as other debt matures, we may also need to raise funds to refinance all or a portion of our debt. We cannot assure you that we will be able to refinance any of our debt, including our existing $2.725 billion senior secured credit facility, on attractive terms, commercially reasonable terms or at all. Our future operating performance and our ability to service or refinance the notes, extend or refinance our debt, including our existing $2.725 billion senior secured credit facility, will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

The price of our Common Stock may fluctuate significantly.

Our stock price may fluctuate in response to a number of events and factors, such as variations in operating results, actions by various regulatory agencies and legislatures, litigation, operating competition, market perceptions, progress with respect to potential acquisitions, changes in financial estimates and recommendations by securities analysts, the actions of rating agencies, the operating and stock price performance of other companies that investors may deem comparable to us, and news reports relating to trends in our markets or general economic conditions.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

The following describes our principal real estate properties:

Charles Town Entertainment Complex. We own a 300-acre parcel in Charles Town, West Virginia, a portion of which contains the Charles Town Entertainment Complex. The property includes a 153-room hotel and a 3/4 mile all-weather, lighted thoroughbred racetrack and an enclosed grandstand/clubhouse.

Argosy Casino Lawrenceburg. The Argosy VI is a riverboat casino, which we own. We own and lease 52 acres in Lawrenceburg, Indiana, a portion of which serves as the dockside embarkation for the Argosy VI, and includes an entertainment pavilion, a 300-room hotel, two parking garages and an adjacent surface lot. In addition, we own a 52-acre parcel on Route 50 which we use for remote parking.

Hollywood Casino at Penn National Race Course. We own approximately 625 acres in Grantville, Pennsylvania, of which 225 is where the Penn National Race Course is located. Currently, the property includes a 365,000 square foot integrated slot wagering and horse racing facility, complimented by a one-mile all-weather thoroughbred racetrack and a 7/8-mile turf track. The property also includes approximately 400 acres surrounding the Penn National Race Course that are available for future expansion or development.

Hollywood Casino Aurora. We own a dockside barge structure and land-based pavilion in Aurora, Illinois. The property also includes two parking garages under capital lease agreements.

Empress Casino Hotel. We own approximately 276 acres in Joliet, Illinois, which includes a barge-based casino, a 100-room hotel and an entertainment pavilion.

Argosy Casino Riverside. We own approximately 41 acres in Riverside, Missouri, which includes a barge-based casino, a 258-room luxury hotel, an entertainment/banquet facility and a parking garage.

Hollywood Casino Baton Rouge. The Hollywood Casino Baton Rouge is a four-story riverboat casino, which we own. We own a 17.4-acre site on the east bank of the Mississippi River in the East Baton Rouge Downtown Development District. The property site serves as the dockside embarkation for the Hollywood Casino Baton Rouge and features a two-story building. We also own 5.5 acres of land that are used primarily for offices, warehousing, and parking. In December 2007, we agreed to acquire 3.8 acres of adjacent land and to pay for half of the construction costs (subject to a ceiling of $3.8 million) for a railroad underpass with the seller of the land. The underpass will provide unimpeded access to the casino property and to property owned by the seller for future development. Subject to the satisfaction of various conditions, construction on the underpass may begin in the second quarter of 2009.

Argosy Casino Alton. The Alton Belle II is a riverboat casino, which we own. We lease a 2.5-acre parcel in Alton, Illinois, a portion of which serves as the dockside boarding for the Alton Belle II. The dockside facility includes an entertainment pavilion and office space. In addition, we lease a warehouse facility.

Hollywood Casino Tunica. We lease approximately 70 acres of land in Tunica, Mississippi, which contains a single-level casino, a 494-room hotel, and other land-based facilities.

Hollywood Casino Bay St. Louis. We own approximately 614 acres in the city of Bay St. Louis, Mississippi, including a 17-acre marina. The property includes an 18-hole golf course, a 291-room hotel, and other land-based facilities, all of which we own.

Argosy Casino Sioux City. We have a lease in Sioux City, Iowa, for the landing rights, which includes the dockside embarkation for the Argosy IV. The Argosy IV is a riverboat casino. We own the Argosy IV as well as adjacent barge facilities.

Boomtown Biloxi. We lease approximately 13 acres, most of which is utilized for the gaming location, under a lease that expires in 2093. We also lease approximately 5 acres of submerged tidelands at the casino site from the State of Mississippi under a ten-year lease with a five-year option to renew. We own the barge on which the casino is located and all of the land-based facilities.

Hollywood Slots Hotel and Raceway. We lease approximately 26 acres located at Bass Park in Bangor, Maine, which consists of over 12,000 square feet of grandstand space with seating for 3,500 patrons. In addition, we lease the land on which the Hollywood Slots Hotel and Raceway facility is located, consisting of just over 9 acres, which is near our Bass Park property.

Bullwhackers. Our Bullwhackers Casino and the adjoining Bullpen are located on an approximately 4-acre site. We own the Bullwhackers Casino property and lease the Bullpen Casino property. On August 30, 2006, we purchased a gas station/convenience store located approximately 7 miles east of Bullwhackers Casino on Highway 119. This is approximately a 7.6 acre site.

Black Gold Casino at Zia Park. Our Black Gold Casino adjoins the Zia Park Racetrack and is located on an approximately 320-acre site that we own.

Raceway Park. We own approximately 92 acres in Toledo, Ohio, where Raceway Park is located. The property includes a $^{5}/_{8}$-mile harness race track, including a clubhouse and a grandstand.

Freehold Raceway. Through our joint venture, we own a 51-acre site in Freehold in Western Monmouth County, New Jersey, where Freehold Raceway in located. The property features a half-mile oval harness track and a grandstand.

Sanford-Orlando Kennel Club. We own approximately 26 acres in Longwood, Florida where Sanford-Orlando Kennel Club is located. The property includes a $^{1}/_{4}$ mile racing surface, a clubhouse dining facility and a main grandstand building plus a parking lot. Kennel facilities for up to 1,300 greyhounds are located at a leased location approximately $^{1}/_{2}$ mile from the racetrack enclosure.

Casino Rama. We do not own any of the land located at or near the casino or Casino Rama's facilities and equipment. The Ontario Lottery and Gaming Corporation has a long-term ground lease with an affiliate of the Rama First Nation, for the land on which Casino Rama is situated. Under the Development and Operating Agreement (the "Agreement"), CHC Casinos Canada Limited and CRC Holdings, Inc. have been granted full access to Casino Rama during the term of the Agreement to perform the management services under the Agreement. The Casino Rama facilities are located on approximately 57 acres.

Off-track Wagering Facilities. We lease our four currently-operating OTWs. We also own the property where the closed Williamsport OTW operated through June 2007. The following is a list of our four currently-operating OTWs and their locations:

Location	Size (Sq. Ft.)	Owned/Leased	Date Opened
Reading, PA	22,500	Leased	May 1992
Chambersburg, PA	12,500	Leased	April 1994
York, PA	25,000	Leased	March 1995
Lancaster, PA	24,000	Leased	July 1996

Other. We lease 42,348 square feet of executive office and warehouse space for buildings in Wyomissing, Pennsylvania from affiliates of Peter M. Carlino, our Chairman and Chief Executive

Officer. We believe the lease terms for the executive office and warehouse to be no less favorable than such lease terms that could have been obtained from unaffiliated third parties.

ITEM 3. LEGAL PROCEEDINGS

We are subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions and other matters arising in the normal course of business. We do not believe that the final outcome of these matters will have a material adverse effect on our consolidated financial position or results of operations. In addition, we maintain what we believe is adequate insurance coverage to further mitigate the risks of such proceedings. However, such proceedings can be costly, time consuming and unpredictable and, therefore, no assurance can be given that the final outcome of such proceedings may not materially impact our consolidated financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

The following proceedings could result in costs, settlements, damages, or rulings that materially impact our consolidated financial condition or operating results. In each instance, we believe that we have meritorious defenses, claims and/or counter-claims, and intend to vigorously defend ourselves or pursue our claim.

In conjunction with our acquisition of Argosy Gaming Company ("Argosy") in 2005, and subsequent disposition of the Argosy Casino Baton Rouge property, we became responsible for litigation initiated over eight years ago related to the Baton Rouge casino license formerly owned by Argosy. On November 26, 1997, Capitol House filed an amended petition in the Nineteenth Judicial District Court for East Baton Rouge Parish, State of Louisiana, amending its previously filed but unserved suit against Richard Perryman, the person selected by the Louisiana Gaming Division to evaluate and rank the applicants seeking a gaming license for East Baton Rouge Parish, and adding state law claims against Jazz Enterprises, Inc., the former Jazz Enterprises, Inc. shareholders, Argosy, Argosy of Louisiana, Inc. and Catfish Queen Partnership in Commendam, d/b/a the Belle of Baton Rouge Casino. This suit alleged that these parties violated the Louisiana Unfair Trade Practices Act in connection with obtaining the gaming license that was issued to Jazz Enterprises, Inc./Catfish Queen Partnership in Commendam. The plaintiff, an applicant for a gaming license whose application was denied by the Louisiana Gaming Division, sought to prove that the gaming license was invalidly issued and to recover lost gaming revenues that the plaintiff contended it could have earned if the gaming license had been properly issued to the plaintiff. On October 2, 2006, we prevailed on a partial summary judgment motion which limited plaintiff's damages to its out-of-pocket costs in seeking its gaming license, thereby eliminating any recovery for potential lost gaming profits. On February 6, 2007, the jury returned a verdict of $3.8 million (exclusive of statutory interest and attorneys' fees) against Jazz Enterprises, Inc. and Argosy. After ruling on post-trial motions, on September 27, 2007, the trial court entered a judgment in the amount of $1.4 million, plus attorneys' fees, costs and interest. We have established an appropriate reserve and have bonded the judgment pending its appeal. Both the plaintiff and we have appealed the judgment to the First Circuit Court of Appeals in Louisiana and oral arguments took place on August 28, 2008. We have the right to seek indemnification from two of the former Jazz Enterprises, Inc. shareholders for any liability suffered as a result of such cause of action, however, there can be no assurance that the former Jazz Enterprises, Inc. shareholders will have assets sufficient to satisfy any claim in excess of Argosy's recoupment rights.

In May 2006, the Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including our Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the Grand Victoria Casino in Elgin, and filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law

unconstitutional. Empress Casino Hotel and Hollywood Casino Aurora began paying the 3% tax surcharge into a protest fund which accrues interest during the pendency of the lawsuit. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, Empress Casino Hotel and Hollywood Casino Aurora continued paying the 3% tax surcharge into the protest fund until May 25, 2008, when the 3% tax surcharge expired. The State of Illinois appealed the ruling to the Illinois Supreme Court. On June 5, 2008, the Illinois Supreme Court reversed the trial court's ruling and issued a decision upholding the constitutionality of the 3% tax surcharge. On January 21, 2009, the four casino plaintiffs filed a petition for certiorari, requesting the U.S. Supreme Court to hear the case. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

On December 15, 2008, former Illinois Governor Rod Blagojevich signed Public Act No. 95-1008 requiring the same four casinos to continue paying the 3% tax surcharge to subsidize Illinois horse racing interests. On January 8, 2009, the four casinos filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois, asking the Court to declare the law unconstitutional. The 3% tax surcharge being paid pursuant to Public Act No. 95-1008 is paid into a protest fund where it accrues interest. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

In August 2007, a complaint was filed on behalf of a putative class of our public shareholders, and derivatively on behalf of us, in the Court of Common Pleas of Berks County, Pennsylvania (the "Complaint"). The Complaint names our Board of Directors as defendants and us as a nominal defendant. The Complaint alleges, among other things, that the Board of Directors breached their fiduciary duties by agreeing to the proposed transaction with Fortress and Centerbridge for inadequate consideration, that certain members of the Board of Directors have conflicts with regard to the Merger, and that we and our Board of Directors have failed to disclose certain material information with regard to the Merger. The Complaint seeks, among other things, a court order determining that the action is properly maintained as a class action and a derivative action enjoining us and our Board of Directors from consummating the proposed Merger, and awarding the payment of attorneys' fees and expenses. We and the plaintiff had reached a tentative settlement in which we agreed to pay certain attorneys' fees and to make certain disclosures regarding the events leading up to the transaction with Fortress and Centerbridge in the proxy statement sent to shareholders in November 2007. Final settlement was contingent upon court approval and consummation of the transaction with Fortress and Centerbridge. Because the transaction with Fortress and Centerbridge was terminated as described in Note 3 to the Consolidated Financial Statements, we expect to move for a dismissal of the complaint.

On July 16, 2008, we were served with a purported class action lawsuit brought by plaintiffs seeking to represent a class of shareholders who purchased shares of our Common Stock between March 20, 2008 and July 2, 2008. The lawsuit alleges that our disclosure practices relative to the proposed transaction with Fortress and Centerbridge and the eventual termination of that transaction were misleading and deficient in violation of the Securities Exchange Act of 1934. The complaint, which seeks class certification and unspecified damages, was filed in federal court in Maryland. The complaint has been amended, among other things, to add three new named plaintiffs and to name Peter M. Carlino, Chairman and Chief Executive Officer, and William J. Clifford, Senior Vice President and Chief Financial Officer, as additional defendants. We filed a motion to dismiss the complaint in November 2008, and oral arguments for the motion were heard by the court on February 23, 2009. Following oral arguments, the court granted our motion and dismissed the complaint with prejudice. We anticipate that the plaintiffs will file a motion for reconsideration with the court.

On September 11, 2008, the Board of County Commissioners of Cherokee County, Kansas (the "County") filed suit against Kansas Penn Gaming, LLC ("KPG," a wholly-owned subsidiary of Penn

created to pursue a development project in Cherokee County, Kansas) and us in the District Court of Shawnee County, Kansas. The petition alleges that KPG breached its pre-development agreement with the County when KPG withdrew its application to manage a lottery gaming facility in Cherokee County and seeks in excess of $50 million in damages. In connection with their petition, the County obtained an ex-parte order attaching the $25 million privilege fee paid to the Kansas Lottery Commission in conjunction with the gaming application for the Cherokee County zone. Defendants are currently contesting the validity and scope of the attachment and intend to defend the merits of the case going forward.

On September 23, 2008, KPG filed an action against HV Properties of Kansas, LLC ("HV") in the U.S. District Court for the District of Kansas seeking a declaratory judgment from the U.S. District Court finding that KPG has no further obligations to HV under a Real Estate Sale Contract (the "Contract") that KPG and HV entered into on September 6, 2007, and that KPG properly terminated this Contract under the terms of the Repurchase Agreement entered into between the parties effective September 28, 2007. HV filed a counterclaim claiming KPG breached the Contract, and seeks $37.5 million in damages. On October 7, 2008, HV filed suit against us claiming that we are liable to HV for KPG's alleged breach based on a Guaranty Agreement signed by us. Both cases were consolidated. We have filed a motion to dismiss HV's claims against us. This motion has been fully briefed and is pending.

The following dispute was concluded in the fourth quarter of 2008:

In November 2005, Capital Seven, LLC and Shawn A. Scott (collectively, "Capital Seven"), the sellers of Bangor Historic Track, Inc. ("BHT"), filed a demand for arbitration with the American Arbitration Association seeking $30 million plus interest and other damages. Capital Seven alleged a breach of contract by us based on our payment of a $51 million purchase price for the purchase of BHT instead of an alleged $81 million purchase price Capital Seven claimed was due under the purchase agreement. The parties had agreed that the purchase price of BHT would be determined, in part, by the applicable gaming taxes imposed by Maine on our operations. The arbitrators issued their ruling in November 2008, stating that, under the applicable tax rate, the purchase price was $61 million. The panel awarded $10 million plus contractual interest to Capital Seven. Pursuant to the dispute resolution procedures, we had deposited the disputed $30 million in escrow, pending a resolution. This amount was included in other assets within the consolidated balance sheet at December 31, 2007. On December 1, 2008, the escrowed funds were released, with $13.1 million being paid to Capital Seven and the remainder being returned to us.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) An Annual Meeting of Shareholders was held on November 12, 2008.

(b) Certain matters voted upon at the Annual Meeting and the votes cast with respect to such matters are as follows:

(i) Election of Directors:

Name	Votes For	Votes Withheld
Peter M. Carlino	59,612,926	16,901,771
Harold Cramer	50,141,769	26,372,927

(ii) Approval for us to utilize a "private placement" instead of a "public offering" if we elect to issue shares of Common Stock to redeem its Series B Redeemable Preferred Stock:

Votes For	Votes Against	Abstentions	Broker Non-Votes
63,659,977	884,957	126,005	11,843,758

(iii) Approval of our 2008 Long Term Incentive Compensation Plan:

Votes For	Votes Against	Abstentions	Broker Non-Votes
48,064,731	16,447,993	158,215	11,843,758

(iv) Ratification of the selection of Ernst & Young LLP as our independent registered public accounting firm for 2008:

Votes For	Votes Against	Abstentions	Broker Non-Votes
75,930,439	464,136	120,122	0

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Range of Market Price

Our Common Stock is quoted on the NASDAQ Global Select Market under the symbol "PENN." The following table sets forth for the periods indicated the high and low sales prices per share of our Common Stock as reported on the NASDAQ Global Select Market.

	High	Low
2008		
First Quarter	$ 59.79	$ 38.76
Second Quarter	47.08	31.82
Third Quarter	35.37	23.30
Fourth Quarter	26.79	11.82
2007		
First Quarter	$ 47.99	$ 39.94
Second Quarter	63.68	42.06
Third Quarter	61.00	54.40
Fourth Quarter	62.30	56.67

The closing sale price per share of our Common Stock on the NASDAQ Global Select Market on February 12, 2009, was $20.20. As of February 12, 2009, there were approximately 634 holders of record of our Common Stock.

Dividend Policy

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

Stock Repurchase

The repurchase of up to $200 million of our Common Stock over the twenty-four month period ending July 2010 was authorized by our Board of Directors in July 2008. During the month ended October 31, 2008, we repurchased 7,785,384 shares of our Common Stock in open market transactions for approximately $120.9 million, at an average price of $15.51. We did not repurchase any shares of our Common Stock in November or December of 2008. During the year ended December 31, 2008, we repurchased an aggregate of 8,934,984 shares of our Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial and operating data for the years ended December 31, 2008, 2007 and 2006 is derived from our consolidated financial statements that have been audited by Ernst & Young LLP, an independent registered public accounting firm. The following selected consolidated financial and operating data for the years ended December 31, 2005 and 2004 are derived from our consolidated financial statements that had been audited by BDO Seidman, LLP, an independent registered public accounting firm. The selected consolidated financial and operating data should be read in conjunction with our consolidated financial statements and notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included herein.

The following is a listing of our acquisitions and dispositions that occurred during the five-year period ended December 31, 2008:

- In January 2005, we transferred the operations of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA"). The sale was not considered final until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding until August 7, 2006.
- In July 2005, we divested the Hollywood Casino Shreveport property.
- In October 2005, we acquired Argosy Gaming Company and divested the Argosy Casino Baton Rouge property.
- In April 2007, we acquired Black Gold Casino at Zia Park.
- In October 2007, we acquired Sanford-Orlando Kennel Club.

	Year Ended December 31,				
	2008(1)	2007(2)	2006(3)	2005(4)	2004
	(in thousands, except per share data)				
Income statement data:(5)					
Net revenues	$ 2,423,053	$ 2,436,793	$ 2,244,547	$ 1,369,105	$ 1,105,290
Total operating expenses	2,509,494	1,938,984	1,666,706	1,125,557	891,510
(Loss) income from continuing operations	(86,441)	497,809	577,841	243,548	213,780
Total other income (expenses)	38,856	(205,569)	(207,909)	(101,778)	(76,152)
(Loss) income from continuing operations before income taxes	(47,585)	292,240	369,932	141,770	137,628
Taxes on income	105,738	132,187	156,852	54,593	50,288
Net (loss) income from continuing operations	(153,323)	160,053	213,080	87,177	87,340
Income (loss) from discontinued operations	—	—	114,008	33,753	(15,856)
Net (loss) income	$ (153,323)	$ 160,053	$ 327,088	$ 120,930	$ 71,484
Per share data:(6)					
(Loss) earnings per share—Basic					
(Loss) income from continuing operations	$ (1.81)	$ 1.87	$ 2.53	$ 1.05	$ 1.09
Discontinued operations, net of tax	—	—	1.35	0.41	(0.20)
Basic (loss) earnings per share	$ (1.81)	$ 1.87	$ 3.88	$ 1.46	$ 0.89
(Loss) earnings per share—Diluted					
(Loss) income from continuing operations	$ (1.81)	$ 1.81	$ 2.46	$ 1.02	$ 1.05
Discontinued operations, net of tax	—	—	1.32	0.39	(0.19)
Diluted (loss) earnings per share	$ (1.81)	$ 1.81	$ 3.78	$ 1.41	$ 0.86
Weighted shares outstanding—Basic(7)	84,536	85,578	84,229	82,893	80,510
Weighted shares outstanding—Diluted(7)	84,536	88,384	86,634	85,857	83,508
Other data:					
Net cash provided by operating activities	$ 420,463	$ 431,219	$ 281,809	$ 150,475	$ 197,164
Net cash used in investing activities	(391,498)	(611,617)	(302,341)	(1,978,800)	(67,114)
Net cash provided by (used in) financing activities	542,941	186,255	56,427	1,873,221	(124,177)
Depreciation and amortization	173,545	147,915	123,951	72,531	65,785
Interest expense	169,827	198,059	196,328	89,344	75,720
Capital expenditures	344,894	361,155	408,883	121,135	68,957
Balance sheet data:					
Cash and cash equivalents(8)	$ 746,278	$ 174,372	$ 168,515	$ 132,620	$ 87,620
Total assets	5,189,676	4,967,032	4,514,082	4,190,404	1,632,701
Total debt(8)	2,430,180	2,974,922	2,829,448	2,786,229	858,909
Shareholders' equity	2,057,273	1,120,962	921,163	546,543	398,092

(1) As a result of a decline in our share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, we recorded a pre-tax impairment charge of $481.3 million ($392.6 million, net of taxes) during the year ended December 31, 2008, as we determined that a portion of the value of our goodwill, indefinite-life intangible assets and long-lived assets was impaired. The impairment charge by property was as follows: Argosy Casino Lawrenceburg, $214.1 million pre-tax ($189.3 million, net of taxes); Hollywood Casino Aurora, $43.7 million pre-tax and net of taxes; Empress Casino Hotel, $94.4 million pre-tax ($60.4 million, net of taxes); Argosy Casino Alton, $14.1 million pre-tax and net of taxes; Bullwhackers, $14.2 million pre-tax ($9.1 million, net of taxes); Hollywood Slots Hotel and Raceway, $82.7 million pre-tax ($64.0 million, net of taxes); Corporate overhead, $18.1 million pre-tax ($12.0 million, net of taxes).

(2) Reflects the operations of Black Gold Casino at Zia Park since April 16, 2007, and Sanford-Orlando Kennel Club since October 17, 2007.

(3) During the year ended December 31, 2006, as a result of the increased asset values resulting from the reconstruction at Hollywood Casino Bay St. Louis, we determined that all of the goodwill associated with the original purchase of the property was impaired. Accordingly, we recorded a pre-tax charge of $34.5 million ($22.0 million, net of taxes).

(4) Reflects the operations of Argosy properties since the October 1, 2005 acquisition effective date.

(5) For purposes of comparability, certain prior year amounts have been reclassified to conform to the current year presentation.

(6) Per share data has been retroactively restated to reflect the increased number of Common Stock shares outstanding as a result of our March 7, 2005 stock split.

(7) Since we reported a loss from continuing operations for the year ended December 31, 2008, we were required by Statement of Financial Accounting Standards No. 128, "Earnings Per Share", to use basic weighted-average common shares outstanding, rather than diluted weighted-average common shares outstanding, when calculating diluted earnings per share for the year ended December 31, 2008.

(8) Does not include discontinued operations.

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

Our Operations

We are a leading, diversified, multi-jurisdictional owner and manager of gaming and pari-mutuel properties. We currently own or operate nineteen facilities in fifteen jurisdictions, including Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia, and Ontario. We believe that our portfolio of assets provides us with a diversified cash flow from operations.

We have made significant acquisitions in the past, and expect to continue to pursue additional acquisition and development opportunities in the future. In 1997, we began our transition from a pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. Since 1997, we have continued to expand our gaming operations through strategic acquisitions, including the acquisitions of Hollywood Casino Bay St. Louis and Boomtown Biloxi, CRC Holdings, Inc., the Bullwhackers properties, Hollywood Casino Corporation, Argosy Gaming Company ("Argosy"), Black Gold Casino at Zia Park, and Sanford-Orlando Kennel Club.

The vast majority of our revenues is gaming revenue, derived primarily from gaming on slot machines and, to a lesser extent, table games. Other revenues are derived from our management service fee from Casino Rama, our hotel, dining, retail, admissions, program sales, concessions and certain other ancillary activities, and our racing operations. Our racing revenue includes our share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, our share of wagering from import and export simulcasting, and our share of wagering from our off-track wagering facilities ("OTWs").

We intend to continue to expand our gaming operations through the implementation of a disciplined capital expenditure program at our existing properties and the continued pursuit of strategic acquisitions of gaming properties, particularly in attractive regional markets.

Key performance indicators related to gaming revenue are slot handle (volume indicator), table game drop (volume indicator) and "win" or "hold" percentages. Our typical property slot win percentage is in the range of 6% to 10% of slot handle, and our typical table game win percentage is in the range of 15% to 25% of table game drop.

Our properties generate significant operating cash flow, since most of our revenue is cash-based from slot machines and pari-mutuel wagering. Our business is capital intensive, and we rely on cash flow from our properties to generate operating cash to repay debt, fund capital maintenance expenditures, fund new capital projects at existing properties and provide excess cash for future development and acquisitions.

Merger Announcement and Termination

On June 15, 2007, we announced that we had entered into a merger agreement that, at the effective time of the transactions contemplated thereby, would have resulted in our shareholders receiving $67.00 per share. Specifically, we, PNG Acquisition Company Inc. ("Parent") and PNG Merger Sub Inc., a wholly-owned subsidiary of Parent ("Merger Sub"), announced that we had entered into an Agreement and Plan of Merger, dated as of June 15, 2007 (the "Merger Agreement"), that provided, among other things, for Merger Sub to be merged with and into us (the "Merger"), as a result of which we would have continued as the surviving corporation and would have become a wholly-

owned subsidiary of Parent. Parent is indirectly owned by certain funds managed by affiliates of Fortress Investment Group LLC ("Fortress") and Centerbridge Partners, L.P. ("Centerbridge").

On July 3, 2008, we entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, we agreed to receive a total of $1.475 billion, consisting of a nonrefundable $225 million cash termination fee (the "Cash Termination Fee") and a $1.25 billion, zero coupon, preferred equity investment (the "Investment"). Pursuant to the terms of the preferred equity purchase agreement, the purchasers made a nonrefundable $475 million payment (the "Initial Investment") to us on July 3, 2008, in addition to the payment of the Cash Termination Fee. Under the terms of the purchase agreement, the purchasers deposited the remaining preferred equity investment purchase consideration with an escrow agent, with the funds to be released from escrow upon the issuance of the Preferred Stock. On October 30, 2008, following the receipt of required regulatory approvals and the satisfaction of certain other conditions, we closed the sale of the Investment and received the remaining preferred equity investment purchase consideration of $775 million from the escrow agent.

Executive Summary

Factors affecting our results for the year ended December 31, 2008, as compared to the year ended December 31, 2007, included the impairment loss recorded in the year ended December 31, 2008, decreases in consumer spending on gaming activities caused by current economic conditions, competitive pressures at some of our properties, the impact of the Illinois and Colorado smoking bans that became effective on January 1, 2008, lobbying costs incurred for efforts primarily in Ohio, Maryland and Maine, separation payments to Leonard DeAngelo, the opening of the casino at Hollywood Casino at Penn National Race Course, the opening of the permanent facility at Hollywood Slots Hotel and Raceway in Bangor, Maine, the acquisitions of Sanford-Orlando Kennel Club and Black Gold Casino at Zia Park, the impact of the Argosy Casino Riverside hotel, the receipt of the Cash Termination Fee, net of related expenses, and the expiration of the 3% tax surcharge at Hollywood Casino Aurora and Empress Casino Hotel from May 26, 2008 through December 14, 2008.

Financial Highlights:

- Net revenues decreased by $13.7 million, or 0.6%, for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions, competitive pressures at some of our properties, as well as the effect of the impact of the Illinois and Colorado smoking bans that became effective on January 1, 2008. These decreases were partially offset by increases in net revenues due to the opening of the casino at Hollywood Casino at Penn National Race Course, the opening of the permanent facility at Hollywood Slots Hotel and Raceway, the acquisitions of Sanford-Orlando Kennel Club and Black Gold Casino at Zia Park, and the impact of the Argosy Casino Riverside hotel.

- As a result of a decline in our share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, we recorded a pre-tax impairment charge of $481.3 million ($392.6 million, net of taxes) during the year ended December 31, 2008, as we determined that a portion of the value of our goodwill, indefinite-life intangible assets and long-lived assets was impaired.

- Loss from continuing operations changed by $584.3 million, or 117.4%, for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily due to the impairment loss recorded in the year ended December 31, 2008, as well as the overall decrease

in net revenues and increases in gaming expense, food, beverage and other expense, general and administrative expense and depreciation expense.

- Net loss changed by $313.4 million, or 195.8%, for the year ended December 31, 2008, as compared to the year ended December 31, 2007, primarily due to the variances explained above, which were partially offset by the receipt of the Cash Termination Fee, net of related expenses.

Other Developments:

- In February 2009, we filed a license application with the Maryland Video Lottery Facility Location Commission to be considered for a Video Lottery Operation License for the Cecil County Zone in Cecil County, Maryland. On July 7, 2008, we had announced that we had secured an 18-month option to purchase approximately 36 acres of land located in Perryville, Cecil County, Maryland from Principio Iron Company L.P.

- In December 2008, the Board of Directors extended the expiration date for all previous stock option grants by three years. Due to potential adverse tax consequences of IRS regulations, certain executives with in the money stock options elected not to take advantage of this extension for their in the money stock options or elected to extend for less than three years.

- In November 2008, the arbitrators of litigation between Capital Seven, LLC and Shawn A. Scott (collectively, "Capital Seven"), the sellers of Bangor Historic Track, Inc. ("BHT"), and us issued their ruling regarding the disputed purchase price of BHT. Capital Seven was seeking $30 million plus interest and other damages for breach of contract by us based on our payment of a $51 million purchase price for the purchase of BHT instead of an alleged $81 million purchase price Capital Seven claimed was due under the purchase agreement. The arbitrators stated that, under the applicable tax rate, the purchase price was $61 million. The panel awarded $10 million plus contractual interest to Capital Seven. Pursuant to the dispute resolution procedures, we had deposited the disputed $30 million in escrow, pending a resolution. This amount was included in other assets within the consolidated balance sheet at December 31, 2007. On December 1, 2008, the escrowed funds were released, with $13.1 million being paid to Capital Seven and the remainder being returned to us.

- In November 2008, a ballot measure that would have amended the Ohio Constitution to allow a casino near the Town of Wilmington in Southwest Ohio failed. We contributed towards the campaign to defeat the amendment. In Maryland, voters approved gaming expansion at five targeted regions throughout the state. In Missouri, the state's $500 loss limit was repealed and, in Colorado, the state bet limit was increased from $5 to $100.

- On October 30, 2008, following the receipt of required regulatory approvals and the satisfaction of certain other conditions, we closed the sale of the Investment and received the remaining preferred equity investment purchase consideration of $775 million from the escrow agent. On July 3, 2008, we had entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, we had agreed to receive a total of $1.475 billion, consisting of the Cash Termination Fee and the Investment. Pursuant to the terms of the preferred equity purchase agreement, the purchasers made the Initial Investment to us on July 3, 2008, in addition to the payment of the Cash Termination Fee. Under the terms of the purchase agreement, the purchasers had deposited the remaining preferred equity investment purchase consideration with an escrow agent, with the funds to be released from escrow upon the issuance of the Preferred Stock.

- Pursuant to the terms of the preferred equity purchase agreement, and in conjunction with the closing of the sale of the Investment, Wesley R. Edens, the Chairman and Chief Executive Officer of Fortress, joined our Board of Directors, increasing the size of our Board to seven members.

- We used a portion of the net proceeds from the Investment and the after-tax proceeds of the Cash Termination Fee for the repayment of some of our existing debt, repurchases of our Common Stock, lobbying expenses for efforts in Ohio and the investment in corporate debt securities, with the remainder being invested primarily in short-term securities. The repurchase of up to $200 million of our Common Stock over the twenty-four month period ending July 2010 was authorized by our Board of Directors in July 2008. During the year ended December 31, 2008, we repurchased 8,934,984 shares of our Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.

- On September 5, 2008, the 153-room hotel at Charles Town Entertainment Complex was opened to the public.

- In deference to the proposed Merger, our Board of Directors had determined that the compensation to be paid in 2008 to the non-employee directors be composed of a fixed amount of cash compensation (with no special payment, meeting fees or equity grants). Each non-employee director was expected to receive $150,000, 50% of which was to be paid on January 25, 2008, and the balance of which was expected to be paid in equal monthly installments throughout 2008 (with the total balance payable at the time of the closing of the Merger). If the Merger was not consummated, our Board of Directors would then consider whether equity awards were appropriate. As of June 30, 2008, each non-employee director had received $112,500. On August 8, 2008, our Board of Directors approved changes to the compensation for the non-employee directors. Under the approved program, in lieu of the $37,500 cash remaining to be paid to each non-employee director in 2008, each non-employee director was granted stock options to purchase 20,000 shares of our Common Stock at an exercise price of $29.34 per share, in lieu of further cash payments. The stock options were granted pursuant to our 2003 Long Term Incentive Compensation Plan.

- On August 4, 2008, we announced the departure of Leonard DeAngelo as an officer. Mr. DeAngelo received benefits and separation payments in accordance with the employment agreement between Mr. DeAngelo and us dated as of July 31, 2006.

- On July 16, 2008, we were served with a purported class action lawsuit brought by plaintiffs seeking to represent a class of shareholders who purchased shares of our Common Stock between March 20, 2008 and July 2, 2008. The lawsuit alleges that our disclosure practices relative to the proposed transaction with Fortress and Centerbridge and the eventual termination of that transaction were misleading and deficient in violation of the Securities Exchange Act of 1934. The complaint, which seeks class certification and unspecified damages, was filed in federal court in Maryland. The complaint has been amended, among other things, to add three new named plaintiffs and to name Peter M. Carlino, Chairman and Chief Executive Officer, and William J. Clifford, Senior Vice President and Chief Financial Officer, as additional defendants. We filed a motion to dismiss the complaint in November 2008, and oral arguments for the motion were heard by the court on February 23, 2009. Following oral arguments, the court granted our motion and dismissed the complaint with prejudice. We anticipate that the plaintiffs will file a motion for reconsideration with the court.

- In July 2008, we exercised our clawback right for the accelerated change in control payments previously provided to certain members of our management team in accordance with the Acknowledgement and Agreement that we had entered into with certain members of our management team on December 26, 2007, and advised the affected executives of the amounts to

be repaid and the due date. We have received the net amount from each executive, and are working with each executive to recover the applicable taxes.

- In the third quarter of 2008, we paid certain members of our management team a total of approximately $3.1 million in cash, which represents the external measure portion of our Annual Incentive Plan for 2007. The payments to the named executive officers were made as follows: Peter M. Carlino, $1.4 million; William J. Clifford, $0.5 million; Leonard M. DeAngelo, $0.5 million; Jordan B. Savitch, $0.2 million; Robert S. Ippolito, $0.1 million. The external measure portion provided for the payment of incentive compensation upon our achievement of pre-established goals regarding our free cash flow (ranking results versus the peer group from data reported in the Standard & Poors Research Insight database). The payments were not made earlier as the external free cash flow measure is calculated using publicly-available information regarding the peer group, which had not yet been published. Each named executive officer agreed and confirmed in writing that such payment would not be included in any future determination of any severance or change in control payment that may be due under any employment agreement between such executive and us.

- In July 2008, we made our annual stock option grant to executives and other eligible employees following the termination of the Merger Agreement. We issued 1,651,500 stock options on July 8, 2008, at a price of $29.87. We had previously elected to defer our annual stock option grant to executives and other eligible employees due to the anticipated Merger.

- On July 1, 2008, the permanent Hollywood Slots at Bangor facility, which is called the Hollywood Slots Hotel and Raceway, was opened. The permanent facility included 1,000 slot machines at opening, an attached parking garage and several restaurants. In addition, a 152-room hotel opened in August 2008.

- In June 2008, we entered into the second term of our first layer of property insurance coverage in the amount of $200 million. The $200 million coverage, which is effective from August 8, 2007 through December 31, 2010, is on an "all risk" basis, including, but not limited to, coverage for "named windstorms," floods and earthquakes. In June 2008, we also purchased an additional $100 million of "all risk" coverage including, but not limited to, coverage for "named windstorms," floods and earthquakes. The additional $100 million of "all risk" coverage excludes coverage for windstorms, "named windstorms," floods, and earthquakes, for Boomtown Biloxi and Hollywood Casino Bay St. Louis. An additional $300 million of "all risk" coverage was purchased, which is subject to certain exclusions including, among others, exclusions for windstorms, "named windstorms," floods and earthquakes. The two additional coverage layers are effective from June 1, 2008 through June 1, 2009. There is a $25 million deductible for "named windstorm" events, and lesser deductibles as they apply to other perils. All three layers are subject to specific policy terms, conditions and exclusions.

- On February 19, 2008, the Illinois Gaming Board resolved to allow us to retain the Empress Casino Hotel. Previously, in connection with our acquisition of Argosy, we entered into an agreement with the Illinois Gaming Board in which we agreed, in part, to enter into an agreement to divest the Empress Casino Hotel by December 31, 2006, which date was later extended to June 30, 2008, subject to us having the right to request that the Illinois Gaming Board review and reconsider the terms of the agreement. As a result of this decision, we plan to invest $55 million in the facility, in order to improve its competitive position in the market. We began these facility enhancements in late 2008 and expect the gaming vessel, food, beverage, VIP amenity upgrades and external improvements to be completed in the fourth quarter of 2009.

- On February 12, 2008, we opened Hollywood Casino at Penn National Race Course, which included, upon opening, 2,020 slot machines, a five-story garage, an innovative, multi-media

Hollywood design theme and bars and restaurants ranging from casual dining to higher-end fare. The facility has capacity for 980 additional gaming devices, and we added 207 additional slots in August 2008. The Epic Buffet was opened in October 2008 and Final Cut steakhouse was opened in December 2008.

- On February 6, 2008, we announced that we named Timothy J. Wilmott to the position of President and Chief Operating Officer.

- On August 31, 2007 and November 28, 2007, we filed license applications with the Kansas Lottery Commission to be considered as a Lottery Gaming Facility Manager for our proposed resorts in Cherokee County and Sumner County, respectively. In May 2008, the Kansas Lottery Commission approved our subsidiary's contracts to act as a Lottery Gaming Facility Manager in both counties. The management contracts were sent to the Kansas Lottery Gaming Facility Review Board (the "Review Board") for their consideration, and we presented our proposals to the Review Board in July 2008. In June 2008, in accordance with the management contracts, we paid privilege fees totaling $50.0 million to the State of Kansas, which were refundable if the required approvals were not obtained or if we withdrew our application prior to obtaining all required approvals. In August 2008, we learned that we were unsuccessful in our bid to manage a gaming facility in Sumner County, and the $25 million privilege fee paid to the State of Kansas for Sumner County was returned in September 2008. In addition, in September 2008, we withdrew our application to manage the facility in Cherokee County for various reasons.

- On September 23, 2008, Kansas Penn Gaming, LLC ("KPG," a wholly-owned subsidiary created to pursue a development project in Cherokee County, Kansas) filed an action against HV Properties of Kansas, LLC ("HV") in the U.S. District Court for the District of Kansas seeking a declaratory judgment from the U.S. District Court finding that KPG has no further obligations to HV under a Real Estate Sale Contract (the "Contract") that KPG and HV entered into on September 6, 2007, and that KPG properly terminated this Contract under the terms of the Repurchase Agreement entered into between the parties effective September 28, 2007. HV filed a counterclaim claiming KPG breached the Contract, and seeks $37.5 million in damages. On October 7, 2008, HV filed suit against us claiming that we are liable to HV for KPG's alleged breach based on a Guaranty Agreement signed by us. Both cases were consolidated. We have filed a motion to dismiss HV's claims against us. This motion has been fully briefed and is pending.

- On September 11, 2008, the Board of County Commissioners of Cherokee County, Kansas (the "County") filed suit against KPG and us in the District Court of Shawnee County, Kansas. The petition alleges that KPG breached its pre-development agreement with the County when KPG withdrew its application to manage a lottery gaming facility in Cherokee County and seeks in excess of $50 million in damages. In connection with their petition, the County obtained an ex-parte order attaching the $25 million privilege fee paid to the Kansas Lottery Commission in conjunction with the gaming application for the Cherokee County zone. Defendants are currently contesting the validity and scope of the attachment and intend to defend the merits of the case going forward.

- In May 2006, the Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including our Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the Grand Victoria Casino in Elgin, and filed suit in Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law unconstitutional. Empress Casino Hotel and Hollywood Casino Aurora began paying the 3% tax surcharge into a protest fund which accrues interest during the

pendency of the lawsuit, and have subsequently expensed approximately $30.3 million in incremental tax, including $5.6 million during the year ended December 31, 2008. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, Empress Casino Hotel and Hollywood Casino Aurora continued paying the 3% tax surcharge into the protest fund until May 25, 2008, when the 3% tax surcharge expired. The State of Illinois appealed the ruling to the Illinois Supreme Court. On June 5, 2008, the Illinois Supreme Court reversed the trial court's ruling and issued a decision upholding the constitutionality of the 3% tax surcharge. On January 21, 2009, the four casino plaintiffs filed a petition for certiorari, requesting the U.S. Supreme Court to hear the case. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

- On December 15, 2008, former Illinois Governor Rod Blagojevich signed Public Act No. 95-1008 requiring the same four casinos to continue paying the 3% tax surcharge to subsidize Illinois horse racing interests. On January 8, 2009, the four casinos filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois, asking the Court to declare the law unconstitutional. The 3% tax surcharge being paid pursuant to Public Act No. 95-1008 is paid into a protest fund where it accrues interest. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

- We are continuing to build and develop several of our properties, including Argosy Casino Lawrenceburg and Empress Casino Hotel. Additional information regarding our capital projects is discussed in detail in the section entitled "Liquidity and Capital Resources—Capital Expenditures" below.

Critical Accounting Policies

We make certain judgments and use certain estimates and assumptions when applying accounting principles in the preparation of our consolidated financial statements. The nature of the estimates and assumptions are material due to the levels of subjectivity and judgment necessary to account for highly uncertain factors or the susceptibility of such factors to change. We have identified the policies related to the accounting for long-lived assets, goodwill and other intangible assets, income taxes and litigation, claims and assessments as critical accounting policies, which require us to make significant judgments, estimates and assumptions.

We believe the current assumptions and other considerations used to estimate amounts reflected in our consolidated financial statements are appropriate. However, if actual experience differs from the assumptions and other considerations used in estimating amounts reflected in our consolidated financial statements, the resulting changes could have a material adverse effect on our consolidated results of operations and, in certain situations, could have a material adverse effect on our financial condition.

The development and selection of the critical accounting policies, and the related disclosures, have been reviewed with the Audit Committee of our Board of Directors.

Long-lived assets

At December 31, 2008, we had a net property and equipment balance of $1,812.1 million within our consolidated balance sheet, representing 34.9% of total assets. We depreciate property and equipment on a straight-line basis over their estimated useful lives. The estimated useful lives are determined based on the nature of the assets as well as our current operating strategy. We review the carrying value of our property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated future cash flows expected to result from its use and eventual disposition. The

factors considered by us in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the individual property level. In assessing the recoverability of the carrying value of property and equipment, we must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, we may be required to record an impairment loss for these assets. Such an impairment loss would be recognized as a non-cash component of operating income. As a result of a decline in our share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, we believed that there were indicators of impairment as of December 31, 2008. As a result, we tested our long-lived assets for impairment as of December 31, 2008, and determined that a portion of the value of our long-lived assets, primarily at our Bullwhackers property, was impaired. Accordingly, we recorded a pre-tax impairment charge of $15.1 million ($10.0 million, net of taxes) during the year ended December 31, 2008 for these assets.

Goodwill and other intangible assets

At December 31, 2008, we had $1,598.6 million in goodwill and $693.8 million in other intangible assets within our consolidated balance sheet, representing 30.8% and 13.4% of total assets, respectively, resulting from our acquisition of other businesses and payment for gaming licenses and racing permits. Two issues arise with respect to these assets that require significant management estimates and judgment: (i) the valuation in connection with the initial purchase price allocation; and (ii) the ongoing evaluation for impairment.

In connection with our acquisitions, valuations are completed to determine the allocation of the purchase prices. The factors considered in the valuations include data gathered as a result of our due diligence in connection with the acquisitions, projections for future operations, and data obtained from third-party valuation specialists as deemed appropriate. Goodwill is tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the reporting units to their carrying amount. If the carrying amount of a reporting unit exceeds its fair value, an impairment test is performed to determine the implied value of goodwill for that reporting unit. If the implied value is less than the carrying amount for that reporting unit, an impairment loss is recognized for that reporting unit. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), issued by the Financial Accounting Standards Board ("FASB"), we consider our gaming license, racing permit and trademark intangible assets as indefinite-life intangible assets that do not require amortization. Rather, these intangible assets are tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the recorded assets to their carrying amount. If the carrying amounts of the gaming license, racing permit and trademark intangible assets exceed their fair value, an impairment loss is recognized. The evaluation of goodwill and indefinite-life intangible assets requires the use of estimates about future operating results of each reporting unit to determine their estimated fair value. We use a market approach model, with EBITDA (earnings before interest, taxes, charges for stock compensation, impairment loss, depreciation and amortization, gain or loss on disposal of assets, merger termination settlement fees, net of related expenses, and other expense, and inclusive of loss from joint venture) multiples, as we believe that EBITDA is a widely-used measure of performance in the gaming industry and as we use EBITDA as the primary measurement of the operating performance of our properties (including the evaluation of operating personnel). In addition, we believe that an EBITDA multiple is the principal basis for the valuation of gaming companies. Changes in the estimated EBITDA multiple or forecasted operations can materially affect these estimates. Once an impairment of goodwill or other indefinite-life intangible assets has been recorded, it cannot be reversed. Because our goodwill and indefinite-life intangible assets are not amortized, there may be volatility in reported income because impairment losses, if any, are likely to occur irregularly and in varying amounts. Intangible assets that

have a definite-life, including the management service contract for Casino Rama, are amortized on a straight-line basis over their estimated useful lives or related service contract. We review the carrying value of our intangible assets that have a definite-life for possible impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount of the intangible assets that have a definite-life exceed their fair value, an impairment loss is recognized. As a result of a decline in our share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, we believed that there were indicators of impairment as of December 31, 2008. As a result, we tested our goodwill and other intangible assets for impairment as of December 31, 2008, and determined that a portion of the value of these assets was impaired in certain reporting units. Accordingly, we recorded pre-tax impairment charges of $397.2 million ($338.5 million, net of taxes) and $69.0 million ($44.1 million, net of taxes) during the year ended December 31, 2008 for our goodwill and indefinite-life intangible assets, respectively.

Income taxes

At December 31, 2008, we had a net deferred tax liability balance of $244.5 million within our consolidated balance sheet. We account for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and are measured at the prevailing enacted tax rates that will be in effect when these differences are settled or realized. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The realizability of the deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary. The factors used to assess the likelihood of realization are the forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

We adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which is an interpretation of SFAS 109, on January 1, 2007. FIN 48 creates a single model to address uncertainty in tax positions, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109 by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. At December 31, 2008, we had a liability relating to FIN 48 of $68.6 million, which is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2008. We operate within multiple taxing jurisdictions and are subject to audit in each jurisdiction. These audits can involve complex issues that may require an extended period of time to resolve. In our opinion, adequate provisions for income taxes have been made for all periods.

Litigation, claims and assessments

We utilize estimates for litigation, claims and assessments. These estimates are based on our knowledge and experience regarding current and past events, as well as assumptions about future events. If our assessment of such a matter should change, we may have to change the estimate, which may have an adverse effect on our results of operations. Actual results could differ from these estimates.

Results of Operations

The following are the most important factors and trends that contribute to our operating performance:

- The fact that most of our properties operate in mature competitive markets. As a result, we expect a majority of our future growth to come from prudent acquisitions of gaming properties, jurisdictional expansions (such as the recent openings in Pennsylvania and Maine) and property expansion in under-penetrated markets.

- The actions of government bodies can affect our operations in a variety of ways. For instance, the continued pressure on governments to balance their budgets could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes. In addition, government bodies may restrict, prevent or negatively impact operations in the jurisdictions in which we do business (such as through the Illinois, Colorado and Pennsylvania smoking bans that became effective on January 1, 2008).

- The fact that a number of states are currently considering or implementing legislation to legalize or expand gaming. Such legislation presents both potential opportunities to establish new properties (for instance, in Maryland) and potential competitive threats to business at our existing properties (such as in Kansas, Maryland, Ohio, and Kentucky). The timing and occurrence of these events remain uncertain. We also face uncertainty regarding anticipated gaming expansion by one of our competitors in Baton Rouge, Louisiana. Legalized gaming from casinos located on Native American lands can also have a significant competitive effect.

- The continued demand for, and our emphasis on, slot wagering entertainment at our properties.

- The successful expansion at Empress Casino Hotel and Argosy Casino Lawrenceburg.

- The successful execution of the development and construction activities currently underway at a number of our facilities, as well as the risks associated with the costs, regulatory approval and the timing for these activities.

- The risks related to current economic conditions and the effect of such conditions on consumer spending for leisure and gaming activities, which may negatively impact our operating results and our ability to access financing.

The results of continuing operations for the years ended December 31, 2008, 2007 and 2006 are summarized below:

Year Ended December 31,	2008	2007	2006
		(in thousands)	
Revenues:			
Gaming	$2,206,500	$2,227,944	$2,057,617
Management service fee	16,725	17,273	18,146
Food, beverage and other	334,206	320,520	275,700
Gross revenues	2,557,431	2,565,737	2,351,463
Less promotional allowances	(134,378)	(128,944)	(106,916)
Net revenues	2,423,053	2,436,793	2,244,547
Operating expenses:			
Gaming	1,163,458	1,155,062	1,061,904
Food, beverage and other	264,012	247,576	224,673
General and administrative	427,146	388,431	349,909
Hurricane	—	—	(128,253)
Impairment loss	481,333	—	34,522
Depreciation and amortization	173,545	147,915	123,951
Total operating expenses	2,509,494	1,938,984	1,666,706
(Loss) income from continuing operations	$ (86,441)	$ 497,809	$ 577,841

The results of continuing operations by property for the years ended December 31, 2008, 2007 and 2006 are summarized below:

Year Ended December 31,	Net Revenues			Income (loss) from Continuing Operations		
	2008	2007	2006	2008(5)	2007	2006(6)
	(in thousands)					
Charles Town Entertainment Complex	$ 477,032	$ 500,800	$ 485,197	$ 114,726	$127,277	$122,938
Argosy Casino Lawrenceburg	432,082	478,719	474,046	(96,094)	142,690	139,267
Hollywood Casino at Penn National Race Course(1)	224,935	48,488	50,303	11,530	(9,451)	629
Hollywood Casino Aurora	198,693	251,877	245,475	13,009	73,914	70,140
Empress Casino Hotel	168,663	225,794	238,843	(63,922)	38,821	47,822
Argosy Casino Riverside	186,132	174,426	153,441	48,526	42,388	37,744
Hollywood Casino Baton Rouge	131,013	135,869	144,001	43,829	47,417	52,097
Argosy Casino Alton	84,040	119,166	115,194	(301)	29,709	21,373
Hollywood Casino Tunica	88,540	103,858	106,352	14,363	19,536	19,393
Hollywood Casino Bay St. Louis	101,997	96,622	32,184	6,025	4,850	35,810
Argosy Casino Sioux City	54,774	54,417	53,909	14,634	13,259	13,363
Boomtown Biloxi	75,701	86,159	51,421	9,753	12,979	72,812
Hollywood Slots Hotel and Raceway(2)	55,780	46,689	40,871	(79,922)	9,523	7,332
Bullwhackers	22,128	28,882	26,812	(16,922)	1,149	947
Black Gold Casino at Zia Park(3)	90,255	58,572	—	27,755	16,702	—
Casino Rama management service contract	16,725	17,273	18,146	15,183	15,899	16,765
Raceway Park	7,549	7,814	8,352	(1,368)	(1,119)	(651)
Sanford-Orlando Kennel Club(4)	7,014	1,368	—	(725)	(3)	—
Earnings from Pennwood Racing, Inc.	—	—	—	—	—	—
Corporate overhead	—	—	—	(146,520)	(87,731)	(79,940)
Total	$2,423,053	$2,436,793	$2,244,547	$ (86,441)	$497,809	$577,841

(1) Hollywood Casino at Penn National Race Course includes the results of our Pennsylvania casino that opened on February 12, 2008, as well as the Penn National Race Course and four OTWs.

(2) On July 1, 2008, the permanent Hollywood Slots at Bangor facility, which is called the Hollywood Slots Hotel and Raceway, was opened.

(3) Reflects results since the April 16, 2007 acquisition effective date.

(4) Reflects results since the October 17, 2007 acquisition effective date.

(5) As a result of a decline in our share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, we recorded a pre-tax impairment charge of $481.3 million during the year ended December 31, 2008, as we determined that a portion of the value of our goodwill, indefinite-life intangible assets and long-lived assets was impaired. The pre-tax impairment charge by property was as follows: Argosy Casino Lawrenceburg,

$214.1 million; Hollywood Casino Aurora, $43.7 million; Empress Casino Hotel, $94.4 million; Argosy Casino Alton, $14.1 million; Bullwhackers, $14.2 million; Hollywood Slots Hotel and Raceway, $82.7 million; Corporate overhead, $18.1 million.

(6) During the year ended December 31, 2006, as a result of the increased asset values resulting from the reconstruction at Hollywood Casino Bay St. Louis, we determined that all of the goodwill associated with the original purchase of the property was impaired. Accordingly, we recorded a pre-tax impairment charge of $34.5 million.

Revenues

Revenues for the years ended December 31, 2008, 2007 and 2006 are as follows (in thousands):

Year ended December 31,	2008	2007	Variance	Percentage Variance
Gaming	$2,206,500	$2,227,944	$(21,444)	(1.0)%
Management service fee	16,725	17,273	(548)	(3.2)%
Food, beverage and other	334,206	320,520	13,686	4.3%
Gross revenues	2,557,431	2,565,737	(8,306)	(0.3)%
Less promotional allowances	(134,378)	(128,944)	(5,434)	4.2%
Net revenues	$2,423,053	$2,436,793	$(13,740)	(0.6)%

Year ended December 31,	2007	2006	Variance	Percentage Variance
Gaming	$2,227,944	$2,057,617	$170,327	8.3%
Management service fee	17,273	18,146	(873)	(4.8)%
Food, beverage and other	320,520	275,700	44,820	16.3%
Gross revenues	2,565,737	2,351,463	214,274	9.1%
Less promotional allowances	(128,944)	(106,916)	(22,028)	20.6%
Net revenues	$2,436,793	$2,244,547	$192,246	8.6%

Gaming revenue

2008 Compared with 2007

Gaming revenue decreased by $21.4 million, or 1.0%, to $2,206.5 million in 2008, primarily due to decreases at several of our properties, which were partially offset by increases due to the opening of the casino at Hollywood Casino at Penn National Race Course, the acquisition of Black Gold Casino at Zia Park, the impact of the hotel and successful marketing efforts at Argosy Casino Riverside, and the opening of the permanent facility at Hollywood Slots Hotel and Raceway.

Gaming revenue at Empress Casino Hotel decreased by $55.8 million in 2008, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions, the impact of the Illinois smoking ban that became effective on January 1, 2008, an increase in cash back from promotional points programs, and competitive pressures.

Gaming revenue at Hollywood Casino Aurora decreased by $52.1 million in 2008, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions, new competitive pressures and the impact of the Illinois smoking ban that became effective on January 1, 2008.

Gaming revenue at Argosy Casino Lawrenceburg decreased by $43.7 million in 2008, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions as well as new competitive pressures.

Gaming revenue at Argosy Casino Alton decreased by $34.0 million in 2008, primarily due to new competition in the market and the impact of the Illinois smoking ban that became effective on January 1, 2008.

Gaming revenue at Charles Town Entertainment Complex decreased by $22.5 million in 2008, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions as well as competitive pressures.

Gaming revenue at Hollywood Casino Tunica decreased by $14.2 million in 2008, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions.

Gaming revenue at Boomtown Biloxi decreased by $9.4 million in 2008, primarily due to continued competitive pressures, decreases in consumer spending on gaming activities caused by current economic conditions and the impact of Hurricane Gustav and Hurricane Ike.

Gaming revenue at Bullwhackers decreased by $6.7 million in 2008, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions, continued competitive pressures and the impact of the Colorado smoking ban that became effective on January 1, 2008.

Gaming revenue at Hollywood Casino at Penn National Race Course, which opened its casino on February 12, 2008, was $170.5 million in 2008.

Gaming revenue at Black Gold Casino at Zia Park increased by $29.6 million in 2008, primarily due to the acquisition of the property in mid-April 2007, as well as favorable regional economic conditions and successful marketing efforts.

Gaming revenue at Argosy Casino Riverside increased by $8.7 million in 2008, primarily due to the impact of its hotel and successful marketing efforts.

Gaming revenue at Hollywood Slots Hotel and Raceway increased by $7.2 million in 2008, primarily due to the opening of the permanent facility on July 1, 2008.

2007 Compared with 2006

Gaming revenue increased by $170.3 million, or 8.3%, to $2,227.9 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis, the acquisition of Black Gold Casino at Zia Park, the reopening of Boomtown Biloxi and revenue growth at several of our properties, all of which were partially offset by decreases at Empress Casino Hotel and Hollywood Casino Baton Rouge.

Gaming revenue at Hollywood Casino Bay St. Louis increased by $57.1 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Gaming revenue at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $53.0 million in 2007.

Gaming revenue at Boomtown Biloxi increased by $31.9 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Gaming revenue at Argosy Casino Riverside increased by $16.4 million in 2007, primarily due to successful marketing promotions and increased patronage at the property due to the opening of its hotel to the public in April 2007.

Gaming revenue at the Charles Town Entertainment Complex increased by $14.4 million in 2007, primarily due to an increase in gaming play as a result of slot expansion and an aggressive advertising and promotional campaign.

Gaming revenue at Hollywood Casino Aurora increased by $6.2 million in 2007, primarily due to increases in slot and table game revenues resulting from the continued refinement of marketing

programs and the incentives offered to existing customers, as well as increases in slot hold, all of which were partially offset by a decrease in slot handle. Slot revenue benefited from the expansion of highly popular low-denomination video slot machines, which generate a higher win per unit and hold percentages than other slot machines.

Gaming revenue at Hollywood Slots Hotel and Raceway increased by $5.7 million in 2007, primarily due to continued growth in the Bangor market.

Gaming revenue at Argosy Casino Lawrenceburg increased by $4.7 million in 2007, primarily due to an increase in poker room revenue, as the poker room was not in operation in the first quarter of 2006, and decreases in sales incentives and point loyalty programs. The increase in gaming revenue was partially offset by decreases in slot and table game revenues.

Gaming revenue at Empress Casino Hotel decreased by $12.8 million in 2007, primarily due to continued competitive pressures.

Gaming revenue at Hollywood Casino Baton Rouge decreased by $8.3 million in 2007, primarily due to ongoing post-hurricane market stabilization.

Food, beverage and other revenue

2008 Compared with 2007

Food, beverage and other revenue increased by $13.7 million, or 4.3%, to $334.2 million in 2008, primarily due to the opening of the casino at Hollywood Casino at Penn National Race Course, the acquisition of Sanford-Orlando Kennel Club, the impact of the hotel at Argosy Casino Riverside, and the opening of the permanent facility at Hollywood Slots Hotel and Raceway, all of which were partially offset by decreases at Argosy Casino Alton, Hollywood Casino Tunica, Empress Casino Hotel and Hollywood Casino Aurora.

Food, beverage and other revenue at Hollywood Casino at Penn National Race Course increased by $8.7 million in 2008, as the casino opened on February 12, 2008.

Food, beverage and other revenue at Sanford-Orlando Kennel Club, which we acquired in mid-October 2007, increased by $5.6 million in 2008.

Food, beverage and other revenue at Argosy Casino Riverside increased by $5.2 million in 2008, primarily due to the impact of its hotel.

Food, beverage and other revenue at Hollywood Slots Hotel and Raceway increased by $2.7 million in 2008, primarily due to the opening of the permanent facility on July 1, 2008.

Food, beverage and other revenue at Argosy Casino Alton decreased by $2.4 million in 2008, primarily due to new competition in the region and the impact of the Illinois smoking ban that became effective on January 1, 2008.

Food, beverage and other revenue at Hollywood Casino Tunica decreased by $2.4 million in 2008, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions.

Food, beverage and other revenue at Empress Casino Hotel decreased by $1.7 million in 2008, primarily due to the impact of the Illinois smoking ban that became effective on January 1, 2008.

Food, beverage and other revenue at Hollywood Casino Aurora decreased by $1.5 million in 2008, primarily due to decreases in consumer spending on gaming activities caused by current economic conditions, new competitive pressures and the impact of the Illinois smoking ban that became effective on January 1, 2008.

2007 Compared with 2006

Food, beverage and other revenue increased by $44.8 million, or 16.3%, to $320.5 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis, the opening of the Argosy Casino Riverside hotel, the reopening of Boomtown Biloxi, the acquisition of Black Gold Casino at Zia Park, and our purchase and opening of a gas station/convenience store near the Bullwhackers facility.

Food, beverage and other revenue at Hollywood Casino Bay St. Louis increased by $20.3 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Food, beverage and other revenue at Argosy Casino Riverside increased by $7.1 million in 2007, primarily due to the opening of its hotel to the public in April 2007.

Food, beverage and other revenue at Boomtown Biloxi increased by $6.3 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Food, beverage and other revenue at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $5.8 million in 2007.

Food, beverage and other revenue at Bullwhackers increased by $2.4 million in 2007, primarily due to our purchase and opening of a gas station/convenience store near the Bullwhackers facility during the third quarter of 2006.

Promotional allowances

2008 Compared with 2007

Promotional allowances increased by $5.4 million, or 4.2%, to $134.4 million in 2008, primarily due to the opening of the casino at Hollywood Casino at Penn National Race Course and the impact of the hotel and gaming revenue growth at Argosy Casino Riverside.

Promotional allowances at Hollywood Casino at Penn National Race Course increased by $2.7 million in 2008, as the casino opened on February 12, 2008.

Promotional allowances at Argosy Casino Riverside increased by $2.1 million in 2008, primarily due to the impact of its hotel and gaming revenue growth.

2007 Compared with 2006

Promotional allowances increased by $22.0 million, or 20.6%, to $128.9 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis and Boomtown Biloxi, as well as increased wagering by some of our customers at Hollywood Casino at Penn National Race Course and the opening of the Argosy Casino Riverside hotel.

Promotional allowances at Hollywood Casino Bay St. Louis increased by $13.0 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Promotional allowances at Boomtown Biloxi increased by $3.6 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Promotional allowances at Hollywood Casino at Penn National Race Course increased by $3.0 million in 2007, primarily due to an increase in wagering by customers who receive point rebates.

Promotional allowances at Argosy Casino Riverside increased by $2.6 million in 2007, primarily due to the opening of its hotel to the public in April 2007 and gaming revenue growth.

Operating Expenses

Operating expenses for the years ended December 31, 2008, 2007 and 2006 are as follows (in thousands):

Year ended December 31,	2008	2007	Variance	Percentage Variance
Gaming	$1,163,458	$1,155,062	$ 8,396	0.7%
Food, beverage and other	264,012	247,576	16,436	6.6%
General and administrative	427,146	388,431	38,715	10.0%
Impairment loss	481,333	—	481,333	100.0%
Depreciation and amortization	173,545	147,915	25,630	17.3%
Total operating expenses	$2,509,494	$1,938,984	$570,510	29.4%

Year ended December 31,	2007	2006	Variance	Percentage Variance
Gaming	$1,155,062	$1,061,904	$ 93,158	8.8%
Food, beverage and other	247,576	224,673	22,903	10.2%
General and administrative	388,431	349,909	38,522	11.0%
Hurricane	—	(128,253)	128,253	100.0%
Impairment loss	—	34,522	(34,522)	(100.0)%
Depreciation and amortization	147,915	123,951	23,964	19.3%
Total operating expenses	$1,938,984	$1,666,706	$272,278	16.3%

Gaming expense

2008 Compared with 2007

Gaming expense increased by $8.4 million, or 0.7%, to $1,163.5 million in 2008, primarily due to the opening of the casino at Hollywood Casino at Penn National Race Course, the acquisition of Black Gold Casino at Zia Park, and the opening of the permanent facility at Hollywood Slots Hotel and Raceway, all of which were partially offset by decreases at several of our properties.

Gaming expense at Hollywood Casino at Penn National Race Course, which opened its casino on February 12, 2008, was $118.6 million in 2008.

Gaming expense at Black Gold Casino at Zia Park increased by $15.4 million in 2008, primarily due to the acquisition of the property in mid-April 2007, as well as an increase in gaming taxes resulting from higher gaming revenue.

Gaming expense at Hollywood Slots Hotel and Raceway increased by $4.5 million in 2008, primarily due to the opening of the permanent facility on July 1, 2008.

Gaming expense at Empress Casino Hotel decreased by $45.6 million in 2008, primarily due to a decrease in gaming taxes resulting from lower gaming revenue, the expiration of the 3% tax surcharge from May 26, 2008 through December 14, 2008, decreased marketing expenses and lower payroll costs.

Gaming expense at Hollywood Casino Aurora decreased by $34.0 million in 2008, primarily due to a decrease in gaming taxes resulting from lower gaming revenue, the expiration of the 3% tax surcharge from May 26, 2008 through December 14, 2008, decreased marketing expenses and lower payroll costs.

Gaming expense at Argosy Casino Alton decreased by $15.2 million in 2008, primarily due to a decrease in gaming taxes resulting from lower gaming revenue.

Gaming expense at Argosy Casino Lawrenceburg decreased by $13.9 million in 2008, primarily due to a decrease in gaming taxes resulting from lower gaming revenue and lower payroll costs, partially offset by an increase in marketing expense.

Gaming expense at Charles Town Entertainment Complex decreased by $11.0 million in 2008, primarily due to a decrease in gaming taxes resulting from lower gaming revenue.

Gaming expense at Hollywood Casino Tunica decreased by $5.9 million in 2008, primarily due to a decrease in gaming taxes resulting from lower gaming revenue, decreased marketing expenses and lower payroll costs.

Gaming expense at Boomtown Biloxi decreased by $3.5 million in 2008, primarily due to a decrease in gaming taxes resulting from lower gaming revenue.

2007 Compared with 2006

Gaming expense increased by $93.2 million, or 8.8%, to $1,155.1 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis, the acquisition of Black Gold Casino at Zia Park, the reopening of Boomtown Biloxi, and increases and decreases in gaming taxes and other gaming expense at our properties.

Gaming expense at Hollywood Casino Bay St. Louis increased by $32.9 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Gaming expense at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $29.1 million for 2007.

Gaming expense at Boomtown Biloxi increased by $13.5 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Gaming expense at the Charles Town Entertainment Complex increased by $9.9 million in 2007, primarily due to increased gaming taxes and purses resulting from higher gaming revenue.

Gaming expense at Argosy Casino Riverside increased by $5.3 million in 2007, primarily due to an increase in gaming taxes resulting from higher gaming revenue.

Gaming expense at Empress Casino Hotel decreased by $5.9 million in 2007, primarily due to decreases in marketing expenses and gaming taxes.

Gaming expense at Hollywood Casino Baton Rouge decreased by $3.9 million in 2007, primarily due to decreased gaming taxes resulting from lower gaming revenue.

Gaming expense at Argosy Casino Alton decreased by $3.3 million in 2007, primarily due to the expiration of the Illinois "hold harmless" tax minimum guarantee on July 1, 2007.

Food, beverage and other expense

2008 Compared with 2007

Food, beverage and other expense increased by $16.4 million, or 6.6%, to $264.0 million in 2008, primarily due to the acquisition of Sanford-Orlando Kennel Club, the opening of the permanent facility at Hollywood Slots Hotel and Raceway, the opening of the casino at Hollywood Casino at Penn National Race Course, and the impact of the hotel at Argosy Casino Riverside, all of which were partially offset by a decrease at Hollywood Casino Tunica.

Food, beverage and other expense at Sanford-Orlando Kennel Club, which we acquired in mid-October 2007, increased by $5.7 million in 2008.

Food, beverage and other expense at Hollywood Slots Hotel and Raceway increased by $5.0 in 2008, primarily due to the opening of the permanent facility on July 1, 2008.

Food, beverage and other expense at Hollywood Casino at Penn National Race Course increased by $4.5 million in 2008, as the casino opened on February 12, 2008.

Food, beverage and other expense at Argosy Casino Riverside increased by $2.0 million in 2008, primarily due to the impact of its hotel.

Food, beverage and other expense at Hollywood Casino Tunica decreased by $2.0 million in 2008, primarily due to a decrease in the cost of food and beverages resulting from lower food and beverage revenue, as well as lower payroll costs.

2007 Compared with 2006

Food, beverage and other expense increased by $22.9 million, or 10.2%, to $247.6 million in 2007, primarily due to the opening of the Argosy Casino Riverside hotel, the reopening of Hollywood Casino Bay St. Louis, the acquisition of Black Gold Casino at Zia Park, and the reopening of Boomtown Biloxi.

Food, beverage and other expense at Argosy Casino Riverside increased by $5.8 million in 2007, primarily due to the opening of its hotel to the public in April 2007.

Food, beverage and other expense at Hollywood Casino Bay St. Louis increased by $5.0 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Food, beverage and other expense at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $4.1 million in 2007.

Food, beverage and other expense at Boomtown Biloxi increased by $3.2 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

General and administrative expense

General and administrative expense at the properties includes expenses such as compliance, facility maintenance, utilities, property and liability insurance, surveillance and security, and certain housekeeping, as well as all expenses for administrative departments such as accounting, purchasing, human resources, legal and internal audit.

2008 Compared with 2007

General and administrative expense increased by $38.7 million, or 10.0%, to $427.1 million in 2008, primarily due to an increase in corporate overhead expense and the opening of the casino at Hollywood Casino at Penn National Race Course, both of which were partially offset by decreases at Argosy Casino Lawrenceburg and Argosy Casino Alton.

Corporate overhead expense increased by $38.7 million in 2008, primarily due to increased lobbying expenses, for efforts primarily in Ohio, Maryland and Maine, and separation payments to Leonard DeAngelo, both of which were partially offset by no EBITDA-based bonuses being paid to corporate employees in 2008.

General and administrative expense at Hollywood Casino at Penn National Race Course increased by $11.2 million in 2008, as the casino opened on February 12, 2008.

General and administrative expense at Argosy Casino Lawrenceburg decreased by $7.8 million in 2008, primarily due to a decrease in the fee paid to the City of Lawrenceburg resulting from lower adjusted gross receipts, as well as lower insurance, payroll and other costs.

General and administrative expense at Argosy Casino Alton decreased by $4.2 million in 2008, primarily due to cost reduction measures.

2007 Compared with 2006

General and administrative expense increased by $38.5 million, or 11.0%, to $388.4 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis and Boomtown Biloxi, pre-opening charges related to the Hollywood Casino at Penn National Race Course, the acquisition of Black Gold Casino at Zia Park, and increased corporate overhead expense.

General and administrative expense at Hollywood Casino Bay St. Louis increased by $14.4 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

General and administrative expense at Boomtown Biloxi increased by $12.9 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

General and administrative expense at Penn National Race Course increased by $6.1 million in 2007, primarily due to a $2.5 million pre-opening charge for Pennsylvania Gaming Control Board start-up fees and other expenses associated with the opening of the Hollywood Casino at Penn National Race Course, which opened on February 12, 2008.

General and administrative expense at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $5.1 million in 2007.

Corporate overhead expense increased by $5.0 million in 2007, primarily due to the costs incurred relating to the expensing of equity-based compensation awards as required under SFAS No. 123 (revised 2004), "Share-Based Payment", having increased by $4.9 million, as additional equity-based compensation awards were granted during 2007.

Hurricane

During the year ended December 31, 2006, our financial results benefited from a settlement agreement with our property and business interruption insurance providers for a total of $225 million for Hurricane Katrina-related losses at our Hollywood Casino Bay St. Louis and Boomtown Biloxi properties, as well as minor proceeds related to our National Flood Insurance coverage and auto insurance claims. Reflecting the settlement agreement, we recorded a pre-tax gain of $128.3 million ($81.8 million, net of taxes).

Impairment loss

As a result of a decline in our share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, we recorded a pre-tax impairment charge of $481.3 million ($392.6 million, net of taxes) during the year ended December 31, 2008, as we determined that a portion of the value of our goodwill, indefinite-life intangible assets and long-lived assets was impaired. The impairment charge by property was as follows: Argosy Casino Lawrenceburg, $214.1 million pre-tax ($189.3 million, net of taxes); Hollywood Casino Aurora, $43.7 million pre-tax and net of taxes; Empress Casino Hotel, $94.4 million pre-tax ($60.4 million, net of taxes); Argosy Casino Alton, $14.1 million pre-tax and net of taxes; Bullwhackers, $14.2 million pre-tax ($9.1 million, net of taxes); Hollywood Slots Hotel and Raceway, $82.7 million pre-tax ($64.0 million, net of taxes); Corporate overhead, $18.1 million pre-tax ($12.0 million, net of taxes).

During the year ended December 31, 2006, as a result of the increased asset values resulting from the reconstruction at Hollywood Casino Bay St. Louis, we determined that all of the goodwill

associated with the original purchase of the property was impaired. Accordingly, we recorded a pre-tax charge of $34.5 million ($22.0 million, net of taxes).

Depreciation and amortization expense

2008 Compared with 2007

Depreciation and amortization expense increased by $25.6 million, or 17.3%, to $173.5 million in 2008, primarily due to the opening of the casino at Hollywood Casino at Penn National Race Course and the opening of the permanent facility at Hollywood Slots Hotel and Raceway.

Depreciation and amortization expense at Hollywood Casino at Penn National Race Course increased by $21.2 million in 2008, as the casino opened on February 12, 2008.

Depreciation and amortization expense at Hollywood Slots Hotel and Raceway increased by $3.8 million in 2008, primarily due to the opening of the permanent facility on July 1, 2008.

2007 Compared with 2006

Depreciation and amortization expense increased by $24.0 million, or 19.3%, to $147.9 million in 2007, primarily due to the reopening of Hollywood Casino Bay St. Louis and Boomtown Biloxi, incremental depreciation at the Charles Town Entertainment Complex, the acquisition of Black Gold Casino at Zia Park, and the opening of the Argosy Casino Riverside hotel.

Depreciation and amortization expense at Hollywood Casino Bay St. Louis increased by $8.6 million in 2007, as the property was closed from August 28, 2005 until August 31, 2006 due to Hurricane Katrina.

Depreciation and amortization expense at Boomtown Biloxi increased by $5.8 million in 2007, as the property was closed from August 28, 2005 until June 29, 2006 due to Hurricane Katrina.

Depreciation and amortization expense at the Charles Town Entertainment Complex increased by $3.5 million in 2007, primarily due to incremental depreciation for assets placed into service subsequent to the same periods in 2006, including expanded gaming space, a 378-seat buffet and a new parking garage, which were completed in mid-2006.

Depreciation and amortization expense at Black Gold Casino at Zia Park, which we acquired in mid-April 2007, was $3.5 million in 2007.

Depreciation and amortization expense at Argosy Casino Riverside increased by $3.0 million in 2007, primarily due to the opening of its hotel to the public in April 2007.

Other income (expenses)

Other income (expenses) for the years ended December 31, 2008, 2007 and 2006 are as follows (in thousands):

Year ended December 31,	2008	2007	Variance	Percentage Variance
Interest expense	$(169,827)	$(198,059)	$ 28,232	14.3%
Interest income	8,362	4,016	4,346	108.2%
Loss from joint venture	(1,526)	(99)	(1,427)	(1,441.4)%
Merger termination settlement fees, net of related expenses	195,426	—	195,426	100.0%
Other	6,421	(11,427)	17,848	156.2%
Total other income (expenses)	$ 38,856	$(205,569)	$244,425	118.9%

Year ended December 31,	2007	2006	Variance	Percentage Variance
Interest expense	$(198,059)	$(196,328)	$ (1,731)	(0.9)%
Interest income	4,016	3,525	491	13.9%
Loss from joint venture	(99)	(788)	689	87.4%
Other	(11,427)	(4,296)	(7,131)	(166.0)%
Loss on early extinguishment of debt	—	(10,022)	10,022	100.0%
Total other expenses	$(205,569)	$(207,909)	$ 2,340	1.1%

Interest expense

Interest expense decreased by $28.2 million, or 14.3%, to $169.8 million in 2008, primarily due to lower outstanding balances and lower interest rates on our $2.725 billion senior secured credit facility, which was partially offset by increased interest expense resulting from payments related to interest rate swaps in 2008.

Interest income

Interest income increased by $4.3 million, or 108.2%, to $8.4 million in 2008, primarily due to interest earned on the investment in corporate securities in 2008.

Merger termination settlement fees, net of related expenses

Merger termination settlement fees, net of related expenses, include the Cash Termination Fee of $225 million, partially offset by $29.6 million in costs incurred for the termination of the Merger.

Other

Other increased by $17.8 million, or 156.2%, to $6.4 million in 2008, primarily due to foreign currency translation gains that were recorded during the year ended December 31, 2008, partially offset by the write-off of costs incurred to procure licenses to manage gaming facilities in Kansas.

Other increased by $7.1 million, or 166.0%, to $(11.4) million in 2007, primarily due to Merger-related costs and currency translation losses that were recorded during the year ended December 31, 2007.

Loss on early extinguishment of debt

We recorded a $10.0 million loss on early extinguishment of debt during the year ended December 31, 2006, as a result of the redemption of $175 million in aggregate principal amount of our outstanding $8^{7}/_{8}$% senior subordinated notes due March 15, 2010. As a result of the redemption, we recorded a loss on early extinguishment of debt of $10.0 million for the call premium and the write-off of the associated deferred financing fees.

Taxes

The increase in our effective tax rate to 222.2% for the year ended December 31, 2008, as compared to 45.2% for the year ended December 31, 2007, primarily is a result of the nondeductible portion of the impairment loss related to goodwill and nondeductible lobbying expenses. Our effective income tax rate may vary from period to period depending on, among other factors, the geographic and business mix of our earnings and the level of our tax credits.

The increase in our effective tax rate to 45.2% for the year ended December 31, 2007, as compared to 42.4% for the year ended December 31, 2006, reflects the impact of FIN 48 tax positions and an increase in nondeductible permanent differences.

Discontinued operations

On October 15, 2004, we announced the sale of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA"). In January 2005, we received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, we entered into the Second Amendment to the Purchase Agreement and Release of Claims ("Amendment and Release") with the MTGA pertaining to the October 14, 2004 Purchase Agreement (the "Purchase Agreement"), and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against us under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. As a result of the Amendment and Release, we recorded, in accordance with generally accepted accounting principles ("GAAP"), a net book gain on the $250 million sale ($280 million initial price, less $30 million payable pursuant to the Amendment and Release) of The Downs Racing, Inc. and its subsidiaries to the MTGA of $114.0 million (net of $84.9 million of income taxes) during the year ended December 31, 2006. In addition, we recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years. At December 31, 2008, the balance due to the MTGA equaled $14.2 million.

Liquidity and Capital Resources

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

Net cash provided by operating activities was $420.5 million, $431.2 million and $281.8 million for the years ended December 31, 2008, 2007 and 2006, respectively. Net cash provided by operating activities for the year ended December 31, 2008 included non-cash reconciling items, such as depreciation, amortization, the charge for stock compensation and the impairment loss, of $605.5 million, partially offset by net loss of $153.3 million and net changes in asset and liability accounts of $31.7 million.

Net cash used in investing activities totaled $391.5 million, $611.6 million and $302.3 million for the years ended December 31, 2008, 2007 and 2006, respectively. Net cash used in investing activities for the year ended December 31, 2008 included expenditures for property and equipment totaling $344.9 million, investment in corporate debt securities totaling $47.3 million, and final purchase price adjustments for acquisition of businesses, such as Black Gold Casino at Zia Park and Sanford-Orlando Kennel Club, totaling $0.4 million, all of which were partially offset by proceeds from the sale of property and equipment totaling $1.1 million.

Net cash provided by financing activities totaled $542.9 million, $186.3 million and $56.4 million for the years ended December 31, 2008, 2007 and 2006, respectively. Net cash provided by financing activities for the year ended December 31, 2008 included proceeds from the exercise of stock options totaling $2.4 million, the tax benefit from stock options exercised totaling $1.1 million, proceeds from the issuance of long-term debt, insurance financing and preferred stock, net of related expenses, totaling $447.8 million, $22.3 million and $1,246.4 million, respectively, all of which were partially offset by principal payments on long-term debt totaling $994.0 million, $30.7 million in payments on insurance financing, and repurchases of Common Stock totaling $152.4 million.

On July 3, 2008, we entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, we agreed to receive a total of $1.475 billion, consisting of the Cash Termination Fee and the Investment. Pursuant to the terms of the preferred equity purchase agreement, the purchasers made the Initial Investment to us on July 3, 2008, in addition to the payment of the Cash Termination Fee. Under the terms of the purchase agreement, the purchasers deposited the remaining preferred equity investment purchase consideration with an escrow agent, with the funds to be released from escrow upon the issuance of the Preferred Stock. On October 30, 2008, following the receipt of required regulatory approvals and the satisfaction of certain other conditions, we closed the sale of the Investment and received the remaining preferred equity investment purchase consideration of $775 million from the escrow agent.

We used a portion of the net proceeds from the Investment and the after-tax proceeds of the Cash Termination Fee for the repayment of some of our existing debt, repurchases of our Common Stock, lobbying expenses for efforts in Ohio and the investment in corporate debt securities, with the remainder being invested primarily in short-term securities. The repurchase of up to $200 million of our Common Stock over the twenty-four month period ending July 2010 was authorized by our Board of Directors in July 2008. During the year ended December 31, 2008, we repurchased 8,934,984 shares of our Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.

Capital Expenditures

Capital expenditures are accounted for as either capital project or capital maintenance (replacement) expenditures. Capital project expenditures are for fixed asset additions that expand an existing facility. Capital maintenance expenditures are expenditures to replace existing fixed assets with a useful life greater than one year that are obsolete, worn out or no longer cost effective to repair.

The following table summarizes our capital project expenditures by property for the year ended December 31, 2008:

Property	Actual (in millions)
Charles Town Entertainment Complex	$ 15.2
Hollywood Casino at Penn National Race Course	92.0
Hollywood Slots Hotel and Raceway	76.9
Argosy Casino Lawrenceburg	90.9
Other	2.7
Total	$ 277.7

Our most recent phase of development at Charles Town Entertainment Complex was the construction of a 153-room hotel, which opened to the public on September 5, 2008.

On February 12, 2008, we opened Hollywood Casino at Penn National Race Course, which included, upon opening, 2,020 slot machines, a five-story garage, an innovative, multi-media Hollywood design theme and bars and restaurants ranging from casual dining to higher-end fare. The facility has capacity for 980 additional gaming devices, and we added 207 additional slots in August 2008. The Epic Buffet was opened in October 2008 and Final Cut steakhouse was opened in December 2008.

The Hollywood Slots Hotel and Raceway in Bangor, Maine opened on July 1, 2008. The permanent facility included 1,000 slot machines at opening, an attached parking garage and several restaurants. In addition, a 152-room hotel opened in August 2008.

The Hollywood-themed expansion at Argosy Casino Lawrenceburg includes the addition of 1,500 parking spaces and 1,162 gaming positions, as well as enhanced amenities and a floor layout that will better facilitate customer flow. The garage and pedestrian walkway opened in May 2008 and the gaming facility is scheduled to open in the second quarter of 2009.

During the year ended December 31, 2008, we spent approximately $67.2 million for capital maintenance expenditures at our properties. The majority of the capital maintenance expenditures were for slot machines and slot machine equipment.

Cash generated from operations and cash available under the revolver portion of our $2.725 billion senior secured credit facility have funded our capital project and capital maintenance expenditures in 2008.

The following table summarizes our expected capital project expenditures by property for the year ended December 31, 2009, as well as the projects in their entirety:

Property	December 31, 2009	Project Total
	(in millions)	
Argosy Casino Lawrenceburg	$ 139.4	$ 336.0
Hollywood Casino at Penn National Race Course	5.5	329.5
Hollywood Slots Hotel and Raceway	3.6	138.9
Other	24.8	56.7
Total	$ 173.3	$ 861.1

The Hollywood-themed expansion at Argosy Casino Lawrenceburg includes a 1,500 space parking garage and pedestrian walkway, which opened in May 2008, and a two-level 270,000 square foot gaming vessel, which is expected to open in the second quarter of 2009. The new riverboat will allow 3,617 positions on one level and another 660 positions will be added to the second level, along with restaurants and other amenities on the gaming vessel. We plan to spend an aggregate of $336.0 million on the project.

Debt

Senior Secured Credit Facility

On October 3, 2005, we entered into a $2.725 billion senior secured credit facility to fund our acquisition of Argosy, including payment for all of Argosy's outstanding shares, the retirement of certain long-term debt of Argosy and its subsidiaries, the payment of related transaction costs, and to provide additional working capital. The $2.725 billion senior secured credit facility consists of three credit facilities comprised of a $750 million revolving credit facility (of which $123.7 million was drawn at December 31, 2008) that matures on October 3, 2010, a $325 million Term Loan A Facility that matures on October 3, 2011 and a $1.65 billion Term Loan B Facility that matures on October 3, 2012. The maturity dates for the Term Loan A Facility and the Term Loan B Facility may be accelerated to June 4, 2011 if the $200 million of $6^{7}/_{8}$% senior subordinated notes are not retired before that date. The $2.725 billion senior secured credit facility also allows us to raise an additional $300 million in senior secured credit for project development and property expansion.

During the year ended December 31, 2008, our $2.725 billion senior secured credit facility amount outstanding decreased by $536.8 million, primarily due to principal payments on long-term debt, partially offset by the issuance of long-term debt for items such as payment for capital expenditures,

funding associated with the opening of the Hollywood Casino at Penn National Race Course, privilege payments to the State of Kansas, and payments for income taxes owed and lobbying efforts, primarily in Ohio, Maryland and Maine. During the year ended December 31, 2008, we used a portion of the net proceeds from the Investment and the after-tax proceeds of the Cash Termination Fee for the repayment of some of our existing debt, repurchases of our Common Stock, lobbying expenses for efforts in Ohio and the investment in corporate debt securities, with the remainder being invested primarily in short-term securities.

The $2.725 billion senior secured credit facility is secured by substantially all of the assets of Penn and its restricted subsidiaries.

Redemption of 8 7/8% Senior Subordinated Notes

In February 2006, we called for the redemption of our $175 million 8 7/8% senior subordinated notes. The redemption price was $1,044.38 per $1,000 principal amount, plus accrued and unpaid interest and was made on March 15, 2006. We recorded a $10.0 million loss on early extinguishment of debt during the year ended December 31, 2006 for the call premium and the write-off of the associated deferred financing fees. We funded the redemption of the $175 million 8 7/8% senior subordinated notes from available cash and borrowings under our revolving credit facility.

6 7/8% Senior Subordinated Notes

On December 4, 2003, we completed an offering of $200 million of 6 7/8% senior subordinated notes that mature on December 1, 2011. Interest on the notes is payable on June 1 and December 1 of each year, beginning June 1, 2004.

We may redeem all or part of the 6 7/8% senior subordinated notes at certain specified redemption prices.

The 6 7/8% senior subordinated notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of our current and future wholly-owned domestic subsidiaries. The 6 7/8% senior subordinated notes rank equally with our future senior subordinated debt and junior to our senior debt, including debt under our $2.725 billion senior secured credit facility. In addition, the 6 7/8% senior subordinated notes will be effectively junior to any indebtedness of our non-U.S. unrestricted subsidiaries.

The 6 7/8% senior subordinated notes and guarantees were originally issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended. On August 27, 2004, we completed an offer to exchange the notes and guarantees for notes and guarantees registered under the Securities Act of 1933, as amended, having substantially identical terms.

On May 9, 2008, Merger Sub announced that it had commenced a cash tender offer and consent solicitation for any and all of our 6 7/8% senior subordinated notes. The tender offer and consent solicitation was being conducted in connection with the Merger Agreement and the obligation to accept for purchase and to pay for such notes was subject to the satisfaction or waiver of certain conditions, including the consummation of the Merger. In connection with the termination of the Merger Agreement, these offers were withdrawn.

6 3/4% Senior Subordinated Notes

On March 9, 2005, we completed an offering of $250 million of 6 3/4% senior subordinated notes that mature on March 1, 2015. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2005.

Effective March 2010, we may redeem all or part of the 6 3/4% senior subordinated notes at certain specified redemption prices.

The 6 3/4% senior subordinated notes are general unsecured obligations and are not guaranteed by our subsidiaries.

The 6 3/4% senior subordinated notes were issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended.

On May 9, 2008, Merger Sub announced that it had commenced a cash tender offer and consent solicitation for any and all of our 6 3/4% senior subordinated notes. The tender offer and consent solicitation was being conducted in connection with the Merger Agreement and the obligation to accept for purchase and to pay for such notes was subject to the satisfaction or waiver of certain conditions, including the consummation of the Merger. In connection with the termination of the Merger Agreement, these offers were withdrawn.

Other Long-Term Obligations

On October 15, 2004, we announced the sale of The Downs Racing, Inc. and its subsidiaries to the MTGA. Under the terms of the agreement, the MTGA acquired The Downs Racing, Inc. and its subsidiaries, including Pocono Downs (a standardbred horse racing facility located on 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania OTWs located in Carbondale, East Stroudsburg, Erie, Hazelton and the Lehigh Valley (Allentown). The sale agreement also provided the MTGA with certain post-closing termination rights in the event of certain materially adverse legislative or regulatory events. In January 2005, we received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, we entered into the Amendment and Release with the MTGA pertaining to the Purchase Agreement, and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against us under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. We recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years. At December 31, 2008, the balance due to the MTGA equaled $14.2 million.

Covenants

Our $2.725 billion senior secured credit facility, $200 million 6 7/8% and $250 million 6 3/4% senior subordinated notes require us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, our $2.725 billion senior secured credit facility, $200 million 6 7/8% and $250 million 6 3/4% senior subordinated notes restrict, among other things, our ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restricts corporate activities.

During the year ended December 31, 2008, we placed some of the funds received from the Investment into two unrestricted subsidiaries, in order to allow for maximum flexibility in the deployment of the funds. The funds and activity maintained within the unrestricted subsidiaries are excluded from our covenant calculations.

At December 31, 2008, we were in compliance with all required financial covenants.

Outlook

Based on our current level of operations, and anticipated revenue growth, we believe that cash generated from operations and from the Investment, together with amounts available under our $2.725 billion senior secured credit facility will be adequate to meet our anticipated debt service requirements, capital expenditures and working capital needs for the foreseeable future. We cannot assure you, however, that our business will generate sufficient cash flow from operations, that our anticipated revenue growth will be realized, or that future borrowings will be available under our $2.725 billion senior secured credit facility or otherwise will be available to enable us to service our indebtedness, including the $2.725 billion senior secured credit facility and the notes, to retire or redeem the notes when required or to make anticipated capital expenditures. In addition, we expect a majority of our future growth to come from acquisitions of gaming properties at reasonable valuations, greenfield projects, jurisdictional expansions and property expansion in under-penetrated markets. If we consummate significant acquisitions in the future or undertake any significant property expansions, our cash requirements may increase significantly and we may need to make additional borrowings or complete equity or debt financings to meet these requirements. We may need to refinance all or a portion of our debt on or before maturity. Our future operating performance and our ability to service or refinance our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control. See "Risk Factors—Risks Related to Our Capital Structure" of this Annual Report on Form 10-K for a discussion of the risk related to our capital structure.

Commitments and Contingencies

Contractual Cash Obligations

At December 31, 2008, there was $123.7 million indebtedness outstanding under the revolving credit portion of our $2.725 billion senior secured credit facility and approximately $596.8 million available for borrowing. The following table presents our contractual cash obligations at December 31, 2008:

	Payments Due By Period				
	Total	2009	2010 - 2011	2012 - 2013	2014 and After
			(in thousands)		
Senior secured credit facility					
Principal	$ 1,959,784	$ 97,750	$ 698,784	$ 1,163,250	$ —
Interest	275,236	95,881	155,273	24,082	—
6 7/8% senior subordinated notes					
Principal	200,000	—	200,000	—	—
Interest	41,250	13,750	27,500	—	—
6 3/4% senior subordinated notes					
Principal	250,000	—	—	—	250,000
Interest	109,688	16,875	33,750	33,750	25,313
Other long-term obligations	14,201	5,511	8,690	—	—
Purchase obligations	31,003	21,765	5,867	2,276	1,095
Capital expenditure commitments	67,712	67,712	—	—	—
Capital leases	6,195	2,020	2,178	159	1,838
Operating leases	46,971	6,985	9,880	7,155	22,951
Other liabilities reflected in the Company's consolidated balance sheets	12,839	12,839	—	—	—
Total	$ 3,014,879	$ 341,088	$ 1,141,922	$ 1,230,672	$ 301,197

Other Commercial Commitments

The following table presents our material commercial commitments as of December 31, 2008 for the following future periods:

	Total Amounts Committed	2009	2010 – 2011	2012 – 2013	2014 and After
			(in thousands)		
Letters of Credit(1)	$ 27,472	$ 27,472	$ —	$ —	$ —
Guarantees of New Jersey Joint Venture Obligations(2)	6,117	500	1,000	4,617	—
Total	$ 33,589	$ 27,972	$ 1,000	$ 4,617	$ —

(1) The available balance under the revolving credit portion of our $2.725 billion senior secured credit facility is diminished by outstanding letters of credit.

(2) In connection with our 50% ownership interest in Pennwood Racing, Inc. ("Pennwood"), our joint venture in New Jersey, we entered into a debt service maintenance agreement with Pennwood's lender to guarantee up to 50% of Pennwood's $12.2 million term loan. Our obligation at December 31, 2008 under this guarantee was approximately $6.1 million.

Interest Rate Swap Agreements

See Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" below.

New Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with GAAP (the GAAP hierarchy). Any effect of applying the provisions of SFAS 162 shall be reported as a change in accounting principle in accordance with SFAS No. 154, "Accounting Changes and Error Corrections." SFAS 162 is effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." We adopted SFAS 162 as of its effective date, as required. SFAS 162 did not have an impact on our consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the assets under SFAS No. 141 (revised), "Business Combinations" ("SFAS 141(R)") and other GAAP. FSP FAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption of the standard is prohibited. We adopted FSP FAS 142-3 as of January 1, 2009, as required. We do not expect that the adoption of FSP FAS 142-3 will have a material impact on our consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of SFAS No. 133" ("SFAS 161"), which requires enhanced disclosures about an entity's derivative and hedging activities. Specifically, entities are required to provide enhanced disclosures about: a) how and why an entity uses derivative instruments; b) how

derivative instruments and related hedged items are accounted for under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," and its related interpretations; and c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. We adopted SFAS 161 as of January 1, 2009, as required. We do not expect that the adoption of SFAS 161 will have a material impact on our consolidated financial statements.

In December 2007, the FASB issued SFAS 141(R), which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. SFAS 141(R) requires that the acquiring entity in a business combination recognize all (and only) the assets and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information that they need to evaluate and understand the nature and financial effect of the business combination. In addition, SFAS 141(R) modifies the accounting for transaction and restructuring costs. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. We adopted SFAS 141(R) as of January 1, 2009, as required. We expect that the adoption of SFAS 141(R) will have an impact on our consolidated financial statements, once we acquire companies in the future.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of SFAS No. 115" ("SFAS 159"), which permits an entity to choose to measure many financial instruments and certain other items at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. We did not elect the fair value option for any financial assets or financial liabilities.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands the disclosure requirements about fair value measurements. In February 2008, the FASB amended SFAS 157 through the issuance of FSP FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" ("FSP FAS 157-1") and FSP FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-1, which was effective upon the initial adoption of SFAS 157, amends SFAS 157 to exclude from its scope certain accounting pronouncements that address fair value measurements associated with leases. FSP FAS 157-2, which was effective upon issuance, delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"), which was effective upon issuance. FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. We adopted SFAS 157, as amended, and on a prospective basis, as of January 1, 2008. The January 1, 2008 adoption did not have a significant impact on us. We adopted SFAS 157, as amended, and on a prospective basis, as of January 1, 2009 to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. We do not expect that the adoption of SFAS 157, as amended, and on a prospective

basis, to nonfinancial assets and nonfinancial liabilities, will have a material impact on our consolidated financial statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below provides information at December 31, 2008 about our financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. For debt obligations, the table presents notional amounts maturing during the year and the related weighted-average interest rates at year-end. For interest rate swaps, the table presents notional amounts and weighted-average interest rates outstanding at each year-end. Notional amounts are used to calculate the contractual payments to be exchanged under the contract and the weighted-average variable rates are based on implied forward rates in the yield curve as of December 31, 2008.

	2009	2010	2011	2012	2013	Thereafter	Total	Fair Value 12/31/08
				(in thousands)				
Long-term debt:								
Fixed rate	$ 5,511	$ 5,407	$203,283	$ —	$ —	$ 250,000	$ 464,201	$ 389,201
Average interest rate	7.00%	7.00%	6.88%	—	—	6.75%		
Variable rate	$ 97,750	$225,534	$473,250	$1,163,250	$ —	$ —	$1,959,784	$1,959,784
Average interest rate(1)	3.07%	3.31%	3.86%	4.11%	—	—		
Leases	$ 2,020	$ 1,051	$ 1,127	$ 76	$ 83	$ 1,838	$ 6,195	$ 6,195
Average interest rate	6.62%	5.68%	5.67%	7.72%	7.72%	7.72%		
Interest rate derivatives:								
Interest rate swaps								
Variable to fixed(2)	$974,000	$500,000	$ —	$ —	$ —	$ —	N/A	$ (63,185)
Average pay rate	4.15%	4.39%					N/A	
Average receive rate(3)	1.73%	2.03%					N/A	

(1) Estimated rate, reflective of forward LIBOR plus the spread over LIBOR applicable to variable-rate borrowing.

(2) Notional amounts outstanding at each year-end.

(3) Estimated rate, reflective of forward LIBOR.

In accordance with the terms of our $2.725 billion senior secured credit facility, we were required to enter into fixed-rate debt or interest rate swap agreements in an amount equal to 50% of our consolidated indebtedness, excluding the revolving credit facility, within 100 days of the closing date of the $2.725 billion senior secured credit facility.

On October 25, 2005, we entered into four interest rate swap contracts with terms from three to five years, notional amounts of $224 million, $274 million, $225 million, and $237 million, for a total of $960 million, and fixed interest rates ranging from 4.678% to 4.753%. The $224 million and $225 million swaps expired on October 27, 2008. The annual weighted-average interest rate of the two remaining contracts is 4.73%. Under these two remaining contracts, we pay a fixed interest rate against a variable interest rate based on the 90-day LIBOR rate. As of December 31, 2008, the applicable 90-day LIBOR rate was 3.535% for the two remaining swaps.

On April 6, 2006, we entered into three interest rate swap contracts with a term of five years and notional amounts of $100 million each, for a total of $300 million and fixed interest rates ranging from 5.263% to 5.266%. The annual weighted-average interest rate of the three contracts is 5.26%. Under these contracts, we pay a fixed interest rate against a variable interest rate based on the 90-day LIBOR rate. As of December 31, 2008, the applicable 90-day LIBOR rate was 2.388% for the $300 million swaps. The counterparty for one of the $100 million swaps is Lehman Brothers, which filed for Chapter 11 bankruptcy protection during the year ended December 31, 2008. The fair value of this $100 million swap was in a liability position at December 31, 2008.

On September 5, 2007, we entered into two interest rate swap contracts with terms of nine months and notional amounts of $197 million and $181 million, for a total of $378 million, and fixed interest rates of 5.01%. The $197 million swap expired on June 17, 2008, while the $181 million swap expired on July 18, 2008.

On December 19, 2007, we entered into three monthly interest rate swap contracts, each with notional amounts of $146.25 million and fixed interest rates of 4.97% effective December 31, 2007, 4.47% effective January 31, 2008 and 4.40% effective February 29, 2008. The $146.25 million swap matured on March 31, 2008.

On October 23, 2008, we entered into two interest rate swap contracts with terms of two and three years and notional amounts of $200 million each, for a total of $400 million and fixed interest rates ranging from 2.727% to 3.09%. The annual weighted-average interest rate of the two contracts is 2.91%. Under these contracts, we pay a fixed interest rate against a variable interest rate based on the one-month LIBOR rate. As of December 31, 2008, the applicable one-month LIBOR rate was 0.471% for the $400 million swaps.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors
Penn National Gaming, Inc. and subsidiaries

We have audited the accompanying consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Penn National Gaming, Inc. and subsidiaries at December 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2008, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 4 to the consolidated financial statements, the Company changed the manner in which it accounts for uncertainty in income taxes in 2007.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Penn National Gaming Inc. and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 27, 2009, expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 27, 2009

Penn National Gaming, Inc. and Subsidiaries
Consolidated Balance Sheets
(in thousands, except share and per share data)

	December 31, 2008	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 746,278	$ 174,372
Receivables, net of allowance for doubtful accounts of $3,797 and $3,241 at December 31, 2008 and 2007, respectively	43,574	56,427
Prepaid expenses and other current assets	95,386	52,825
Deferred income taxes	21,065	19,079
Total current assets	906,303	302,703
Property and equipment, net	1,812,131	1,688,393
Other assets		
Investment in and advances to unconsolidated affiliate	14,419	15,548
Goodwill	1,598,571	2,013,139
Other intangible assets	693,764	777,441
Deferred financing costs, net of accumulated amortization of $38,914 and $27,680 at December 31, 2008 and 2007, respectively	34,910	46,144
Other assets	129,578	123,664
Total other assets	2,471,242	2,975,936
Total assets	$ 5,189,676	$ 4,967,032
Liabilities		
Current liabilities		
Current maturities of long-term debt	$ 105,281	$ 93,452
Accounts payable	35,540	28,581
Accrued expenses	106,769	163,579
Accrued interest	80,190	56,631
Accrued salaries and wages	55,380	54,149
Gaming, pari-mutuel, property, and other taxes	44,503	43,621
Income taxes payable	—	3,642
Insurance financing	8,093	16,515
Other current liabilities	34,730	33,704
Total current liabilities	470,486	493,874
Long-term liabilities		
Long-term debt, net of current maturities	2,324,899	2,881,470
Deferred income taxes	265,610	385,089
Noncurrent tax liabilities	68,632	82,849
Other noncurrent liabilities	2,776	2,788
Total long-term liabilities	2,661,917	3,352,196
Shareholders' equity		
Preferred stock ($.01 par value, 1,000,000 shares authorized, 12,500 and 0 issued and outstanding at December 31, 2008 and 2007)	—	—
Common stock ($.01 par value, 200,000,000 shares authorized, 78,148,488 and 88,579,070 shares issued at December 31, 2008 and 2007, respectively)	782	887
Treasury stock (1,698,800 shares issued at December 31, 2007)	—	(2,379)
Additional paid-in capital	1,442,829	322,760
Retained earnings	662,355	815,678
Accumulated other comprehensive loss	(48,693)	(15,984)
Total shareholders' equity	2,057,273	1,120,962
Total liabilities and shareholders' equity	$ 5,189,676	$ 4,967,032

See accompanying notes to the consolidated financial statements.

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

Year ended December 31,	2008	2007	2006
Revenues			
Gaming	$ 2,206,500	$ 2,227,944	$ 2,057,617
Management service fee	16,725	17,273	18,146
Food, beverage and other	334,206	320,520	275,700
Gross revenues	2,557,431	2,565,737	2,351,463
Less promotional allowances	(134,378)	(128,944)	(106,916)
Net revenues	2,423,053	2,436,793	2,244,547
Operating expenses			
Gaming	1,163,458	1,155,062	1,061,904
Food, beverage and other	264,012	247,576	224,673
General and administrative	427,146	388,431	349,909
Hurricane	—	—	(128,253)
Impairment loss	481,333	—	34,522
Depreciation and amortization	173,545	147,915	123,951
Total operating expenses	2,509,494	1,938,984	1,666,706
(Loss) income from continuing operations	(86,441)	497,809	577,841
Other income (expenses)			
Interest expense	(169,827)	(198,059)	(196,328)
Interest income	8,362	4,016	3,525
Loss from joint venture	(1,526)	(99)	(788)
Merger termination settlement fees, net of related expenses	195,426	—	—
Other	6,421	(11,427)	(4,296)
Loss on early extinguishment of debt	—	—	(10,022)
Total other income (expenses)	38,856	(205,569)	(207,909)
(Loss) income from continuing operations before income taxes	(47,585)	292,240	369,932
Taxes on income	105,738	132,187	156,852
Net (loss) income from continuing operations	(153,323)	160,053	213,080
Gain on sale of discontinued operations, net of tax	—	—	114,008
Net (loss) income	$ (153,323)	$ 160,053	$ 327,088
(Loss) earnings per share-Basic			
(Loss) income from continuing operations	$ (1.81)	$ 1.87	$ 2.53
Discontinued operations, net of tax	—	—	1.35
Basic (loss) earnings per share	$ (1.81)	$ 1.87	$ 3.88
(Loss) earnings per share-Diluted			
(Loss) income from continuing operations	$ (1.81)	$ 1.81	$ 2.46
Discontinued operations, net of tax	—	—	1.32
Diluted (loss) earnings per share	$ (1.81)	$ 1.81	$ 3.78

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Changes in Shareholders' Equity
(in thousands, except share data)

	Preferred Stock		Common Stock		Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity	Comprehensive Income
	Shares	Amount	Shares	Amount						
Balance, December 31, 2005	—	$ —	85,064,886	$ 850	$ (2,379)	$ 206,763	$ 340,469	$ 840	$ 546,543	
Stock option activity, including tax benefit of $12,435	—	—	1,310,113	14	—	43,397	—	—	43,411	$ —
Restricted stock	—	—	440,000	4	—	1,783	—	—	1,787	—
Change in fair value of interest rate swap contracts, net of income taxes of $1,461	—	—	—	—	—	—	—	2,380	2,380	2,380
Foreign currency translation adjustment	—	—	—	—	—	—	—	(46)	(46)	(46)
Net income	—	—	—	—	—	—	327,088	—	327,088	327,088
Balance, December 31, 2006	—	—	86,814,999	868	(2,379)	251,943	667,557	3,174	921,163	329,422
Stock option activity, including tax benefit of $20,460	—	—	1,824,071	19	—	68,851	—	—	68,870	—
Restricted stock	—	—	(60,000)	—	—	1,966	—	—	1,966	—
Change in fair value of interest rate swap contracts, net of income taxes of $11,203	—	—	—	—	—	—	—	(19,728)	(19,728)	(19,728)
Foreign currency translation adjustment	—	—	—	—	—	—	—	570	570	570
Cumulative effect of adoption of FIN 48	—	—	—	—	—	—	(11,932)	—	(11,932)	—
Net income	—	—	—	—	—	—	160,053	—	160,053	160,053
Balance, December 31, 2007	—	—	88,579,070	887	(2,379)	322,760	815,678	(15,984)	1,120,962	140,895
Issuance of Preferred stock	12,500	—	—	—	—	1,246,400	—	—	1,246,400	—
Stock option activity, including tax benefit of $1,060	—	—	203,202	2	—	26,305	—	—	26,307	—
Share activity	—	—	(10,633,784)	(107)	2,379	(154,633)	—	—	(152,361)	—
Restricted stock	—	—	—	—	—	1,997	—	—	1,997	—
Change in fair value of interest rate swap contracts, net of income taxes of $13,072	—	—	—	—	—	—	—	(23,216)	(23,216)	(23,216)
Change in fair value of corporate debt securities	—	—	—	—	—	—	—	(8,008)	(8,008)	(8,008)
Foreign currency translation adjustment	—	—	—	—	—	—	—	(1,485)	(1,485)	(1,485)
Net loss	—	—	—	—	—	—	(153,323)	—	(153,323)	(153,323)
Balance, December 31, 2008	12,500	$ —	78,148,488	$ 782	$ —	$1,442,829	$ 662,355	$ (48,693)	$2,057,273	$ (186,032)

See accompanying notes to the consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Consolidated Statements of Cash Flows
(in thousands)

Year ended December 31,	2008	2007	2006
Operating activities			
Net (loss) income	$ (153,323)	$ 160,053	$ 327,088
Adjustments to reconcile net (loss) income to net cash provided by operating activities:			
Depreciation and amortization	173,545	147,915	123,951
Amortization of items charged to interest expense	12,625	13,011	11,361
Amortization of items charged to interest income	(912)	—	—
Loss on sale of fixed assets	1,610	1,637	1,383
Loss from joint venture	1,526	99	788
Loss relating to early extinguishment of debt	—	—	2,255
Deferred income taxes	(91,098)	18,265	14,394
Charge for stock compensation	26,857	25,465	20,562
Gain on sale of discontinued operations, net of tax	—	—	(114,008)
Gain on hurricane insurance, net of tax	—	—	(81,799)
Impairment loss	481,333	—	22,018
Decrease (increase), net of businesses acquired			
Accounts receivable	12,853	(2,168)	(6,197)
Insurance receivable	—	100,000	(23,048)
Prepaid expenses and other current assets	(27,722)	924	(26,933)
Other assets	25,747	(7,159)	13,536
(Decrease) increase, net of businesses acquired			
Accounts payable	(350)	(22,234)	12,379
Accrued expenses	(12,045)	(12,436)	4,155
Accrued interest	(12,729)	(1,594)	(1,974)
Accrued salaries and wages	1,231	(6,003)	5,585
Gaming, pari-mutuel, property and other taxes	882	(4,629)	(127)
Income taxes payable	(6,794)	(3,584)	(28,748)
Other current and noncurrent liabilities	1,014	9,470	5,176
Other noncurrent tax liabilities	(13,787)	14,187	—
Operating cash flows from discontinued operations	—	—	12
Net cash provided by operating activities	420,463	431,219	281,809
Investing activities			
Expenditures for property and equipment	(344,894)	(361,155)	(408,883)
Proceeds from hurricane	—	—	104,136
Proceeds from sale of property and equipment	1,066	15,020	2,406
Investment in corporate debt securities	(47,286)	—	—
Acquisition of businesses and licenses, net of cash acquired	(384)	(265,482)	—
Net cash used in investing activities	(391,498)	(611,617)	(302,341)
Financing activities			
Proceeds from exercise of options	2,397	24,911	12,201
Repurchases of common stock	(152,361)	—	—
Proceeds from issuance of long-term debt	447,833	426,065	195,678
Principal payments on long-term debt	(993,966)	(282,360)	(177,066)
Proceeds from issuance of preferred stock, net of related expenses	1,246,400	—	—
Proceeds from insurance financing	22,255	29,009	32,522
Payments on insurance financing	(30,677)	(31,830)	(19,301)
Increase in deferred financing cost	—	—	(42)
Tax benefit from stock options exercised	1,060	20,460	12,435
Net cash provided by financing activities	542,941	186,255	56,427
Net increase in cash and cash equivalents	571,906	5,857	35,895
Cash and cash equivalents at beginning of year	174,372	168,515	132,620
Cash and cash equivalents at end of year	$ 746,278	$ 174,372	$ 168,515
Supplemental disclosure			
Interest expense paid	$ 183,264	$ 199,425	$ 198,605
Income taxes paid	$ 190,287	$ 88,546	$ 127,787

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries
Notes to Consolidated Financial Statements

1. Business and Basis of Presentation

Penn National Gaming, Inc. ("Penn") and subsidiaries (collectively, the "Company") is a diversified, multi-jurisdictional owner and manager of gaming and pari-mutuel properties. Penn is the successor to several businesses that have operated as Penn National Race Course since 1972. Penn was incorporated in Pennsylvania in 1982 as PNRC Corp. and adopted its current name in 1994, when the Company became a public company. In 1997, the Company began its transition from a pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. Since 1997, the Company has continued to expand its gaming operations through strategic acquisitions, including the acquisitions of Hollywood Casino Bay St. Louis and Boomtown Biloxi, CRC Holdings, Inc., the Bullwhackers properties, Hollywood Casino Corporation, Argosy Gaming Company ("Argosy"), Black Gold Casino at Zia Park, and Sanford-Orlando Kennel Club.

The Company currently owns or operates nineteen facilities in fifteen jurisdictions, including Colorado, Florida, Illinois, Indiana, Iowa, Louisiana, Maine, Mississippi, Missouri, New Jersey, New Mexico, Ohio, Pennsylvania, West Virginia, and Ontario.

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

For purposes of comparability, certain prior year amounts have been reclassified to conform to the current year presentation.

2. Principles of Consolidation

The consolidated financial statements include the accounts of Penn and its wholly-owned subsidiaries. Investment in and advances to an unconsolidated affiliate that is 50% owned is accounted for under the equity method. All significant intercompany accounts and transactions have been eliminated in consolidation.

3. Merger Announcement and Termination

On June 15, 2007, the Company announced that it had entered into a merger agreement that, at the effective time of the transactions contemplated thereby, would have resulted in the Company's shareholders receiving $67.00 per share. Specifically, the Company, PNG Acquisition Company Inc. ("Parent") and PNG Merger Sub Inc., a wholly-owned subsidiary of Parent ("Merger Sub"), announced that they had entered into an Agreement and Plan of Merger, dated as of June 15, 2007 (the "Merger Agreement"), that provided, among other things, for Merger Sub to be merged with and into the Company (the "Merger"), as a result of which the Company would have continued as the surviving corporation and would have become a wholly-owned subsidiary of Parent. Parent is indirectly owned by certain funds (the "Funds") managed by affiliates of Fortress Investment Group LLC ("Fortress") and Centerbridge Partners, L.P. ("Centerbridge").

The Merger Agreement provided that, upon termination under specified circumstances generally related to a competing acquisition proposal, the Company would have been required to pay a termination fee of up to $200 million to Parent and, under certain circumstances if the Company's shareholders had not approved the Merger, the Company would have been required to reimburse Parent for an aggregate amount not to exceed $17.5 million for transaction expenses incurred by Parent

and its affiliates. Since the shareholder vote was obtained, the Company was unable to solicit, or terminate the Merger Agreement to accept, any third-party acquisition proposals. The Company's reimbursement of Parent's expenses would have reduced the amount of any required termination fee that became payable by the Company. The Merger Agreement further provided that, upon termination under specified circumstances related to, among other things, Parent's breach of the Merger Agreement, the failure to obtain financing or failure to obtain regulatory approval, Parent would have been required to pay the Company a termination fee of $200 million. Affiliates of the Funds had agreed to fund Parent in the amount of the termination fee in the event it became payable.

On July 3, 2008, the Company entered into an agreement with certain affiliates of Fortress and Centerbridge, terminating the Merger Agreement. In connection with the termination of the Merger Agreement, the Company agreed to receive a total of $1.475 billion, consisting of a nonrefundable $225 million cash termination fee (the "Cash Termination Fee") and a $1.25 billion, zero coupon, preferred equity investment (the "Investment"). Pursuant to the terms of the preferred equity purchase agreement, the purchasers made a nonrefundable $475 million payment (the "Initial Investment") to the Company on July 3, 2008, in addition to the payment of the Cash Termination Fee. Under the terms of the purchase agreement, the purchasers deposited the remaining preferred equity investment purchase consideration with an escrow agent, with the funds to be released from escrow upon the issuance of the Preferred Stock. On October 30, 2008, following the receipt of required regulatory approvals and the satisfaction of certain other conditions, the Company closed the sale of the Investment and received the remaining preferred equity investment purchase consideration of $775 million from the escrow agent.

The Company used a portion of the net proceeds from the Investment and the after-tax proceeds of the Cash Termination Fee for the repayment of some of its existing debt, repurchases of its Common Stock, lobbying expenses for efforts in Ohio and the investment in corporate debt securities, with the remainder being invested primarily in short-term securities. The repurchase of up to $200 million of the Company's Common Stock over the twenty-four month period ending July 2010 was authorized by the Company's Board of Directors in July 2008. During the year ended December 31, 2008, the Company repurchased 8,934,984 shares of its Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.

Pursuant to the terms of the preferred equity purchase agreement, and in conjunction with the closing of the sale of the Investment, Wesley R. Edens, the Chairman and Chief Executive Officer of Fortress, joined the Company's Board of Directors, increasing the size of the Board to seven members.

On December 26, 2007, the Company entered into a Change in Control Payment Acknowledgement and Agreement (the "Acknowledgement and Agreement") with certain members of its management team. Pursuant to the Acknowledgement and Agreement, a portion of the payment due on a change in control to such executives was accelerated and paid on or before December 31, 2007. The Acknowledgement and Agreements were entered into as part of actions taken to reduce the amount of "gross-up" payments pertaining to federal excise taxes that may have otherwise been owed to such executives under the terms of their existing employment agreements in connection with the change in control payments due upon the consummation of the Merger. The accelerated change in control payments were subject to a clawback right in the event the Merger was terminated pursuant to the terms of the Merger Agreement or the closing of the Merger otherwise failed to occur or if the executive's employment with the Company was terminated prior to the effective date of the Merger under circumstances where the executive was not entitled to receive the remainder of his change in control payment under the terms of his employment agreement. In July 2008, the Company exercised its clawback right for the accelerated change in control payments in accordance with the Acknowledgement and Agreement, and advised the affected executives of the amounts to be repaid and the due date. The Company has received the net amount from each executive, and is working with each executive to recover the applicable taxes.

4. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Concentration of Credit Risk

Financial instruments that subject the Company to credit risk consist of cash equivalents, corporate securities, interest rate swap contracts and accounts receivable.

The Company's policy is to limit the amount of credit exposure to any one financial institution, and place investments with financial institutions evaluated as being creditworthy, or in short-term money market and tax-free bond funds which are exposed to minimal interest rate and credit risk. The Company has bank deposits and overnight repurchase agreements that exceed federally-insured limits.

Concentration of credit risk, with respect to casino receivables, is limited through the Company's credit evaluation process. The Company issues markers to approved casino customers only following credit checks and investigations of creditworthiness.

The Company's receivables of $43.6 million and $56.4 million at December 31, 2008 and 2007, respectively, primarily consist of $10.8 million and $21.9 million, respectively, due from the West Virginia Lottery for gaming revenue settlements and capital reinvestment projects at the Charles Town Entertainment Complex, and $11.4 million and $13.4 million, respectively, for reimbursement of expenses paid on behalf of Casino Rama.

Accounts are written off when management determines that an account is uncollectible. Recoveries of accounts previously written off are recorded when received. An allowance for doubtful accounts is determined to reduce the Company's receivables to their carrying value, which approximates fair value. The allowance is estimated based on historical collection experience, specific review of individual customer accounts, and current economic and business conditions. Historically, the Company has not incurred any significant credit-related losses.

Fair Value of Financial Instruments

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

Cash and Cash Equivalents

The fair value of the Company's cash and cash equivalents approximates the carrying value of the Company's cash and cash equivalents, due to the short maturity of the cash equivalents.

Investment in Corporate Debt Securities

The fair value of the investment in corporate debt securities is estimated based on quoted prices in active markets for identical investments. The investment in corporate debt securities are measured at fair value on a recurring basis.

Long-term Debt

The fair value of the Company's $2.725 billion senior secured credit facility approximates its carrying value, as it is variable-rate debt. The fair value of the Company's fixed-rate bonds is estimated based on quoted prices in active markets for identical instruments. The fair value of the Company's other long-term obligations and capital leases approximates its carrying value.

Interest Rate Swap Contracts

Fair values are measured at the present value of all expected future cash flows based on the LIBOR-based swap yield curve as of the date of the valuation. The fair values of the interest rate swap contracts are estimated based on inputs other than quoted prices that are observable for the interest rate swap contracts (i.e, Level 2 inputs). No adjustment to standard industry pricing practice was made in connection with the Company's assessment of credit risk or the likelihood of nonperformance under the contracts.

The estimated fair values of the Company's financial instruments are as follows (in thousands):

	2008		2007	
December 31,	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Cash and cash equivalents	$ 746,278	$ 746,278	$ 174,372	$ 174,372
Investment in corporate debt securities	40,190	40,190	—	—
Financial liabilities:				
Long-term debt				
Senior secured credit facility	1,959,784	1,959,784	2,496,625	2,496,625
Fixed-rate bonds and other long-term obligations	464,201	389,201	469,810	475,247
Capital leases	6,195	6,195	8,487	8,487
Interest rate swap contracts	63,185	63,185	26,896	26,896

See Note 20 to the Consolidated Financial Statements for further information regarding the Company's assessment of the inputs used to measure the fair value for the investment in corporate debt securities and interest rate swap contracts.

Property and Equipment

Property and equipment are stated at cost, less accumulated depreciation. Maintenance and repairs that neither add materially to the value of the asset nor appreciably prolong its useful life are charged to expense as incurred. Gains or losses on the disposal of property and equipment are included in the determination of income.

Depreciation of property and equipment is recorded using the straight-line method over the following estimated useful lives:

Land improvements	5 to 15 years
Building and improvements	25 to 40 years
Furniture, fixtures, and equipment	3 to 7 years

Leasehold improvements are amortized over the shorter of the estimated useful life of the improvement or the related lease term.

The estimated useful lives are determined based on the nature of the assets as well as the Company's current operating strategy.

The Company reviews the carrying values of its property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable based on undiscounted estimated future cash flows expected to result from its use and eventual disposition. The factors considered by the Company in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows for determining

whether an asset is impaired, assets are grouped at the individual property level. In assessing the recoverability of the carrying value of property and equipment, the Company must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, the Company may be required to record an impairment loss for these assets. Such an impairment loss would be recognized as a non-cash component of operating income. As a result of a decline in the Company's share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, the Company believed that there were indicators of impairment as of December 31, 2008. As a result, the Company tested its long-lived assets for impairment as of December 31, 2008, and determined that a portion of the value of these long-lived assets, primarily at its Bullwhackers property, was impaired. Accordingly, the Company recorded a pre-tax impairment charge of $15.1 million ($10.0 million, net of taxes) during the year ended December 31, 2008 for these assets.

Goodwill and Other Intangible Assets

At December 31, 2008, the Company had $1,598.6 million in goodwill and $693.8 million in other intangible assets within its consolidated balance sheet, representing 30.8% and 13.4% of total assets, respectively, resulting from the Company's acquisition of other businesses and payment for gaming licenses and racing permits. Two issues arise with respect to these assets that require significant management estimates and judgment: (i) the valuation in connection with the initial purchase price allocation; and (ii) the ongoing evaluation for impairment.

In connection with the Company's acquisitions, valuations are completed to determine the allocation of the purchase prices. The factors considered in the valuations include data gathered as a result of the Company's due diligence in connection with the acquisitions, projections for future operations, and data obtained from third-party valuation specialists as deemed appropriate. Goodwill is tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the reporting units to their carrying amount. If the carrying amount of a reporting unit exceeds its fair value, an impairment test is performed to determine the implied value of goodwill for that reporting unit. If the implied value is less than the carrying amount for that reporting unit, an impairment loss is recognized for that reporting unit. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"), issued by the Financial Accounting Standards Board ("FASB"), the Company considers its gaming license, racing permit and trademark intangible assets as indefinite-life intangible assets that do not require amortization. Rather, these intangible assets are tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the recorded assets to their carrying amount. If the carrying amounts of the gaming license, racing permit and trademark intangible assets exceed their fair value, an impairment loss is recognized. The evaluation of goodwill and indefinite-life intangible assets requires the use of estimates about future operating results of each reporting unit to determine their estimated fair value. The Company uses a market approach model, with EBITDA (earnings before interest, taxes, charges for stock compensation, impairment loss, depreciation and amortization, gain or loss on disposal of assets, merger termination settlement fees, net of related expenses, and other expense, and inclusive of loss from joint venture) multiples, as the Company believes that EBITDA is a widely-used measure of performance in the gaming industry and as the Company uses EBITDA as the primary measurement of the operating performance of its properties (including the evaluation of operating personnel). In addition, the Company believes that an EBITDA multiple is the principal basis for the valuation of gaming companies. Changes in the estimated EBITDA multiple or forecasted operations can materially affect these estimates. Once an impairment of goodwill or other indefinite-life intangible assets has been recorded, it cannot be reversed. Because the Company's goodwill and indefinite-life intangible assets are not amortized, there may be volatility in reported income because impairment losses, if any, are likely to occur irregularly and in varying amounts. Intangible assets that have a definite-life, including the management service contract for

Casino Rama, are amortized on a straight-line basis over their estimated useful lives or related service contract. The Company reviews the carrying value of its intangible assets that have a definite-life for possible impairment whenever events or changes in circumstances indicate that their carrying value may not be recoverable. If the carrying amount of the intangible assets that have a definite-life exceed their fair value, an impairment loss is recognized. As a result of a decline in the Company's share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, the Company believed that there were indicators of impairment as of December 31, 2008. As a result, the Company tested its goodwill and other intangible assets for impairment as of December 31, 2008, and determined that a portion of the value of these assets was impaired in certain reporting units. Accordingly, the Company recorded pre-tax impairment charges of $397.2 million ($338.5 million, net of taxes) and $69.0 million ($44.1 million, net of taxes) during the year ended December 31, 2008 for its goodwill and indefinite-life intangible assets, respectively.

Deferred Financing Costs

Deferred financing costs that are incurred by the Company in connection with the issuance of debt are deferred and amortized to interest expense over the life of the underlying indebtedness, adjusted to reflect any early repayments.

Comprehensive Income

The Company accounts for comprehensive income in accordance with SFAS No. 130, "Reporting Comprehensive Income," which established standards for the reporting and presentation of comprehensive income in the consolidated financial statements. The Company presents comprehensive income in its consolidated statements of changes in shareholders' equity.

Income Taxes

The Company accounts for income taxes in accordance with SFAS No. 109, "Accounting for Income Taxes" ("SFAS 109"). Under SFAS 109, deferred tax assets and liabilities are determined based on the differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities and are measured at the prevailing enacted tax rates that will be in effect when these differences are settled or realized. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax asset will not be realized.

The realizability of the deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary. The factors used to assess the likelihood of realization are the forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets.

The Company adopted the provisions of FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes" ("FIN 48"), which is an interpretation of SFAS 109, on January 1, 2007. FIN 48 creates a single model to address uncertainty in tax positions, and clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109 by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. The liability for unrecognized tax benefits is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2008 and 2007.

Accounting for Derivatives and Hedging Activities

The Company does not hold or issue derivative financial instruments for trading or speculative purposes. Thus, uses of derivatives are limited to hedging and risk management purposes, in connection

with managing interest rate exposures. SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), as amended, established accounting and reporting standards for derivative instruments and hedging activities.

The Company uses fixed and variable-rate debt to finance its operations. Both funding sources have associated risks and opportunities, and the Company's risk management policy permits the use of derivatives to manage these exposures. Acceptable derivatives for this purpose include interest rate swaps, futures, options, caps, and similar instruments. The Company's use of derivatives is strictly restricted to hedging (i.e., risk management) applications.

Currently, the Company has a number of interest rate swaps in place, where the swaps serve to mitigate the income volatility associated with a portion of its variable-rate funding. Swap coverage extends out through 2011. In effect, these swaps synthetically convert the portion of variable-rate debt being hedged to the equivalent of fixed-rate funding. Under the terms of the swaps, the Company receives cash flows from the swap counterparties to offset the benchmark interest rate component of variable interest payments on the hedged financings, in exchange for paying cash flows based on the swaps' fixed rates. These two respective obligations are net-settled, periodically. The Company accounts for these swaps as cash flow hedges, which requires determining a division of hedge results deemed effective and deemed ineffective. However, all of the Company's hedges were designed in such a way so as to perfectly offset specifically- defined interest payments, such that no ineffectiveness has occurred—nor is any ineffectiveness going to occur, as long as the forecasted cash flows of the designated hedged items and the associated swaps remain unchanged.

Under cash flow hedge accounting, effective derivative results are initially recorded in other comprehensive income and later reclassified to earnings, coinciding with the income recognition relating to the variable interest payments being hedged. During the years ended December 31, 2008 and 2007, the Company recorded a $23.6 million increase and $6.2 million decrease, respectively, in interest expense, which was previously reported in other comprehensive income. In the coming twelve months, the Company anticipates that approximately a $34.0 million loss will be reclassified from other comprehensive income to earnings, as part of interest expense. As this amount represents effective hedge results, a comparable offsetting amount of incrementally lower interest expense will be realized in connection with the variable funding being hedged.

Credit risk relating to derivative counterparties is mitigated by using multiple, highly rated counterparties, and the credit quality of each is monitored on an ongoing basis.

Under cash flow hedge accounting, derivatives are included in the consolidated balance sheets as assets or liabilities. Changes in the fair value of a derivative and settlements that are highly effective and qualifying as a cash flow hedge, to the extent that they are effective, are recorded in other comprehensive income and later reclassified to earnings coincidently with the earnings impacts of the hedged transaction (i.e., when the interest expense on the variable-rate liability is recorded in earnings). Any hedge ineffectiveness (which represents the amount by which hedge results exceed the variability in the cash flows of the forecasted transaction due to the risk being hedged) is recorded in current period earnings.

Revenue Recognition and Promotional Allowances

Gaming revenue is the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs, for chips and "ticket-in, ticket-out" coupons in the customers' possession, and for accruals related to the anticipated payout of progressive jackpots. Progressive slot machines, which contain base jackpots that increase at a progressive rate based on the number of coins played, are charged to revenue as the amount of the jackpots increase.

Revenue from the management service contract for Casino Rama is based upon contracted terms, and is recognized when services are performed.

Food, beverage and other revenue, including racing revenue, is recognized as services are performed. Racing revenue includes the Company's share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, its share of wagering from import and export simulcasting, and its share of wagering from its off-track wagering facilities ("OTWs").

Revenues are recognized net of certain sales incentives in accordance with the Emerging Issues Task Force ("EITF") consensus on Issue 01-9, "Accounting for Consideration Given by a Vendor to a Customer (Including a Reseller of the Vendor's Products)" ("EITF 01-9"). The consensus in EITF 01-9 requires that sales incentives and points earned in point-loyalty programs be recorded as a reduction of revenue. The Company recognizes incentives related to gaming play and points earned in point-loyalty programs as a direct reduction of gaming revenue.

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenues and then deducted as promotional allowances. The estimated cost of providing such promotional allowances is primarily included in food, beverage and other expense. The amounts included in promotional allowances for the years ended December 31, 2008, 2007 and 2006 are as follows:

Year ended December 31,	2008	2007	2006
		(in thousands)	
Rooms	$ 17,750	$ 15,518	$ 11,970
Food and beverage	103,038	101,040	85,884
Other	13,590	12,386	9,062
Total promotional allowances	$ 134,378	$ 128,944	$ 106,916

The estimated cost of providing such complimentary services for the years ended December 31, 2008, 2007 and 2006 are as follows:

Year ended December 31,	2008	2007	2006
		(in thousands)	
Rooms	$ 7,280	$ 6,538	$ 5,156
Food and beverage	73,565	71,922	60,762
Other	6,034	5,471	5,644
Total cost of complimentary services	$ 86,879	$ 83,931	$ 71,562

Earnings Per Share

The Company calculates earnings per share ("EPS") in accordance with SFAS No. 128, "Earnings Per Share" ("SFAS 128"). Basic EPS is computed by dividing net income applicable to common stock by the weighted-average number of common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially-dilutive securities such as stock options.

Beginning in the fourth quarter of 2008, in conjunction with the issuance of 12,500 shares of Preferred Stock, the Company began to calculate EPS in accordance with SFAS 128, as clarified by EITF 03-6, "Participating Securities and the Two-Class Method under FASB Statement No. 128" ("EITF 03-6"). This was necessary as the Company determined that the Preferred Stock qualified as a participating security as defined in EITF 03-6. Under EITF 03-6, a security is considered a participating security if the security may participate in undistributed earnings with common stock, whether that participation is conditioned upon the occurrence of a specified event or not. In accordance with SFAS 128, a Company is required to use the two-class method when computing EPS when a Company has a security that qualifies as a "participating security." The two-class method is an earnings allocation

formula that determines EPS for each class of common stock and participating security according to dividends declared (or accumulated) and participation rights in undistributed earnings. A participating security is included in the computation of basic EPS using the two-class method. Under the two-class method, basic EPS for the Company's Common Stock is computed by dividing net income applicable to Common Stock by the weighted-average common shares outstanding during the period. Diluted EPS for the Company's Common Stock is computed using the more dilutive of the two-class method or the if-converted method.

However, since the Company reported a loss from continuing operations for the year ended December 31, 2008, it was required by SFAS 128 to use basic weighted-average common shares outstanding, rather than diluted weighted-average common shares outstanding, when calculating diluted EPS for the year ended December 31, 2008. In addition, since the Company reported a loss from continuing operations for the year ended December 31, 2008, the Preferred Stock was not deemed to be a participating security for the year ended December 31, 2008, pursuant to EITF 03-6. The basic weighted-average common shares outstanding for the year ended December 31, 2008 was 84,535,877.

The following table reconciles the weighted-average common shares outstanding used in the calculation of basic EPS to the weighted-average common shares outstanding used in the calculation of diluted EPS for the years ended December 31, 2007 and 2006.

Year ended December 31,	2007	2006
	(in thousands)	
Determination of shares:		
Weighted-average common shares outstanding	85,578	84,229
Assumed conversion of dilutive stock options	2,806	2,405
Diluted weighted-average common shares outstanding	88,384	86,634

Options to purchase 8,804,578 shares were outstanding during the year ended December 31, 2008, but were not included in the computation of diluted EPS because they are antidilutive since the Company reported a loss from continuing operations for the year ended December 31, 2008.

Options to purchase 1,395,610 and 1,966,880 shares were outstanding during the years ended December 31, 2007 and 2006, respectively, but were not included in the computation of diluted EPS because they are antidilutive.

The repurchase of up to $200 million of the Company's Common Stock over the twenty-four month period ending July 2010 was authorized by the Company's Board of Directors in July 2008. During the year ended December 31, 2008, the Company repurchased 8,934,984 shares of its Common Stock in open market transactions for approximately $152.6 million, at an average price of $17.05.

Stock-Based Compensation

The Company accounts for stock compensation under SFAS No. 123 (revised 2004), "Share-Based Payment" ("SFAS 123(R)"), which requires the Company to expense the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award. This expense must be recognized ratably over the requisite service period following the date of grant.

The fair value for stock options was estimated at the date of grant using the Black-Scholes option-pricing model, which requires management to make certain assumptions. The risk-free interest rate was based on the U.S. Treasury spot rate with a remaining term equal to the expected life assumed at the date of grant. Expected volatility at December 31, 2008 was estimated based on the historical volatility of the Company's stock price over a period of 5.36 years, in order to match the expected life of the options at the grant date. There is no expected dividend yield since the Company has not paid any cash dividends on its Common Stock since its initial public offering in May 1994, and since the Company

intends to retain all of its earnings to finance the development of its business for the foreseeable future. The weighted-average expected life was based on the contractual term of the stock option and expected employee exercise dates, which was based on the historical exercise behavior of the Company's employees. Forfeitures are estimated at the date of grant based on historical experience. Prior to the adoption of SFAS 123(R), the Company recorded forfeitures as they occurred for purposes of estimating pro forma compensation expense under SFAS No. 123, "Accounting for Stock-Based Compensation". The following are the weighted-average assumptions used in the Black-Scholes option-pricing model at December 31, 2008, 2007 and 2006:

Year ended December 31,	2008	2007	2006
Risk-free interest rate	1.61%	4.24%	5.11%
Expected volatility	45.56%	37.68%	43.29%
Dividend yield	—	—	—
Weighted-average expected life (years)	5.36	4.73	4.26
Forfeiture rate	4.00%	4.00%	4.00%

Segment Information

In accordance with SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information" ("SFAS 131"), the Company views each property as an operating segment, and aggregates all of its properties into one reportable segment, as the Company believes that they are economically similar, offer similar types of products and services, cater to the same types of customers and are similarly regulated.

Statements of Cash Flows

The Company has presented the consolidated statements of cash flows using the indirect method, which involves the reconciliation of net (loss) income to net cash flow from operating activities.

Acquisitions

The Company accounts for its acquisitions in accordance with SFAS No. 141, "Business Combinations" ("SFAS 141"). The results of operations of acquisitions are included in the consolidated financial statements from their respective dates of acquisition.

Certain Risks and Uncertainties

The Company's operations are dependent on its continued licensing by state gaming commissions. The loss of a license, in any jurisdiction in which the Company operates, could have a material adverse effect on future results of operations.

The Company is dependent on each gaming property's local market for a significant number of its patrons and revenues. If economic conditions in these areas deteriorate or additional gaming licenses are awarded in these markets, the Company's results of operations could be adversely affected.

The Company is dependent on the economy of the United States ("U.S.") in general, and any deterioration in the national economic, energy, credit and capital markets could have a material adverse effect on future results of operations.

The Company is dependent upon a stable gaming and admission tax structure in the locations that it operates in. Any change in the tax structure could have a material adverse affect on future results of operations.

5. New Accounting Pronouncements

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles" ("SFAS 162"), which identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that

are presented in conformity with GAAP (the GAAP hierarchy). Any effect of applying the provisions of SFAS 162 shall be reported as a change in accounting principle in accordance with SFAS No. 154, "Accounting Changes and Error Corrections." SFAS 162 is effective 60 days following the U.S. Securities and Exchange Commission's approval of the Public Company Accounting Oversight Board amendments to AU Section 411, "The Meaning of Present Fairly in Conformity With Generally Accepted Accounting Principles." The Company adopted SFAS 162 as of its effective date, as required. SFAS 162 did not have an impact on the Company's consolidated financial statements.

In April 2008, the FASB issued FASB Staff Position ("FSP") FAS 142-3, "Determination of the Useful Life of Intangible Assets" ("FSP FAS 142-3"), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS 142. The intent of FSP FAS 142-3 is to improve the consistency between the useful life of a recognized intangible asset under SFAS 142 and the period of expected cash flows used to measure the fair value of the assets under SFAS No. 141 (revised), "Business Combinations" ("SFAS 141(R)"), and other GAAP. FSP FAS 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption of the standard is prohibited. The Company adopted FSP FAS 142-3 as of January 1, 2009, as required. The Company does not expect that the adoption of FSP FAS 142-3 will have a material impact on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of SFAS No. 133" ("SFAS 161"), which requires enhanced disclosures about an entity's derivative and hedging activities. Specifically, entities are required to provide enhanced disclosures about: a) how and why an entity uses derivative instruments; b) how derivative instruments and related hedged items are accounted for under SFAS 133 and its related interpretations; and c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. SFAS 161 encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The Company adopted SFAS 161 as of January 1, 2009, as required. The Company does not expect that the adoption of SFAS 161 will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS 141(R), which is intended to improve reporting by creating greater consistency in the accounting and financial reporting of business combinations. SFAS 141(R) requires that the acquiring entity in a business combination recognize all (and only) the assets and liabilities assumed in the transaction, establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed, and requires the acquirer to disclose to investors and other users all of the information that they need to evaluate and understand the nature and financial effect of the business combination. In addition, SFAS 141(R) modifies the accounting for transaction and restructuring costs. SFAS 141(R) is effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. The Company adopted SFAS 141(R) as of January 1, 2009, as required. The Company expects that the adoption of SFAS 141(R) will have an impact on its consolidated financial statements, once the Company acquires companies in the future.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities-including an amendment of SFAS No. 115" ("SFAS 159"), which permits an entity to choose to measure many financial instruments and certain other items at fair value. A business entity shall report unrealized gains and losses on items for which the fair value option has been elected in earnings at each subsequent reporting date. SFAS 159 is effective as of the beginning of each reporting entity's first fiscal year that begins after November 15, 2007. The Company did not elect the fair value option for any financial assets or financial liabilities.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value, and expands the disclosure requirements about fair value measurements. In February 2008, the FASB amended SFAS 157 through the issuance of FSP FAS 157-1, "Application of FASB Statement No. 157 to FASB Statement No. 13 and Other Accounting Pronouncements That Address Fair Value Measurements for Purposes of Lease Classification or Measurement under Statement 13" ("FSP FAS 157-1") and FSP FAS 157-2, "Effective Date of FASB Statement No. 157" ("FSP FAS 157-2"). FSP FAS 157-1, which was effective upon the initial adoption of SFAS 157, amends SFAS 157 to exclude from its scope certain accounting pronouncements that address fair value measurements associated with leases. FSP FAS 157-2, which was effective upon issuance, delays the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). In October 2008, the FASB issued FSP FAS 157-3, "Determining the Fair Value of a Financial Asset When the Market for That Asset Is Not Active" ("FSP FAS 157-3"), which was effective upon issuance. FSP FAS 157-3 clarifies the application of SFAS 157 in a market that is not active and provides an example to illustrate key considerations in determining the fair value of a financial asset when the market for that financial asset is not active. The Company adopted SFAS 157, as amended, and on a prospective basis, as of January 1, 2008. The January 1, 2008 adoption did not have a significant impact on the Company. The Company adopted SFAS 157, as amended, and on a prospective basis, as of January 1, 2009 to nonfinancial assets and nonfinancial liabilities that are not recognized or disclosed at fair value in the financial statements on a recurring basis. The Company does not expect that the adoption of SFAS 157, as amended, and on a prospective basis, to nonfinancial assets and nonfinancial liabilities, will have a material impact on its consolidated financial statements. See Note 20 to the Consolidated Financial Statements for further information regarding the adoption of SFAS 157.

6. Acquisitions

Sanford-Orlando Kennel Club

On October 17, 2007, pursuant to the Asset Purchase Agreement dated July 5, 2007, the Company completed the purchase of Sanford-Orlando Kennel Club in Longwood, Florida from Sanford-Orlando Kennel Club, Inc. and Collins and Collins. In connection with the purchase, the Company also secured a right of first refusal with respect to a majority stake in the Sarasota Kennel Club in Sarasota, Florida. The purchase price for the Sanford-Orlando Kennel Club provides for additional consideration to be paid by the Company based upon certain future regulatory developments. Located on approximately 26 acres in Longwood, Florida, the Sanford-Orlando Kennel Club features year-round greyhound racing, a simulcast wagering facility, a clubhouse lounge and two dining areas. The Company accounted for the acquisition in accordance with SFAS 141. The results of the Sanford-Orlando Kennel Club have been included in the Company's consolidated financial statements since the acquisition date.

Black Gold Casino at Zia Park

On April 16, 2007, pursuant to the Asset Purchase Agreement dated November 7, 2006 among Zia Partners, LLC ("Zia"), Zia Park LLC (the "Buyer"), a wholly-owned subsidiary of Penn, and (solely with respect to specified sections thereof which relate to the Company's guarantee of the Buyer's payment and performance) Penn, the Buyer completed the acquisition of Black Gold Casino at Zia Park and all related assets of Zia. Penn funded this purchase with additional borrowings under its existing $750 million revolving credit facility. The Company accounted for the acquisition in accordance with SFAS 141. As a result of the acquisition, goodwill of $144.2 million and other intangible assets of $3.5 million are included within the consolidated balance sheet at December 31, 2008. The results of the Black Gold Casino at Zia Park have been included in the Company's consolidated financial statements since the acquisition date.

7. Hurricane Katrina

As a result of Hurricane Katrina's direct hit on the Mississippi Gulf Coast on August 29, 2005, two of the Company's casinos, Hollywood Casino Bay St. Louis and Boomtown Biloxi, were significantly damaged, many employees were displaced and operations ceased at the two properties. Boomtown Biloxi reopened on June 29, 2006 and Hollywood Casino Bay St. Louis reopened on August 31, 2006.

The Company had significant levels of insurance in place at the time of Hurricane Katrina to cover the losses resulting from the hurricane, including an "all risk" insurance policy covering "named windstorm" damage, flood damage, debris removal, preservation of property expense, demolition and increased cost of construction expense, and losses resulting from business interruption and extra expenses, all as defined in the policies. The comprehensive business interruption and property damage insurance policies had an overall limit of $400 million, and was subject to property damage deductibles for Hollywood Casino Bay St. Louis and Boomtown Biloxi of approximately $6.0 million and $3.5 million, respectively. The business interruption insurance component of this policy was subject to a five-day deductible.

During the year ended December 31, 2006, the Company's financial results benefited from a settlement agreement with its property and business interruption insurance providers for a total of $225 million for Hurricane Katrina-related losses at its Hollywood Casino Bay St. Louis and Boomtown Biloxi properties, as well as minor proceeds related to its National Flood Insurance coverage and auto insurance claims. Reflecting the settlement agreement, the Company recorded a pre-tax gain of $128.3 million ($81.8 million, net of taxes).

In June 2008, the Company entered into the second term of its first layer of property insurance coverage in the amount of $200 million. The $200 million coverage, which is effective from August 8, 2007 through December 31, 2010, is on an "all risk" basis, including, but not limited to, coverage for "named windstorms," floods and earthquakes. In June 2008, the Company also purchased an additional $100 million of "all risk" coverage including, but not limited to, coverage for "named windstorms," floods and earthquakes. The additional $100 million of "all risk" coverage excludes coverage for windstorms, "named windstorms," floods, and earthquakes, for Boomtown Biloxi and Hollywood Casino Bay St. Louis. An additional $300 million of "all risk" coverage was also purchased, which is subject to certain exclusions including, among others, exclusions for windstorms, "named windstorms," floods and earthquakes. The two additional coverage layers are effective from June 1, 2008 through June 1, 2009. There is a $25 million deductible for "named windstorm" events, and lesser deductibles as they apply to other perils. All three layers are subject to specific policy terms, conditions and exclusions.

8. Property and Equipment

Property and equipment, net, consists of the following:

December 31,	2008	2007
	(in thousands)	
Land and improvements	$ 216,834	$ 188,379
Building and improvements	1,298,513	998,910
Furniture, fixtures, and equipment	692,851	503,969
Leasehold improvements	17,128	16,145
Construction in progress	183,056	423,209
Total property and equipment	2,408,382	2,130,612
Less accumulated depreciation and amortization	(596,251)	(442,219)
Property and equipment, net	$1,812,131	$1,688,393

Depreciation and amortization expense, for property and equipment, totaled $165.9 million, $140.3 million and $117.3 million in 2008, 2007, and 2006, respectively. Interest capitalized in connection with major construction projects was $13.8 million, $14.6 million and $8.0 million in 2008, 2007 and 2006, respectively. During the year ended December 31, 2008, the Company recorded a pre-tax impairment charge of $15.1 million ($10.0 million, net of taxes), as it determined that a portion of the value of its long-lived assets, primarily at its Bullwhackers property, was impaired.

9. Goodwill and Other Intangible Assets

The Company's goodwill and intangible assets had a gross carrying value of $2.3 billion and $2.8 billion at December 31, 2008 and 2007, respectively, and accumulated amortization of $34.7 million and $27.0 million at December 31, 2008 and 2007, respectively. The table below presents the gross carrying value, accumulated amortization, and net book value of each major class of goodwill and intangible assets at December 31, 2008 and 2007:

December 31,	2008			2007		
	Gross Carrying Value	Accumulated Amortization	Net Book Value	Gross Carrying Value	Accumulated Amortization	Net Book Value
	(in thousands)					
Goodwill	$ 1,598,571	$ —	$ 1,598,571	$ 2,013,139	$ —	$2,013,139
Indefinite-life intangible assets	679,054	—	679,054	755,166	—	755,166
Other intangible assets	49,396	34,686	14,710	49,316	27,041	22,275
Total	$ 2,327,021	$ 34,686	$ 2,292,335	$ 2,817,621	$ 27,041	$2,790,580

Goodwill consists mainly of goodwill from the acquisitions of Hollywood Casino Corporation in March 2003, Argosy in October 2005 and Black Gold Casino at Zia Park in April 2007. Indefinite-life intangible assets consist mainly of gaming licenses and trademark intangible assets from the acquisition of Argosy and the placement of slot machines at Hollywood Casino at Penn National Race Course.

During the year ended December 31, 2008, goodwill decreased by $414.6 million, primarily due to the Company recording a pre-tax impairment charge of $397.2 million ($338.5 million, net of taxes), as a portion of the value of the goodwill associated with the original purchase of Empress Casino Hotel, Argosy Casino Lawrenceburg, Hollywood Casino Aurora and Argosy Casino Alton, and all of the goodwill associated with the original purchase of Hollywood Slots Hotel and Raceway, was impaired. In addition, during the year ended December 31, 2008, indefinite-life intangible assets decreased by $76.1 million, primarily as the Company recorded a pre-tax impairment charge of $69.0 million ($44.1 million, net of taxes), as a portion of the value of the indefinite-life intangible assets associated with the original purchase of Argosy, and all of the indefinite-life intangible assets associated with the original purchase of Hollywood Slots Hotel and Raceway, was impaired.

During the year ended December 31, 2007, goodwill increased by $143.7 million, primarily due to goodwill recorded as part of the completion of the Black Gold Casino at Zia Park acquisition in April 2007 and the Sanford-Orlando Kennel Club acquisition in October 2007, offset by deferred tax adjustments relating to litigation accruals. In addition, gaming license, racing permit and trademark intangible assets increased by $54.7 million during the year ended December 31, 2007, due to the Black Gold Casino at Zia Park and Sanford-Orlando Kennel Club acquisitions and payment for the Category 1 slot machine license for the placement of slot machines at Hollywood Casino at Penn National Race Course.

The Company's intangible asset amortization expense was $7.7 million, $7.6 million and $6.7 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The following table presents expected intangible asset amortization expense based on existing intangible assets at December 31, 2008 (in thousands):

2009	$ 6,642
2010	5,773
2011	2,096
2012	199
2013	—
Thereafter	—
Total	$14,710

10. Long-term Debt

Long-term debt, net of current maturities, is as follows:

December 31,	2008	2007
	(in thousands)	
Senior secured credit facility	$1,959,784	$2,496,625
$200 million 6 7/8% senior subordinated notes	200,000	200,000
$250 million 6 3/4% senior subordinated notes	250,000	250,000
Other long-term obligations	14,201	19,810
Capital leases	6,195	8,487
	2,430,180	2,974,922
Less current maturities of long-term debt	(105,281)	(93,452)
	$2,324,899	$2,881,470

The following is a schedule of future minimum repayments of long-term debt as of December 31, 2008 (in thousands):

2009	$ 105,281
2010	231,992
2011	677,660
2012	1,163,326
2013	83
Thereafter	251,838
Total minimum payments	$2,430,180

At December 31, 2008, the Company was contingently obligated under letters of credit issued pursuant to the $2.725 billion senior secured credit facility with face amounts aggregating $27.5 million.

Senior Secured Credit Facility

On October 3, 2005, the Company entered into a $2.725 billion senior secured credit facility to fund the Company's acquisition of Argosy, including payment for all of Argosy's outstanding shares, the retirement of certain long-term debt of Argosy and its subsidiaries, the payment of related transaction costs, and to provide additional working capital. The $2.725 billion senior secured credit facility consists of three credit facilities comprised of a $750 million revolving credit facility (of which $123.7 million was drawn at December 31, 2008) that matures on October 3, 2010, a $325 million Term Loan A Facility that matures on October 3, 2011 and a $1.65 billion Term Loan B Facility that matures on October 3, 2012. The maturity dates for the Term Loan A Facility and the Term Loan B Facility may be accelerated to June 4, 2011 if the $200 million of 6 7/8% senior subordinated notes are not retired

before that date. The $2.725 billion senior secured credit facility also allows the Company to raise an additional $300 million in senior secured credit for project development and property expansion.

During the year ended December 31, 2008, the Company's $2.725 billion senior secured credit facility amount outstanding decreased by $536.8 million, primarily due to principal payments on long-term debt, partially offset by the issuance of long-term debt for items such as payment for capital expenditures, funding associated with the opening of the Hollywood Casino at Penn National Race Course, privilege payments to the State of Kansas, payments for income taxes owed and lobbying efforts, primarily in Ohio, Maryland and Maine. During the year ended December 31, 2008, the Company used a portion of the net proceeds from the Investment and the after-tax proceeds of the Cash Termination Fee for the repayment of some of its existing debt, repurchases of its Common Stock, lobbying expenses for efforts in Ohio and the investment in corporate debt securities, with the remainder being invested primarily in short-term securities.

The $2.725 billion senior secured credit facility is secured by substantially all of the assets of Penn and its restricted subsidiaries.

Interest Rate Swap Contracts

The Company has a policy designed to manage interest rate risk associated with its current and anticipated future borrowings. This policy enables the Company to use any combination of interest rate swaps, futures, options, caps and similar instruments. To the extent the Company employs such financial instruments pursuant to this policy, they are generally accounted for as hedging instruments. In order to qualify for hedge accounting, the underlying hedged item must expose the Company to risks associated with market fluctuations and the financial instrument used must be designated as a hedge and must reduce the Company's exposure to market fluctuations throughout the hedge period. If these criteria are not met, a change in the market value of the financial instrument and all associated settlements are recognized as gains or losses in the period of change. Net settlements pursuant to the financial instrument are included as interest expense in the period.

In accordance with the terms of its $2.725 billion senior secured credit facility, the Company was required to enter into fixed-rate debt or interest rate swap agreements in an amount equal to 50% of the Company's consolidated indebtedness, excluding the revolving credit facility, within 100 days of the closing date of the $2.725 billion senior secured credit facility.

On October 25, 2005, the Company entered into four interest rate swap contracts with terms from three to five years, notional amounts of $224 million, $274 million, $225 million, and $237 million, for a total of $960 million, and fixed interest rates ranging from 4.678% to 4.753%. The $224 million and $225 million swaps expired on October 27, 2008. The annual weighted-average interest rate of the two remaining contracts is 4.73%. Under these two remaining contracts, the Company pays a fixed interest rate against a variable interest rate based on the 90-day LIBOR rate. As of December 31, 2008, the applicable 90-day LIBOR rate was 3.535% for the two remaining swaps.

On April 6, 2006, the Company entered into three interest rate swap contracts with a term of five years and notional amounts of $100 million each, for a total of $300 million and fixed interest rates ranging from 5.263% to 5.266%. The annual weighted-average interest rate of the three contracts is 5.26%. Under these contracts, the Company pays a fixed interest rate against a variable interest rate based on the 90-day LIBOR rate. As of December 31, 2008, the applicable 90-day LIBOR rate was 2.388% for the $300 million swaps. The counterparty for one of the $100 million swaps is Lehman Brothers, which filed for Chapter 11 bankruptcy protection during the year ended December 31, 2008. The fair value of this $100 million swap was in a liability position at December 31, 2008.

On September 5, 2007, the Company entered into two interest rate swap contracts with terms of nine months and notional amounts of $197 million and $181 million, for a total of $378 million, and

fixed interest rates of 5.01%. The $197 million swap expired on June 17, 2008, while the $181 million swap expired on July 18, 2008.

On December 19, 2007, the Company entered into three monthly interest rate swap contracts, each with notional amounts of $146.25 million and fixed interest rates of 4.97% effective December 31, 2007, 4.47% effective January 31, 2008 and 4.40% effective February 29, 2008. The $146.25 million swap matured on March 31, 2008.

On October 23, 2008, the Company entered into two interest rate swap contracts with terms of two and three years and notional amounts of $200 million each, for a total of $400 million and fixed interest rates ranging from 2.727% to 3.09%. The annual weighted-average interest rate of the two contracts is 2.91%. Under these contracts, the Company pays a fixed interest rate against a variable interest rate based on the one-month LIBOR rate. As of December 31, 2008, the applicable one-month LIBOR rate was 0.471% for the $400 million swaps.

Redemption of 8 7/8% Senior Subordinated Notes

In February 2006, the Company called for the redemption of its $175 million 8 7/8% senior subordinated notes. The redemption price was $1,044.38 per $1,000 principal amount, plus accrued and unpaid interest and was made on March 15, 2006. The Company recorded a $10.0 million loss on early extinguishment of debt during the year ended December 31, 2006 for the call premium and the write-off of the associated deferred financing fees. The Company funded the redemption of the $175 million 8 7/8% senior subordinated notes from available cash and borrowings under its revolving credit facility.

6 7/8% Senior Subordinated Notes

On December 4, 2003, the Company completed an offering of $200 million of 6 7/8% senior subordinated notes that mature on December 1, 2011. Interest on the notes is payable on June 1 and December 1 of each year, beginning June 1, 2004.

The Company may redeem all or part of the 6 7/8% senior subordinated notes at certain specified redemption prices.

The 6 7/8% senior subordinated notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of the Company's current and future wholly-owned domestic subsidiaries. The 6 7/8% senior subordinated notes rank equally with the Company's future senior subordinated debt and junior to its senior debt, including debt under the Company's $2.725 billion senior secured credit facility. In addition, the 6 7/8% senior subordinated notes will be effectively junior to any indebtedness of Penn's non-U.S. unrestricted subsidiaries.

The 6 7/8% senior subordinated notes and guarantees were originally issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended. On August 27, 2004, the Company completed an offer to exchange the notes and guarantees for notes and guarantees registered under the Securities Act of 1933, as amended, having substantially identical terms.

On May 9, 2008, Merger Sub announced that it had commenced a cash tender offer and consent solicitation for any and all of the Company's $200 million 6 7/8% senior subordinated notes. The tender offer and consent solicitation was being conducted in connection with the Merger Agreement and the obligation to accept for purchase and to pay for such notes was subject to the satisfaction or waiver of certain conditions, including the consummation of the Merger. In connection with the termination of the Merger Agreement, these offers were withdrawn.

6 3/4% Senior Subordinated Notes

On March 9, 2005, the Company completed an offering of $250 million of 6 3/4% senior subordinated notes that mature on March 1, 2015. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2005.

Effective March 2010, the Company may redeem all or part of the 6 3/4% senior subordinated notes at certain specified redemption prices.

The 6 3/4% senior subordinated notes are general unsecured obligations and are not guaranteed by the Company's subsidiaries.

The 6 3/4% senior subordinated notes were issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended.

On May 9, 2008, Merger Sub announced that it had commenced a cash tender offer and consent solicitation for any and all of the Company's $250 million 6 3/4% senior subordinated notes. The tender offer and consent solicitation was being conducted in connection with the Merger Agreement and the obligation to accept for purchase and to pay for such notes was subject to the satisfaction or waiver of certain conditions, including the consummation of the Merger. In connection with the termination of the Merger Agreement, these offers were withdrawn.

Other Long-Term Obligations

On October 15, 2004, the Company announced the sale of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA"). Under the terms of the agreement, the MTGA acquired The Downs Racing, Inc. and its subsidiaries, including Pocono Downs (a standardbred horse racing facility located on 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania OTWs located in Carbondale, East Stroudsburg, Erie, Hazelton and the Lehigh Valley (Allentown). The sale agreement also provided the MTGA with certain post-closing termination rights in the event of certain materially adverse legislative or regulatory events. In January 2005, the Company received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, the Company entered into the Second Amendment to the Purchase Agreement and Release of Claims ("Amendment and Release") with the MTGA pertaining to the October 14, 2004 Purchase Agreement (the "Purchase Agreement"), and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against the Company under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. The Company recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years. At December 31, 2008, the balance due to the MTGA equaled $14.2 million.

Covenants

The Company's $2.725 billion senior secured credit facility, $200 million 6 7/8% and $250 million 6 3/4% senior subordinated notes require it, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including fixed charge coverage, senior leverage and total leverage ratios. In addition, the Company's $2.725 billion senior secured credit facility, $200 million 6 7/8% and $250 million 6 3/4% senior subordinated notes restrict, among other things, the Company's ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or

consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restricts corporate activities.

During the year ended December 31, 2008, the Company placed some of the funds received from the Investment into two unrestricted subsidiaries, in order to allow for maximum flexibility in the deployment of the funds. The funds and activity maintained within the unrestricted subsidiaries are excluded from the Company's covenant calculations.

At December 31, 2008, the Company was in compliance with all required financial covenants.

11. Commitments and Contingencies

Litigation

The Company is subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions and other matters arising in the normal course of business. The Company does not believe that the final outcome of these matters will have a material adverse effect on the Company's consolidated financial position or results of operations. In addition, the Company maintains what it believes is adequate insurance coverage to further mitigate the risks of such proceedings. However, such proceedings can be costly, time consuming and unpredictable and, therefore, no assurance can be given that the final outcome of such proceedings may not materially impact the Company's consolidated financial condition or results of operations. Further, no assurance can be given that the amount or scope of existing insurance coverage will be sufficient to cover losses arising from such matters.

The following proceedings could result in costs, settlements, damages, or rulings that materially impact the Company's consolidated financial condition or operating results. In each instance, the Company believes that it has meritorious defenses, claims and/or counter-claims, and intends to vigorously defend itself or pursue its claim.

In conjunction with the Company's acquisition of Argosy in 2005, and subsequent disposition of the Argosy Casino Baton Rouge property, the Company became responsible for litigation initiated over eight years ago related to the Baton Rouge casino license formerly owned by Argosy. On November 26, 1997, Capitol House filed an amended petition in the Nineteenth Judicial District Court for East Baton Rouge Parish, State of Louisiana, amending its previously filed but unserved suit against Richard Perryman, the person selected by the Louisiana Gaming Division to evaluate and rank the applicants seeking a gaming license for East Baton Rouge Parish, and adding state law claims against Jazz Enterprises, Inc., the former Jazz Enterprises, Inc. shareholders, Argosy, Argosy of Louisiana, Inc. and Catfish Queen Partnership in Commendam, d/b/a the Belle of Baton Rouge Casino. This suit alleged that these parties violated the Louisiana Unfair Trade Practices Act in connection with obtaining the gaming license that was issued to Jazz Enterprises, Inc./Catfish Queen Partnership in Commendam. The plaintiff, an applicant for a gaming license whose application was denied by the Louisiana Gaming Division, sought to prove that the gaming license was invalidly issued and to recover lost gaming revenues that the plaintiff contended it could have earned if the gaming license had been properly issued to the plaintiff. On October 2, 2006, the Company prevailed on a partial summary judgment motion which limited plaintiff's damages to its out-of-pocket costs in seeking its gaming license, thereby eliminating any recovery for potential lost gaming profits. On February 6, 2007, the jury returned a verdict of $3.8 million (exclusive of statutory interest and attorneys' fees) against Jazz Enterprises, Inc. and Argosy. After ruling on post-trial motions, on September 27, 2007, the trial court entered a judgment in the amount of $1.4 million, plus attorneys' fees, costs and interest. The Company has established an appropriate reserve and has bonded the judgment pending its appeal. Both the plaintiff and the Company have appealed the judgment to the First Circuit Court of Appeals in Louisiana and oral arguments took place on August 28, 2008. The Company has the right to seek indemnification from two of the former Jazz Enterprises, Inc. shareholders for any liability suffered as a result of such

cause of action, however, there can be no assurance that the former Jazz Enterprises, Inc. shareholders will have assets sufficient to satisfy any claim in excess of Argosy's recoupment rights.

In May 2006, the Illinois Legislature passed into law House Bill 1918, effective May 26, 2006, which singled out four of the nine Illinois casinos, including the Company's Empress Casino Hotel and Hollywood Casino Aurora, for a 3% tax surcharge to subsidize local horse racing interests. On May 30, 2006, Empress Casino Hotel and Hollywood Casino Aurora joined with the two other riverboats affected by the law, Harrah's Joliet and the Grand Victoria Casino in Elgin, and filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois (the "Court"), asking the Court to declare the law unconstitutional. Empress Casino Hotel and Hollywood Casino Aurora began paying the 3% tax surcharge into a protest fund which accrues interest during the pendency of the lawsuit. In two orders dated March 29, 2007 and April 20, 2007, the Court declared the law unconstitutional under the Uniformity Clause of the Illinois Constitution and enjoined the collection of this tax surcharge. The State of Illinois requested, and was granted, a stay of this ruling. As a result, Empress Casino Hotel and Hollywood Casino Aurora continued paying the 3% tax surcharge into the protest fund until May 25, 2008, when the 3% tax surcharge expired. The State of Illinois appealed the ruling to the Illinois Supreme Court. On June 5, 2008, the Illinois Supreme Court reversed the trial court's ruling and issued a decision upholding the constitutionality of the 3% tax surcharge. On January 21, 2009, the four casino plaintiffs filed a petition for certiorari, requesting the U.S. Supreme Court to hear the case. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

On December 15, 2008, former Illinois Governor Rod Blagojevich signed Public Act No. 95-1008 requiring the same four casinos to continue paying the 3% tax surcharge to subsidize Illinois horse racing interests. On January 8, 2009, the four casinos filed suit in the Circuit Court of the Twelfth Judicial District in Will County, Illinois, asking the Court to declare the law unconstitutional. The 3% tax surcharge being paid pursuant to Public Act No. 95-1008 is paid into a protest fund where it accrues interest. The accumulated funds will be returned to Empress Casino Hotel and Hollywood Casino Aurora if they ultimately prevail in the lawsuit.

In August 2007, a complaint was filed on behalf of a putative class of public shareholders of the Company, and derivatively on behalf of the Company, in the Court of Common Pleas of Berks County, Pennsylvania (the "Complaint"). The Complaint names the Company's Board of Directors as defendants and the Company as a nominal defendant. The Complaint alleges, among other things, that the Board of Directors breached their fiduciary duties by agreeing to the proposed transaction with Fortress and Centerbridge for inadequate consideration, that certain members of the Board of Directors have conflicts with regard to the Merger, and that the Company and its Board of Directors have failed to disclose certain material information with regard to the Merger. The Complaint seeks, among other things, a court order determining that the action is properly maintained as a class action and a derivative action enjoining the Company and its Board of Directors from consummating the proposed Merger, and awarding the payment of attorneys' fees and expenses. The Company and the plaintiff had reached a tentative settlement in which the Company agreed to pay certain attorneys' fees and to make certain disclosures regarding the events leading up to the transaction with Fortress and Centerbridge in the proxy statement sent to shareholders in November 2007. Final settlement was contingent upon court approval and consummation of the transaction with Fortress and Centerbridge. Because the transaction with Fortress and Centerbridge was terminated as described in Note 3, the Company expects to move for a dismissal of the complaint.

On July 16, 2008, the Company was served with a purported class action lawsuit brought by plaintiffs seeking to represent a class of shareholders who purchased shares of the Company's Common Stock between March 20, 2008 and July 2, 2008. The lawsuit alleges that the Company's disclosure practices relative to the proposed transaction with Fortress and Centerbridge and the eventual termination of that transaction were misleading and deficient in violation of the Securities Exchange

Act of 1934. The complaint, which seeks class certification and unspecified damages, was filed in federal court in Maryland. The complaint has been amended, among other things, to add three new named plaintiffs and to name Peter M. Carlino, Chairman and Chief Executive Officer, and William J. Clifford, Senior Vice President and Chief Financial Officer, as additional defendants. The Company filed a motion to dismiss the complaint in November 2008, and oral arguments for the motion were heard by the court on February 23, 2009. Following oral arguments, the court granted the Company's motion and dismissed the complaint with prejudice. The Company anticipates that the plaintiffs will file a motion for reconsideration with the court.

On September 11, 2008, the Board of County Commissioners of Cherokee County, Kansas (the "County") filed suit against Kansas Penn Gaming, LLC ("KPG," a wholly-owned subsidiary of Penn created to pursue a development project in Cherokee County, Kansas) and the Company in the District Court of Shawnee County, Kansas. The petition alleges that KPG breached its pre-development agreement with the County when KPG withdrew its application to manage a lottery gaming facility in Cherokee County and seeks in excess of $50 million in damages. In connection with their petition, the County obtained an ex-parte order attaching the $25 million privilege fee paid to the Kansas Lottery Commission in conjunction with the gaming application for the Cherokee County zone. Defendants are currently contesting the validity and scope of the attachment and intend to defend the merits of the case going forward.

On September 23, 2008, KPG filed an action against HV Properties of Kansas, LLC ("HV") in the U.S. District Court for the District of Kansas seeking a declaratory judgment from the U.S. District Court finding that KPG has no further obligations to HV under a Real Estate Sale Contract (the "Contract") that KPG and HV entered into on September 6, 2007, and that KPG properly terminated this Contract under the terms of the Repurchase Agreement entered into between the parties effective September 28, 2007. HV filed a counterclaim claiming KPG breached the Contract, and seeks $37.5 million in damages. On October 7, 2008, HV filed suit against the Company claiming the Company is liable to HV for KPG's alleged breach based on a Guaranty Agreement signed by the Company. Both cases were consolidated. The Company has filed a motion to dismiss HV's claims against the Company. This motion has been fully briefed and is pending.

The following dispute was concluded in the fourth quarter of 2008:

In November 2005, Capital Seven, LLC and Shawn A. Scott (collectively, "Capital Seven"), the sellers of Bangor Historic Track, Inc. ("BHT"), filed a demand for arbitration with the American Arbitration Association seeking $30 million plus interest and other damages. Capital Seven alleged a breach of contract by the Company based on the Company's payment of a $51 million purchase price for the purchase of BHT instead of an alleged $81 million purchase price Capital Seven claimed was due under the purchase agreement. The parties had agreed that the purchase price of BHT would be determined, in part, by the applicable gaming taxes imposed by Maine on the Company's operations. The arbitrators issued their ruling in November 2008, stating that, under the applicable tax rate, the purchase price was $61 million. The panel awarded $10 million plus contractual interest to Capital Seven. Pursuant to the dispute resolution procedures, the Company had deposited the disputed $30 million in escrow, pending a resolution. This amount was included in other assets within the consolidated balance sheet at December 31, 2007. On December 1, 2008, the escrowed funds were released, with $13.1 million being paid to Capital Seven and the remainder being returned to the Company.

Operating Lease Commitments

The Company is liable under numerous operating leases for airplanes, automobiles, land for the property on which some of its casinos operate, other equipment and buildings, which expire at various

dates through 2093. Total rental expense under these agreements was $30.7 million, $29.6 million and $28.1 million for the years ended December 31, 2008, 2007, and 2006, respectively.

The leases for land consist of annual base lease rent payments, plus, in some instances, a percentage rent based on a percent of adjusted gaming wins, as described in the respective leases.

The Company has an operating lease with the City of Bangor which covers the temporary facility and the permanent facility, which opened on July 1, 2008. Under the lease agreement, there is a fixed rent provision, as well as a revenue-sharing provision which is equal to 3% of gross slot revenue. The final term of the lease, which commenced with the opening of the permanent facility, is for an initial term of fifteen years, with three ten-year renewal options.

On March 23, 2007, BTN, Inc. ("BTN"), one of the Company's wholly-owned subsidiaries, entered into an amended and restated ground lease (the "Amended Lease") with Skrmetta MS, LLC. The lease amends the prior ground lease, dated October 19, 1993. The Amended Lease requires BTN to maintain a minimum gaming operation on the leased premises and to pay rent equal to 5% of adjusted gaming win after gaming taxes have been deducted. The term of the Amended Lease expires on January 1, 2093.

The future minimum lease commitments relating to the base lease rent portion of noncancelable operating leases at December 31, 2008 are as follows (in thousands):

Year ending December 31,	
2009	$ 6,985
2010	5,148
2011	4,732
2012	3,927
2013	3,228
Thereafter	22,951
Total	$46,971

Capital Expenditure Commitments

At December 31, 2008, the Company was contractually committed to spend approximately $67.7 million in capital expenditures for projects in progress.

Employee Benefit Plans

The Company maintains a profit-sharing plan under the provisions of Section 401(k) of the Internal Revenue Code of 1986, as amended, which covers all eligible employees. The plan enables participating employees to defer a portion of their salary in a retirement fund to be administered by the Company. The Company makes a discretionary match contribution of 50% of employees' elective salary deferrals, up to a maximum of 6% of eligible employee compensation.

The Company also has a defined contribution plan, the Charles Town Races Future Service Retirement Plan, covering substantially all of its union employees at the Charles Town Entertainment Complex. The Company makes annual contributions to this plan for the eligible union employees and to the Penn National Gaming, Inc. 401(k) Plan for the eligible non-union employees for an amount equal to the amount accrued for retirement expense, which is calculated as 0.25% of the daily mutual handle and 1.0% up to a base of the net video lottery revenues and, after the base is met, it reverts to 0.5%.

The Company maintains a non-qualified deferred compensation plan that covers most management and other highly-compensated employees. This plan was effective March 1, 2001. The plan allows the

participants to defer, on a pre-tax basis, a portion of their base annual salary and bonus, and earn tax-deferred earnings on these deferrals. The plan also provides for matching Company contributions that vest over a five-year period. The Company has established a Trust, and transfers to the Trust, on a periodic basis, an amount necessary to provide for its respective future liabilities with respect to participant deferral and Company contribution amounts. The Company's matching contributions in 2008, 2007 and 2006 were $1.7 million, $2.2 million and $1.5 million, respectively.

Agreements with Horsemen and Pari-Mutuel Clerks

The Company is required to have agreements with the horsemen at each of its racetracks to conduct its live racing and simulcasting activities, with the exception of the Company's tracks in Ohio and New Mexico. In addition, in order to operate gaming machines in West Virginia, the Company must maintain agreements with each of the Charles Town Horsemen, pari-mutuel clerks and breeders.

At the Charles Town Entertainment Complex, the Company has an agreement with the Charles Town Horsemen with an initial term expiring on December 31, 2011, and an agreement with the breeders that expires on June 30, 2009. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks, which expires on December 31, 2010.

The Company's agreement with the Pennsylvania Thoroughbred Horsemen at Penn National Race Course expires on September 30, 2011. The Company has a collective bargaining agreement with Local 137 of the Sports Arena Employees (AFL-CIO) at Penn National Race Course with respect to pari-mutuel clerks, admissions and Telebet personnel which expires on December 31, 2011. The Company also has an agreement in place with the Sports Arena Employees Local 137 (AFL-CIO) with respect to pari-mutuel clerks and admission personnel at the Company's OTWs, which will expire on September 30, 2009.

The Company's agreement with the Maine Harness Horsemen Association at Bangor Raceway expired at the end of the 2008 racing season. The parties are currently working cooperatively on a three-year extension, which is expected to be executed before the start of the 2009 racing season.

Pennwood Racing, Inc. also has an agreement in effect with the horsemen at Freehold Raceway, which expires in May 2009.

Throughout the Argosy properties, the Seafarers Entertainment and Allied Trade Union represents approximately one thousand nine hundred of the Company's employees. At the Empress Casino Hotel, the Hotel Employees and Restaurant Employees Union ("UNITE/HERE") Local 1 represents approximately three hundred employees under a collective bargaining agreement which expires on March 31, 2010. At certain of the Company's Argosy properties, the Seafarer International Union of North America, Atlantic, Gulf, Lakes and Inland Waters District/NMU, AFL-CIO, the International Brotherhood of Electrical Workers, the Security Police and Fire Professionals of America, the American Maritime Officers Union, the International Brotherhood of Electrical Workers Local 176, and UNITE/HERE Local 10 represent certain of the Company's employees. The Company has collective bargaining agreements with these unions that expire at various times between July 2009 and October 2015. None of these unions individually represent more than fifty of the Company's employees.

If the Company fails to maintain agreements with the horsemen at a track, it will not be permitted to conduct live racing and export and import simulcasting at that track and where applicable, the OTWs. In West Virginia, the Company will not be permitted to operate its gaming machines if it fails to maintain agreements with the Charles Town Horsemen, pari-mutuel clerks and breeders. In addition, the simulcasting agreements are subject to the horsemen's approval. If the Company fails to maintain necessary agreements, this failure could have a material adverse effect on its business, financial condition and results of operations. Except for the closure of the facilities at Penn National Race

Course and its OTWs from February 16, 1999 to March 24, 1999 due to a horsemen's strike, and a few days at other times and locations, the Company has been able to maintain the necessary agreements. There can be no assurance that the Company will be able to maintain the required agreements.

New Jersey Joint Venture

On January 28, 1999, the Company, along with its joint venture partner, Greenwood Limited Jersey, Inc. ("Greenwood"), purchased certain assets and assumed certain liabilities of Freehold Racing Association, Garden State Racetrack and related entities, in a transaction accounted for as a purchase transaction.

In 1999, the Company made an $11.3 million loan to the joint venture and an equity investment of $0.3 million. In 2008, the balance of the loan was increased by $0.5 million to $11.8 million to substitute a payment of interest on the loan. The loan is evidenced by a subordinated secured note, which is included in investment in and advances to unconsolidated affiliate within the consolidated balance sheets. The $11.3 million portion of the note bears interest at prime plus 2.25% or a minimum of 10.00% (at December 31, 2008, the interest rate was 10.00%). The $0.5 million portion of the note bears interest at the lesser of prime plus 2.00% or the 30-day LIBOR plus 3.00% (at December 31, 2008, the interest rate was 3.41%). The Company has recorded interest income within the consolidated statements of operations of $1.2 million, $1.2 million and $1.2 million for the years ended December 31, 2008, 2007 and 2006, respectively.

The joint venture, through Freehold Racing Association, was part of a multi-employer pension plan. For collectively bargained, multi-employer pension plans, contributions were made in accordance with negotiated labor contracts and generally were based on days worked. With the passage of the Multi-Employer Pension Plan Amendments Act of 1980, the joint venture may, under certain circumstances, become subject to liabilities in excess of contributions made under collective bargaining agreements. Generally, these liabilities are contingent upon the termination, withdrawal, or partial withdrawal from the plans. In June 2006, Freehold Racing Association withdrew from the multi-employer pension plan, and thereby became subject to payment of a withdrawal liability to the multi-employer pension plan. In January 2008, the Company was informed that the multi-employer pension plan experienced a mass withdrawal termination as of December 25, 2007. At December 31, 2008, the joint venture withdrawal liability was approximately $3.5 million for Freehold Racing Association, which is payable through November 2028.

The Company and Greenwood entered into a Debt Service Maintenance Agreement with a bank in which each joint venture partner has guaranteed up to 50% of a $23.0 million term loan to the joint venture. The Debt Service Maintenance Agreement remains in effect for the life of the loan and was due to expire on September 30, 2009. In 2008, the joint venture borrowed an additional $1.75 million and the maturity date of the term loan was extended to September 30, 2013. At December 31, 2008, the outstanding balance on the loan to the joint venture amounted to $12.2 million, of which the Company's obligation under its guarantee of the term loan was limited to approximately $6.1 million. The Company's investment in the joint venture is accounted for under the equity method. The original investment was recorded at cost and has been adjusted by the Company's share of income (loss) of the joint venture and distributions received. The Company's 50% share of the income (loss) of the joint venture is included in other income (expenses) within the consolidated statements of operations.

12. Income Taxes

Deferred tax assets and liabilities are provided for the effects of temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated balance sheet. These temporary differences result in taxable or deductible amounts in future years.

The components of the Company's deferred tax assets and liabilities are as follows:

Year ended December 31,	2008	2007
	(in thousands)	
Deferred tax assets:		
Stock-based compensation expense	$ 17,510	$ 11,111
Accrued expenses	21,973	18,945
Uncertain tax positions under FIN 48	12,751	9,458
State net operating losses	6,622	7,687
Accumulated other comprehensive loss	21,929	12,325
Gross deferred tax assets	80,785	59,526
Less valuation allowance	(3,860)	(6,632)
Net deferred tax assets	76,925	52,894
Deferred tax liabilities:		
Property, plant and equipment	(86,342)	(102,936)
Intangibles	(235,128)	(315,968)
Net deferred tax liabilities	(321,470)	(418,904)
Net:	$(244,545)	$(366,010)
Reflected on consolidated balance sheets:		
Current deferred tax assets, net	$ 21,065	$ 19,079
Noncurrent deferred tax liabilities, net	(265,610)	(385,089)
Net deferred taxes	$(244,545)	$(366,010)

For income tax reporting, the Company has state net operating loss carryforwards aggregating approximately $179.1 million available to reduce future state income taxes primarily for the Commonwealth of Pennsylvania and the State of Mississippi as of December 31, 2008. The tax benefit associated with these net operating loss carryforwards is approximately $6.7 million. Due to state tax statutes on annual net operating loss utilization limits, the availability of gaming tax credits, and income and loss projections in the applicable jurisdictions, a $3.9 million valuation allowance has been recorded to reflect the net operating losses which are not presently expected to be realized. If not used, substantially all of the carryforwards will expire at various dates from December 31, 2009 to December 31, 2028.

The $3.9 million valuation allowance represents the income tax effect of state net operating loss carryforwards of the Company, which are not presently expected to be utilized. In the event that the valuation allowance is ultimately unnecessary, the majority would be treated as a reduction of tax expense.

In addition, certain subsidiaries have accumulated state net operating loss carryforwards aggregating approximately $553.1 million for which no benefit has been recorded as they are attributable to uncertain tax positions. The unrecognized tax benefits as of December 31, 2008 attributable to these net operating losses was approximately $37.7 million. Due to the uncertain tax position, these net operating losses are not included as components of deferred tax assets as of December 31, 2008. In the event of any benefit from realization of these net operating losses, $8.3 million would be treated as an increase to equity, $0.5 million would be treated as a reduction to goodwill, and the remainder would be treated as a reduction of tax expense. If not used, substantially all the carryforwards will expire at various dates from December 31, 2009 to December 31, 2028.

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

Year ended December 31,	2008	2007 (in thousands)	2006
Current tax expense			
Federal	$157,043	$ 75,959	$108,958
State	35,461	28,536	33,067
Foreign	4,332	9,427	433
Total current	196,836	113,922	142,458
Deferred tax expense (benefit)			
Federal	(78,895)	16,223	16,260
State	(12,203)	2,042	(1,866)
Total deferred	(91,098)	18,265	14,394
Total provision	$105,738	$132,187	$156,852

The following table reconciles the statutory federal income tax rate to the actual effective income tax rate for 2008, 2007 and 2006:

Year ended December 31,	2008	2007	2006
Percent of pretax income			
Federal taxes	35.0%	35.0%	35.0%
State and local income taxes	(32.0)%	6.8%	5.5%
Permanent differences	(217.9)%	2.6%	1.8%
Foreign	(7.5)%	1.2%	0.1%
Other miscellaneous items	0.2%	(0.4)%	—
	(222.2)%	45.2%	42.4%

Year ended December 31,	2008	2007 (in thousands)	2006
Amount based upon pretax income			
Federal taxes	$ (16,655)	$102,284	$129,475
State and local income taxes	15,229	19,953	20,281
Permanent differences	103,707	7,460	6,742
Foreign	3,587	3,453	266
Other miscellaneous items	(130)	(963)	88
	$105,738	$132,187	$156,852

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recognized a liability for unrecognized tax benefits of approximately $11.9 million, which was accounted for as a reduction to the January 1, 2007 retained earnings balance. The liability for unrecognized tax benefits is included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2008 and 2007.

A reconciliation of the beginning and ending amount for the liability for unrecognized tax benefits is as follows:

	Noncurrent tax liabilities (in thousands)
Balance at January 1, 2007	$ 56,960
Additions based on current year tax positions	3,122
Additions based on prior year tax positions	7,676
Currency translation adjustments	15,091
Balance at December 31, 2007	$ 82,849
Additions based on current year tax positions	10,702
Additions based on prior year tax positions	2,105
Decreases due to settlements and/or reduction in liabilities	(6,984)
Currency translation adjustments	(20,040)
Balance at December 31, 2008	$ 68,632

Included in the liability for unrecognized tax benefits at December 31, 2008 and 2007 were $31.7 million and $38.7 million, respectively, of tax positions that are indemnified by a third party. The indemnification stems from a transaction that the Company completed in 2001 with The Continental Companies and CHC International, Inc. (the "Seller"), whereby the Company acquired Casino Rouge in Baton Rouge, Louisiana and the management contract for Casino Rama in Orillia, Ontario, Canada. As part of the acquisition, Continental and the Company entered into an Indemnification Agreement, whereby Continental indemnified the Company for any tax liabilities to arise subsequent to the acquisition for taxation years in which Continental was the owner. The Canada Revenue Agency ("CRA") issued reassessments of CHC Canada's 1996 through 2000 taxation years. The Company and the Seller disagree with CRA's position, and the matter has been in Competent Authority since 2004. The Indemnification Agreement provides that the Company does not receive payment until "final determination" by a taxing authority. The Company believes that it is more likely than not that the matter in Competent Authority will be effectively settled within the next twelve months. Upon settlement, the Company will relieve its liability and reverse the indemnification receivable. For years after April 2001 where the Company has no indemnification, it has included an appropriate amount of tax reserves in the liability for unrecognized tax benefits, including accrued interest and penalties.

Included in the liability for unrecognized tax benefits at December 31, 2008 and 2007 were $(20.0) million and $15.1 million, respectively, of currency translation adjustments for foreign currency tax positions.

Included in the liability for unrecognized tax benefits at December 31, 2008 and 2007 were $36.6 million and $27.3 million, respectively, of tax positions that, if reversed, would affect the effective tax rate.

The Company is required under FIN 48 to disclose its accounting policy for classifying interest and penalties, the amount of interest and penalties charge to expense each period, as well as the cumulative amounts recorded in the consolidated balance sheets. The Company will continue to classify any tax-related penalties and interest accrued related to unrecognized tax benefits in taxes on income within the consolidated statements of operations.

During the years ended December 31, 2008 and 2007, the Company recognized approximately $2.5 million and $3.7 million, respectively, of interest and penalties, net of deferred taxes. In addition, due to settlements and/or reductions in previously-recorded liabilities on uncertain tax positions, the Company had reductions in previously-accrued interest and penalties of $0.8 million, net of deferred taxes, and $1.1 million, which were charged off against goodwill. The Company has accrued

approximately $39.2 million (gross) for the payment of interest and penalties at December 31, 2008. These accruals were included in noncurrent tax liabilities within the consolidated balance sheet at December 31, 2008.

As of December 31, 2008, the Company is subject to U.S. Federal income tax examinations for the tax years 2005, 2006 and 2007. In addition, the Company is subject to state and local income tax examinations for various tax years in the taxing jurisdictions in which the Company operates.

13. Shareholders' Equity

Shareholder Rights Plan

On May 20, 1998, the Board of Directors of the Company authorized and declared a dividend distribution of one preferred stock purchase right (the "Right" or "Rights") for each outstanding share of the Company's Common Stock, par value $.01 per share, payable to shareholders of record at the close of business on March 19, 1999. In addition, a Right is issued for each share of Common Stock issued after March 19, 1999 and prior to the Rights' expiration. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share (a "Preferred Stock Fraction") of the Company's Series A Preferred Stock (or another series of preferred stock with substantially similar terms), or a combination of securities and assets of equivalent value, at a purchase price of $10.00 per Preferred Stock Fraction, subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") dated March 2, 1999, and amended on June 15, 2007, between the Company and Continental Stock Transfer and Trust Company as Rights Agent.

The Rights are attached to the shares of the Company's Common Stock until they become exercisable. Generally, the Rights will be exercisable beginning on a specified date after a person or group acquires 15% or more of the Company's Common Stock (the "Stock Acquisition Date"), commences a tender or exchange offer that will result in such person or group acquiring 20% or more of the outstanding Common Stock or a determination that a beneficial owner's ownership of a substantial amount of the Company's Common Stock (at least 10%) is intended to pressure the Company to take action not in the long-term best interests of the Company or may have a material adverse impact ("Adverse Person") on the business or prospects of the Company. The Company is entitled to redeem the Rights at a price of $.01 per Right (payable in cash or stock) at any time until 10 days following a Stock Acquisition Date or the date on which a person is determined to be an Adverse Person. Upon the occurrence of certain events described in the Rights Agreement, each holder of Rights (other than Rights owned by a shareholder who has acquired 15% or more of the Company's outstanding Common Stock or who is determined to be an Adverse Person, which Rights become void) will have the right to receive, upon exercise, Preferred Stock Fractions (or, in certain circumstances, the Company's Common Stock, the acquiring company's Common Stock, cash, property or other securities of the Company) having a market value of twice the exercise price of each Right. Following any such event, the Company may permit holders to surrender their Rights in exchange for Preferred Stock Fractions (or other property or securities, as the case may be) equal to half the value otherwise purchasable or exchange each Right for one Preferred Share Fraction. A potential dilutive effect may exist upon the exercise of the Rights. Until a Right is exercised, the holder will have no rights as a stockholder of the Company, including, without limitations, the right to vote as a stockholder or to receive dividends. The Rights are not exercisable until the distribution date, and will expire at the close of business on March 18, 2009, unless earlier redeemed or exchanged by the Company.

On June 15, 2007, immediately prior to the execution of the Merger Agreement, the Company and Continental Stock Transfer and Trust Company entered into Rights Agreement Amendment No. 1. The Company was required to enter into Rights Agreement Amendment No. 1 pursuant to Section 4.12 of the Merger Agreement in order to render the Rights Agreement inapplicable to the proposed Merger and other transactions contemplated under the Merger Agreement. Pursuant to Rights Agreement Amendment No. 1, none of Fortress, Centerbridge, PNG Holdings LLC ("Holdings" and, together with

Fortress, Centerbridge, Parent and Merger Sub, the "Fortress/Centerbridge Entities"), Parent or Merger Sub will be an Acquiring Person or an Adverse Person (as such terms are defined in the Rights Agreement) to the extent any of the Fortress/Centerbridge Entities are beneficial owners of any Common Stock as a result of the approval, execution or delivery of the Merger Agreement or consummation of the Merger.

On July 3, 2008, the Company entered into Amendment No. 2 to the Rights Agreement between the Company and Continental Stock Transfer and Trust Company. Amendment No. 2 supplements and adds certain definitions in the Rights Agreement and provides, among other things, that neither Fortress nor Centerbridge will be deemed to be Acquiring Persons or Adverse Persons (as such terms are defined in the Rights Agreement) solely by virtue of the approval, execution or delivery of the agreement to purchase the Company's Preferred Stock, the purchase and ownership of Preferred Stock pursuant to the terms of such purchase agreement or the receipt and ownership of Common Stock upon a redemption of the Preferred Stock.

Issuance of the $1.25 billion, Zero Coupon Preferred Equity Investment

In connection with the termination of the Merger Agreement, the Company issued 12,500 of Preferred Stock for $1.25 billion. Pursuant to the terms of the preferred equity purchase agreement, the purchasers made the Initial Investment to the Company on July 3, 2008, in addition to the payment of the Cash Termination Fee. Under the terms of the purchase agreement, the purchasers deposited the remaining preferred equity investment purchase consideration with an escrow agent, with the funds to be released from escrow upon the issuance of the Preferred Stock. On October 30, 2008, following the receipt of required regulatory approvals and the satisfaction of certain other conditions, the Company closed the sale of the Investment and received the remaining preferred equity investment purchase consideration of $775 million from the escrow agent.

The Investment is generally non-voting, but possesses voting rights with respect to certain extraordinary events. The Investment is entitled to vote with the Common Stock on an as-converted basis with respect to any change-in-control or other significant transaction if the consideration to be paid to shareholders is less than $45 per share (which amount is subject to adjustment in certain circumstances). In addition, the approval of holders of a majority of the Investment shares is required to authorize (i) special dividends to security holders of the Company; (ii) issuance by the Company of equity securities senior to or on a parity with the Investment; (iii) stock repurchases, including but not limited to, by means of a tender offer which is funded by an asset sale outside the ordinary course (other than repurchases in the open market and repurchases by tender offer at not greater than a 20% premium); and (iv) certain other amendments to the terms of the Investment. The Investment has an aggregate liquidation preference equal to $1.25 billion, the aggregate purchase price paid for the Investment shares (the "Purchase Price"), subject to certain adjustments. In addition, the Investment terms provide that the Investment participates in any dividends paid on the Common Stock. To the extent that the Company pays a special dividend, such special dividend will reduce the amount to be paid to the holders of the Investment upon a liquidation or redemption.

The Company is required to redeem all of the outstanding shares of the Investment on June 30, 2015, unless a change-in-control transaction in which all holders of shares of the Common Stock receive consideration in the transaction has occurred prior to that time. In the event of such a change-in-control transaction, the holders of the Investment will receive cash and/or other consideration in such transaction (the same consideration as the holders of Common Stock receive) with a value equal to the net present value of the Purchase Price, subject to increase or decrease in the event that the value of the consideration paid to the holders of the Common Stock is greater than $67 per share or less than $45 per share, respectively, which thresholds are subject to adjustment in certain circumstances.

The redemption price to be paid to the holders of the Investment on June 30, 2015 is equal to the Purchase Price, subject to increase or decrease in the event that the average trading price of the Common Stock (measured over the 20 consecutive trading days prior to May 26, 2015) is greater than $67 per share or less than $45 per share, respectively. There is no coupon payable with respect to the Investment. The Company shall redeem all of the Investment for cash, provided the Company may elect on or prior to June 1, 2015 to pay all or part of the redemption price in shares of the Common Stock. At December 31, 2008, the redemption price was $593.9 million (27.8 million shares of Common Stock if the Company elected to redeem through the issuance of Common Stock).

The holders of the Investment are subject to the Investor Rights Agreement, dated as of July 3, 2008, by and among the Company, FIF V PFD LLC, Centerbridge Capital Partners, L.P., DB Investment Partners, Inc. and Wachovia Investment Holdings, LLC. (the "Investor Rights Agreement"), which, among other things, contains a voting agreement requiring certain Investment holders to vote all of their shares of Common Stock as directed by the Company and a standstill agreement restricting the activities of certain Investment holders. In addition, Investment holders who may receive 20% or more of the outstanding Common Stock upon redemption would be subject to Subchapter 25G of the Pennsylvania Business Corporation Law of 1988, as amended (the "Control Share Statute"). The Control Share Statute prohibits any person or group that acquires more than 20% of the voting power of the Company from voting any securities held by such person or group unless the shareholders vote to accord voting rights to such securities within 90 days of the time such threshold was exceeded. Under the Investment terms, unless such shareholder approval is obtained, the Investment holders shall execute and deliver a proxy in favor of an attorney-in-fact to be designated by the Board of Directors covering the number of shares of Common Stock necessary to avoid the application of the Control Share Statute.

The Investor Rights Agreement also provides that until Fortress and its affiliates own less than two-thirds of the shares of the Investment issued to them on October 30, 2008, Fortress and the Company must take all action in their power to appoint one designee of the purchasers (the "Purchaser Designee") as a Class II director on the Board of Directors and to use all commercially reasonable efforts to cause the election of the Purchaser Designee at every meeting thereafter at which a Class II director is to be elected. The initial Purchaser Designee is Wesley R. Edens. Mr. Edens is the founding principal, Chief Executive Officer and Chairman of the Board of Directors of Fortress.

Under the terms of the Investor Rights Agreement, the Company has agreed to file a short-form registration statement with the U.S. Securities and Exchange Commission for the registration and sale of Investment shares and certain shares of Common Stock owned by the purchasers ("Registrable Securities"), which it filed on December 30, 2008. The Company is required to keep the shelf registration statement continuously effective under the Securities Act of 1933, as amended, until the earlier of (i) such time as all Registrable Securities have been sold and (ii) such time as the purchasers beneficially own (as defined in the Investor Rights Agreement) less than 2.5% of the Common Stock on a fully-diluted basis (including Common Shares issuable upon redemption of the Investment shares at maturity). The purchasers and any permitted transferees of Registrable Securities are also entitled to four demand registrations and unlimited piggyback registration during the term of the Investor Rights Agreement.

Pursuant to the Investor Rights Agreement, the Investment holders may not directly or indirectly sell, transfer, pledge, encumber, assign or otherwise dispose of any portion of any Investment shares to any person without the prior written consent of the Company prior to July 21, 2009. However, the Investment holders may sell, transfer, pledge, encumber, assign or otherwise dispose of their Investment shares prior to July 21, 2009 if such transaction is made: (i) to an affiliate of any such Investment holder which agrees to be bound by the terms of the Investor Rights Agreement; (ii) with the prior written consent of the Company's Board of Directors, to a person pursuant to a tender or exchange offer for Investment shares or Common Stock by such person or a merger, consolidation or reorganization of the Company with such person; (iii) if the Company acknowledges in writing that it is

unable to pay its debts, commences a voluntary case in bankruptcy or a voluntary petition seeking reorganization or makes an assignment for the benefit of creditors; or (iv) if the Company consents to the entry of an order for relief against it seeking liquidation, reorganization or a creditor's arrangement of the Company.

Under the Investor Rights Agreement, each Investment holder has preemptive rights with respect to certain sales of Common Stock, stock options or securities convertible into Common Stock for so long as such holder beneficially owns at least two-thirds of the shares of the Investment issued to it on October 30, 2008.

14. Stock-Based Compensation

In April 1994, the Company's Board of Directors and shareholders adopted and approved the 1994 Stock Option Plan (the "1994 Plan"). The 1994 Plan permitted the grant of options to purchase up to 12,000,000 shares of Common Stock, subject to antidilution adjustments, at a price per share no less than 100% of the fair market value of the Common Stock on the date an option is granted with respect to incentive stock options only. The price would be no less than 110% of fair market value in the case of an incentive stock option granted to any individual who owns more than 10% of the total combined voting power of all classes of outstanding stock. The 1994 Plan provided for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and nonqualified stock options, which do not so qualify. The options granted prior to the 2003 Plan remain outstanding.

On April 16, 2003, the Company's Board of Directors adopted and approved the 2003 Long Term Incentive Compensation Plan (the "2003 Plan"). On May 22, 2003, the Company's shareholders approved the 2003 Plan. The 2003 Plan was effective June 1, 2003 and permitted the grant of options to purchase Common Stock and other market-based and performance-based awards. Up to 12,000,000 shares of Common Stock were available for awards under the 2003 Plan. The 2003 Plan provided for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and nonqualified stock options, which do not so qualify. The exercise price per share may be no less than (i) 100% of the fair market value of the Common Stock on the date an option is granted for incentive stock options and (ii) 85% of the fair market value of the Common Stock on the date an option is granted for nonqualified stock options. This plan will remain in place until it terminates in 2013. However the shares which remained available for issuance under such plan as of November 12, 2008 are no longer available for issuance and all future equity awards will be pursuant to the 2008 Plan described below.

On August 20, 2008, the Company's Board of Directors adopted and approved the 2008 Long Term Incentive Compensation Plan (the "2008 Plan"). On November 12, 2008, the Company's shareholders approved the 2008 Plan. The 2008 Plan permits the Company to issue stock options (incentive and/or non-qualified), stock appreciation rights, restricted stock, phantom stock units and other equity and cash awards to employees. Non-employee directors are eligible to receive all such awards, other than incentive stock options. The aggregate number of shares of Common Stock that may be issued under the 2008 Plan shall not exceed 6,900,000. Awards of stock options and stock appreciation rights will be counted against the 6,900,000 limit as one share of Common Stock for each share granted. However each share awarded in the form of restricted stock, phantom stock units or any other full value stock award will be counted as issuing 2.16 shares of Common Stock for purposes of determining the number of shares available for issuance under the plan. At December 31, 2008, there were 6,900,000 options available for future grants under the 2008 Plan.

Stock options that expire between November 1, 2009 and September 11, 2018 have been granted to officers, directors and employees to purchase Common Stock at prices ranging from $7.75 to $61.82 per share. All options were granted at the fair market value of the Common Stock on the date the options were granted.

The following table contains information on stock options issued under the plans for the three-year period ended December 31, 2008:

	Number of Option Shares	Weighted-Average	Weighted-Average Remaining Contractual Term (in years)	Aggregate Intrinsic Value (in thousands)
Outstanding at December 31, 2005	7,733,814	$ 17.09	5.34	$ 122,844
Granted	1,784,400	33.34		
Exercised	(1,310,113)	9.31		
Canceled	(97,500)	22.16		
Outstanding at December 31, 2006	8,110,601	$ 21.87	4.97	$ 160,225
Granted	1,458,750	42.21		
Exercised	(1,824,071)	13.66		
Canceled	(495,375)	28.44		
Outstanding at December 31, 2007	7,249,905	$ 27.58	4.87	$ 231,837
Granted	1,834,000	29.56		
Exercised	(203,202)	11.80		
Canceled	(76,125)	37.00		
Outstanding at December 31, 2008	8,804,578	$ 28.27	6.30	$ 17,677

Included in the above are Common Stock options that were issued in 2003 to the Company's Chairman outside of the 1994 Plan and the 2003 Plan. These options were issued at $7.95 per share, and are exercisable through February 6, 2013. At December 31, 2008 and 2007, the number of these Common Stock options that were outstanding was 23,750. In addition, the Company issued 160,000 restricted stock awards in 2004, which fully vest in May 2009, and issued 280,000 restricted stock awards in 2006, which fully vest by 2011. The restricted stock grants in 2004 and 2006 were made pursuant to the 2003 Plan. Due to the departure of one of the Company's senior executives, 60,000 of these awards were forfeited. On December 31, 2008, the Company modified the expiration date of certain of its stock options from the seventh anniversary of the date of grant to the tenth anniversary of the date of grant. This modification resulted in additional compensation costs related to stock-based compensation of $2.3 million pre-tax ($1.6 million after-tax) for the year ended December 31, 2008.

The weighted-average grant-date fair value of options granted during the years ended December 31, 2008, 2007 and 2006 were $10.57, $16.08 and $14.58, respectively.

	Number of Option Shares	Weighted-Average Exercise Price
Exercisable at December 31,		
2008	4,608,441	$ 23.60
2007	3,080,480	19.74
2006	2,848,451	14.11

The aggregate intrinsic value of stock options exercised during the years ended December 31, 2008, 2007 and 2006 was $4.1 million, $74.6 million and $37.4 million, respectively.

At December 31, 2008, there were 4,608,441 shares that were exercisable, with a weighted-average exercise price of $23.60, a weighted-average remaining contractual term of 4.78 years, and an aggregate intrinsic value of $17.6 million.

The following table summarizes information about stock options outstanding at December 31, 2008:

	Exercise Price Range			Total
	$7.75 to $29.22	$29.34 to $33.12	$33.17 to $61.82	$7.75 to $61.82
Outstanding options				
Number outstanding	4,006,539	2,973,665	1,824,374	8,804,578
Weighted-average remaining contractual life (years)	4.33	8.33	7.35	6.30
Weighted-average exercise price	$ 20.64	$ 31.14	$ 40.35	$ 28.27
Exercisable options				
Number outstanding	3,426,539	613,915	567,987	4,608,441
Weighted-average exercise price	$ 19.35	$ 32.94	$ 39.16	$ 23.60

Compensation costs related to stock-based compensation for the years ended December 31, 2008, 2007, and 2006 totaled $26.9 million pre-tax ($19.8 million after-tax), $25.5 million pre-tax ($18.6 million after-tax), and $20.6 million pre-tax ($14.9 million after-tax), respectively, and are included within the consolidated statements of operations under general and administrative expense.

At December 31, 2008 and December 31, 2007, the total compensation cost related to nonvested awards not yet recognized equaled $67.0 million and $41.6 million, respectively, including $63.9 million and $36.3 million for stock options, respectively, and $3.1 million and $5.3 million for restricted stock, respectively. This cost is expected to be recognized over the remaining vesting periods, which will not exceed five years.

15. Segment Information

In accordance with SFAS 131, the Company views each property as an operating segment, and aggregates all of its properties into one reportable segment, as the Company believes that they are economically similar, offer similar types of products and services, cater to the same types of customers and are similarly regulated.

16. Summarized Quarterly Data (Unaudited)

The following table summarizes the quarterly results of operations for the years ended December 31, 2008 and 2007:

	Fiscal Quarter			
	First	Second	Third	Fourth
	(in thousands, except per share data)			
2008				
Net revenues	$613,494	$620,586	$617,887	$ 571,086
Income (loss) from operations	118,559	113,591	96,377	(414,968)
Net income (loss)	40,736	37,023	147,491	(378,573)
Basic earnings (loss) per common share	0.47	0.43	1.72	(4.77)
Diluted earnings (loss) per common share	0.46	0.42	1.69	(4.77)
2007				
Net revenues	$596,258	$625,244	$629,450	$ 585,841
Income from operations	124,780	128,420	133,879	110,730
Net income	42,941	38,299	46,590	32,223
Basic earnings per common share	0.51	0.45	0.54	0.37
Diluted earnings per common share	0.49	0.43	0.52	0.36

As a result of a decline in the Company's share price, an overall reduction in industry valuations, and property operating performance in the current economic environment, the Company recorded a pre-tax impairment charge of $481.3 million ($392.6 million, net of taxes) during the fourth quarter of 2008, as it determined that a portion of the value of its goodwill, indefinite-life intangible assets and long-lived assets was impaired.

17. Related Party Transactions

Executive Office Lease

The Company currently leases 42,348 square feet of executive office and warehouse space for buildings in Wyomissing, Pennsylvania from affiliates of its Chairman and CEO. Rent expense for the years ended December 31, 2008, 2007 and 2006 amounted to $0.8 million, $0.7 million and $0.6 million, respectively. The leases for the office space expire in March 2012, May 2012 and May 2013, and the lease for the warehouse space expires in July 2010. The future minimum lease commitments relating to these leases at December 31, 2008 equaled $2.9 million. The Company also paid $0.7 million, $3.7 million and $1.3 million in construction costs to these same affiliates for the years ended December 31, 2008, 2007 and 2006, respectively.

18. Subsidiary Guarantors

Under the terms of the $2.725 billion senior secured credit facility, most of Penn's subsidiaries are guarantors under the agreement, with the exception of several subsidiaries. Each of the subsidiary guarantors is 100% owned by Penn. In addition, the guarantees provided by Penn's subsidiaries under the terms of the $2.725 billion senior secured credit facility are full and unconditional, joint and several. There are no significant restrictions within the $2.725 billion senior secured credit facility on the Company's ability to obtain funds from its subsidiaries by dividend or loan. However, in certain jurisdictions, the gaming authorities may impose restrictions pursuant to the authority granted to them with regard to Penn's ability to obtain funds from its subsidiaries.

With regard to the $2.725 billion senior secured credit facility, the Company has not presented condensed consolidating balance sheets, condensed consolidating statements of operations and condensed consolidating statements of cash flows at, and for the years ended, December 31, 2007 and 2006, as Penn had no significant independent assets and no independent operations at, and for the years ended, December 31, 2007 and 2006. However during the year ended December 31, 2008, we placed some of the funds received from the Preferred Stock Investment into two unrestricted subsidiaries, in order to allow for maximum flexibility in the deployment of the funds and this resulted in significant independent assets. Summarized financial information for the year ended December 31, 2008 for Penn, the subsidiary guarantors of the $2.725 billion senior secured credit facility and the subsidiary non-guarantors is presented below.

Under the terms of the $200 million 6$^{7}/_{8}$% senior subordinated notes, most of Penn's subsidiaries are guarantors under the agreement, with the exception of several subsidiaries. Each of the subsidiary guarantors is 100% owned by Penn. In addition, the guarantees provided by Penn's subsidiaries under the terms of the $200 million 6$^{7}/_{8}$% senior subordinated notes are full and unconditional, joint and several. There are no significant restrictions within the $200 million 6$^{7}/_{8}$% senior subordinated notes on the Company's ability to obtain funds from its subsidiaries by dividend or loan. However, in certain jurisdictions, the gaming authorities may impose restrictions pursuant to the authority granted to them with regard to Penn's ability to obtain funds from its subsidiaries.

With regard to the $200 million 6$^{7}/_{8}$% senior subordinated notes, the Company has not presented condensed consolidating balance sheets, condensed consolidating statements of operations and condensed consolidating statements of cash flows at, and for the years ended, December 31, 2007 and 2006, as Penn had no significant independent assets and no independent operations at, and for the

years ended, December 31, 2007 and 2006. However during the year ended December 31, 2008, we placed some of the funds received from the Preferred Stock Investment into two unrestricted subsidiaries, in order to allow for maximum flexibility in the deployment of the funds and this resulted in significant independent assets. Summarized financial information for the year ended December 31, 2008 for Penn, the subsidiary guarantors of the $200 million 6^{7}/$_{8}$% senior subordinated notes and the subsidiary non-guarantors is presented below.

	Penn	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
			(in thousands)		
$2.725 Senior Credit Facility					
As of December 31, 2008					
Condensed Consolidating Balance Sheet					
Total current assets	$ 40,598	$ 235,862	$ 614,787	$ 15,056	$ 906,303
Property and equipment, net	17,707	1,781,982	12,442	—	1,812,131
Other assets	4,351,845	2,351,302	262,923	(4,494,828)	2,471,242
Total assets	$ 4,410,150	$ 4,369,146	$ 890,152	$ (4,479,772)	$ 5,189,676
Total current liabilities	$ 105,147	$ 332,812	$ 17,468	$ 15,059	$ 470,486
Total long-term liabilities	2,247,736	3,667,014	97,151	(3,349,984)	2,661,917
Total shareholders' equity	2,057,267	369,320	775,533	(1,144,847)	2,057,273
Total liabilities and shareholders' equity	$ 4,410,150	$ 4,369,146	$ 890,152	$ (4,479,772)	$ 5,189,676
Year Ended December 31, 2008					
Condensed Consolidating Statement of Operations					
Net revenues	$ —	$ 2,387,358	$ 35,695	$ —	$ 2,423,053
Total operating expenses	94,925	2,352,864	61,705	—	2,509,494
(Loss) income from continuing operations	(94,925)	34,494	(26,010)	—	(86,441)
Other income (expense)	239,920	(198,845)	(2,219)	—	38,856
Income (loss) before income taxes	144,995	(164,351)	(28,229)	—	(47,585)
Taxes on income	38,851	66,563	324	—	105,738
Net income (loss)	$ 106,144	$ (230,914)	$ (28,553)	$ —	$ (153,323)
Year Ended December 31, 2008					
Condensed Consolidating Statement of Cash Flows					
Net cash (used in) provided by operating activities	$ (544,759)	$ 360,012	$ 605,210	$ —	$ 420,463
Net cash used in investing activities	(2,085)	(388,361)	(1,052)	—	(391,498)
Net cash provided by (used in) financing activities	552,233	(2,292)	(7,000)	—	542,941
Net increase (decrease) in cash and cash equivalents	5,389	(30,641)	597,158	—	571,906
Cash and cash equivalents at beginning of year	(2,929)	172,745	4,556	—	174,372
Cash and cash equivalents at end of year	$ 2,460	$ 142,104	$ 601,714	$ —	$ 746,278
$200 million 6^{7}/$_{8}$% Senior Subordinated Notes					
As of December 31, 2008					
Condensed Consolidating Balance Sheet					
Total current assets	$ 40,598	$ 236,431	$ 614,218	$ 15,056	$ 906,303
Property and equipment, net	17,707	1,794,424	—	—	1,812,131
Other assets	4,351,845	2,460,021	154,204	(4,494,828)	2,471,242
Total assets	$ 4,410,150	$ 4,490,876	$ 768,422	$ (4,479,772)	$ 5,189,676
Total current liabilities	$ 105,147	$ 338,765	$ 11,515	$ 15,059	$ 470,486
Total long-term liabilities	2,247,736	3,681,006	83,159	(3,349,984)	2,661,917
Total shareholders' equity	2,057,267	471,105	673,748	(1,144,847)	2,057,273
Total liabilities and shareholders' equity	$ 4,410,150	$ 4,490,876	$ 768,422	$ (4,479,772)	$ 5,189,676

	Penn	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
			(in thousands)		
Year Ended December 31, 2008					
Condensed Consolidating Statement of Operations					
Net revenues	$ —	$ 2,406,328	$ 16,725	$ —	$ 2,423,053
Total operating expenses	94,925	2,376,103	38,466	—	2,509,494
(Loss) income from continuing operations	(94,925)	30,225	(21,741)	—	(86,441)
Other income (expense)	239,920	(201,134)	70	—	38,856
Income (loss) before income taxes	144,995	(170,909)	(21,671)	—	(47,585)
Taxes on income	38,851	66,102	785	—	105,738
Net income (loss)	$ 106,144	$ (237,011)	$ (22,456)	$ —	$ (153,323)
Year Ended December 31, 2008					
Condensed Consolidating Statement of Cash Flows					
Net cash (used in) provided by operating activities	$ (544,759)	$ 367,455	$ 597,767	$ —	$ 420,463
Net cash used in investing activities	(2,085)	(389,413)	—	—	(391,498)
Net cash provided by (used in) financing activities	552,233	(9,292)	—	—	542,941
Net increase (decrease) in cash and cash equivalents	5,389	(31,250)	597,767	—	571,906
Cash and cash equivalents at beginning of year	(2,929)	173,684	3,617	—	174,372
Cash and cash equivalents at end of year	$ 2,460	$ 142,434	$ 601,384	$ —	$ 746,278

19. Investment in Corporate Securities

During the year ended December 31, 2008, the Company made a $47.3 million investment in the corporate debt securities of other gaming companies. The investment, which the Company is treating as available-for-sale securities, is included in other assets within the consolidated balance sheet at December 31, 2008. During the year ended December 31, 2008, the Company recorded an $8.0 million unrealized loss in other comprehensive income for this investment.

The following is a schedule of the contractual maturities of the Company's investment in corporate securities at December 31, 2008 (in thousands):

Within one year	$ —
1 – 3 years	—
3 – 5 years	3,815
Over 5 years	36,375
Total	$40,190

20. Fair Value Measurements

Effective January 1, 2008, the Company adopted the provisions of SFAS 157 for certain balance sheet items. SFAS 157 establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach, and cost approach). The levels of the hierarchy are described below:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of assets and liabilities and their placement within the fair value hierarchy. The following table sets forth the assets and liabilities measured at fair value on a recurring basis, by input level, in the consolidated balance sheet at December 31, 2008 (in thousands):

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Investment in corporate debt securities	$ 40,190	$ —	$ —	$ 40,190
Liabilities:				
Interest rate swap contracts	—	63,185	—	63,185

For the year ended December 31, 2008, the valuation technique used to measure the fair value of the investment in corporate debt securities and interest rate swap contracts was the market approach. The investment in corporate debt securities is included in other assets and the interest rate swap contracts are included in accrued interest within the consolidated balance sheet at December 31, 2008.

21. Discontinued Operations—Sale of The Downs Racing, Inc. and Subsidiaries

On October 15, 2004, the Company announced the sale of The Downs Racing, Inc. and its subsidiaries to the MTGA. In January 2005, the Company received $280 million from the MTGA, and transferred the operations of The Downs Racing, Inc. and its subsidiaries to the MTGA. The sale was not considered final for accounting purposes until the third quarter of 2006, as the MTGA had certain post-closing termination rights that remained outstanding. On August 7, 2006, the Company entered into the Amendment and Release with the MTGA pertaining to the Purchase Agreement, and agreed to pay the MTGA an aggregate of $30 million over five years, beginning on the first anniversary of the commencement of slot operations at Mohegan Sun at Pocono Downs, in exchange for the MTGA's agreement to release various claims it raised against the Company under the Purchase Agreement and the MTGA's surrender of all post-closing termination rights it might have had under the Purchase Agreement. As a result of the Amendment and Release, the Company recorded, in accordance with GAAP, a net book gain on the $250 million sale ($280 million initial price, less $30 million payable pursuant to the Amendment and Release) of The Downs Racing, Inc. and its subsidiaries to the MTGA of $114.0 million (net of $84.9 million of income taxes) during the year ended December 31, 2006. In addition, the Company recorded the present value of the $30 million liability within debt, as the amount due to the MTGA is payable over five years. At December 31, 2008, the balance due to the MTGA equaled $14.2 million.

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

None

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)). Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of the end of the period covered in this report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in reports filed under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the required time periods and is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There have been no changes in our internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) that occurred during the fiscal quarter ended December 31, 2008, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)). Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting, and concluded that it was effective as of December 31, 2008. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control—Integrated Framework*.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2008 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report below.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors
Penn National Gaming, Inc. and subsidiaries

We have audited Penn National Gaming, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2008, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Penn National Gaming, Inc. and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Annual Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Penn National Gaming, Inc. and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2008, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 2008 and 2007, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2008 and our report dated February 27, 2009 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 27, 2009

ITEM 9B. OTHER INFORMATION

None

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this item concerning directors is hereby incorporated by reference to the Company's definitive proxy statement for its 2009 Annual Meeting of Shareholders (the "2009 Proxy Statement"), to be filed with the U.S. Securities and Exchange Commission within 120 days after December 31, 2008, pursuant to Regulation 14A under the Securities Act. Information required by this item concerning executive officers is included in Part I of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information called for in this item is hereby incorporated by reference to the 2009 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDERS MATTERS

The information called for in this item is hereby incorporated by reference to the 2009 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information called for in this item is hereby incorporated by reference to the 2009 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information called for in this item is hereby incorporated by reference to the 2009 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

(a) 1 and 2. Financial Statements and Financial Statement Schedules. The following is a list of the Consolidated Financial Statements of the Company and its subsidiaries and supplementary data filed as part of Item 8 hereof:

Reports of Independent Registered Public Accounting Firms
Consolidated Balance Sheets as of December 31, 2008 and 2007
Consolidated Statements of Operations for the years ended December 31, 2008, 2007 and 2006
Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2008, 2007 and 2006
Consolidated Statements of Cash Flows for the years ended December 31, 2008, 2007 and 2006
All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits, Including Those Incorporated by Reference.

The exhibits to this Report are listed on the accompanying index to exhibits and are incorporated herein by reference or are filed as part of this annual report on Form 10-K.

SIGNATURES

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

PENN NATIONAL GAMING, INC.

By: /s/ PETER M. CARLINO

Peter M. Carlino
Chairman of the Board and Chief Executive Officer

Dated: March 2, 2009

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

Signature	Title	Date
/s/ PETER M. CARLINO Peter M. Carlino	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 2, 2009
/s/ WILLIAM J. CLIFFORD William J. Clifford	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)	March 2, 2009
/s/ HAROLD CRAMER Harold Cramer	Director	March 2, 2009
/s/ WESLEY R. EDENS Wesley R. Edens	Director	March 2, 2009
/s/ DAVID A. HANDLER David A. Handler	Director	March 2, 2009
/s/ JOHN M. JACQUEMIN John M. Jacquemin	Director	March 2, 2009
/s/ ROBERT P. LEVY Robert P. Levy	Director	March 2, 2009
/s/ BARBARA Z. SHATTUCK Barbara Z. Shattuck	Director	March 2, 2009

EXHIBIT INDEX

Exhibit	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of August 7, 2002, by and among Hollywood Casino Corporation, Penn National Gaming, Inc. and P Acquisition Corp. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, dated August 7, 2002).
2.2	Purchase Agreement by and among PNGI Pocono Corp., PNGI, LLC, and the Mohegan Tribal Gaming Authority, dated October 14, 2004. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, filed October 20, 2004).
2.2(a)	Amendment No. 1 to Purchase Agreement, dated as of January 7, 2005, by and among PNGI Pocono Corp., PNGI, LLC, and The Mohegan Tribal Gaming Authority. (Incorporated by reference to Exhibit 2.1 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2006).
2.2(b)	Second Amendment to Purchase Agreement and Release of Claims, dated as of August 7, 2006, between PNGI Pocono Inc. and The Mohegan Tribal Gaming Authority, and joined in by Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.2 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2006).
2.3	Agreement and Plan of Merger, dated as of November 3, 2004, among Penn National Gaming, Inc., Argosy Gaming Company and Thoroughbred Acquisition Corp. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K, filed November 5, 2004).
2.4	Agreement to Execute Securities Purchase Agreement, dated June 20, 2005, among Penn National Gaming, Inc., CP Baton Rouge Casino, L.L.C. and Columbia Sussex Corporation. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed June 22, 2005).
2.4(a)	Letter agreement, dated October 3, 2005, among Penn National Gaming, Inc., CP Baton Rouge Casino, L.L.C., Columbia Sussex Corporation and Wimar Tahoe Corporation amending Agreement to Execute Securities Purchase Agreement. (Incorporated by reference to Exhibit 10.3 to the Company's current report on Form 8-K, filed October 4, 2005).
2.5	Securities Purchase Agreement, dated October 3, 2005, among Argosy Gaming Company, Wimar Tahoe Corporation and CP Baton Rouge Casino, L.L.C. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K, filed October 4, 2005).
2.6	Asset Purchase Agreement, dated as of November 7, 2006, by and among Zia Partners, LLC, Zia Park, LLC and (solely with respect to Section 2.6 and Articles VI and XII thereof) Penn National Gaming, Inc. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed November 9, 2006).
2.6(a)	First Amendment to Asset Purchase Agreement, dated as of April 13, 2007, by and among Zia Partners, LLC, Zia Park LLC and Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.2 to the Company's current report on Form 8-K filed on April 18, 2007).
2.6(b)	Second Amendment to Asset Purchase Agreement, dated as of April 16, 2007, by and among Zia Partners, LLC, Zia Park LLC and Penn National Gaming, Inc. (Incorporated by reference to Exhibit 2.3 to the Company's current report on Form 8-K filed on April 18, 2007).
2.7	Agreement and Plan of Merger, dated as of June 15, 2007, by and among Penn National Gaming, Inc., PNG Acquisition Company Inc. and PNG Merger Sub Inc. (Incorporated by reference to Exhibit 2.1 to the Company's current report on Form 8-K filed on June 15, 2007).

Exhibit	Description of Exhibit
3.1	Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on October 15, 1996. (Incorporated by reference to Exhibit 3.1 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on November 13, 1996. (Incorporated by reference to Exhibit 3.2 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.3	Statement with respect to shares of Series A Preferred Stock of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on March 16, 1999. (Incorporated by reference to Exhibit 3.3 to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.4	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on July 23, 2001. (Incorporated by reference to Exhibit 3.4 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001).
3.5	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on December 28, 2007. (Incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K, filed on January 2, 2008).
3.6	Second Amended and Restated Bylaws of Penn National Gaming, Inc. (Incorporated by reference to Exhibit 3.1 to the Company's current report on Form 8-K filed on November 18, 2008).
3.7	Statement with Respect to Shares of Series B Redeemable Preferred Stock of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on July 9, 2008. (Incorporated by reference to Exhibit 4.1 to the Company's current report on Form 8-K filed on July 9, 2008).
4.1	Specimen copy of Common Stock Certificate (Incorporated by reference to Exhibit 3.6 to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2003).
4.2	Rights Agreement dated as of March 2, 1999, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to Exhibit 1 to the Company's current report on Form 8-K, dated March 17, 1999).
4.2(a)	Amendment No. 1 to Rights Agreement, dated June 15, 2007, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to Exhibit 4.2(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007).
4.2(b)	Amendment No. 2 to Rights Agreement, dated June 15, 2007, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to Exhibit 4.3 to the Company's current report on Form 8-K filed on July 9, 2008).
4.3	Indenture dated as of December 4, 2003 by and among Penn National Gaming, Inc., certain guarantors and U.S. Bank National Association relating to the $6^{7}/_{8}$% Senior Subordinated Notes due 2011 (Incorporated by reference to Exhibit 4.12 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).
4.4	Form of Penn National Gaming, Inc. $6^{7}/_{8}$% Senior Subordinated Note due 2011. (Included as Exhibit A to Exhibit 4.3).

Exhibit	Description of Exhibit
4.5	Form of Supplemental Indenture to be Delivered by Subsequent Guarantors by and among Penn National Gaming, Inc., certain guarantors and U.S. Bank National Association relating to the 6 7/8% Senior Subordinated Notes due 2011. (Included as Exhibit F to Exhibit 4.3).
4.6	Indenture dated as of March 9, 2005 by and among Penn National Gaming, Inc. and Wells Fargo Bank, National Association relating to the 6 3/4% Senior Subordinated Notes due 2015. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed March 15, 2005).
4.6(a)	First Supplemental Indenture dated as of July 5, 2005 between Penn National Gaming, Inc. and Wells Fargo Bank, National Association relating to the 6 3/4% Senior Subordinated Notes due 2015. (Incorporated by reference to exhibit 10.37 to the Company's registration statement on Form S-4, filed July 7, 2005 (File #333-125274)).
4.7	Form of Penn National Gaming, Inc. 6 3/4% Senior Subordinated Note due 2015. (Included as Exhibit A to Exhibit 4.6).
4.8*	Specimen copy of Series B Redeemable Preferred Stock Certificate.
4.9	Investor Rights Agreement, dated as of July 3, 2008, by and among Penn National Gaming, Inc., FIF V PFD LLC, Centerbridge Capital Partners, L.P., DB Investment Partners, Inc. and Wachovia Investment Holdings, LLC. (Incorporated by reference to Exhibit 4.2 to the Company's current report on Form 8-K filed on July 9, 2008).
9.1	Form of Trust Agreement of Peter D. Carlino, Peter M. Carlino, Richard J. Carlino, David E. Carlino, Susan F. Harrington, Anne de Lourdes Irwin, Robert M. Carlino, Stephen P. Carlino and Rosina E. Carlino Gilbert. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.1#	Penn National Gaming, Inc. 1994 Stock Option Plan. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.2#	Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to Appendix A of the Company's Proxy Statement dated April 22, 2003 filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended).
10.2(a)#	Form of Non-Qualified Stock Option Certificate for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to exhibit 10.2(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.2(b)#	Form of Incentive Stock Option Certificate for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to exhibit 10.2(b) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.2(c)#	Form of Restricted Stock Award for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to exhibit 10.2(c) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.3#*	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and Peter M. Carlino.
10.4#*	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and William Clifford.
10.5#*	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and Jordan B. Savitch.
10.6#	Separation Agreement and General Release in the form attached as Exhibit A to the Employment Agreement dated July 31, 2006 between Penn National Gaming, Inc. and Leonard DeAngelo. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on August 2, 2006).

Exhibit	Description of Exhibit
10.7#*	Employment Agreement dated December 31, 2008 between Penn National Gaming, Inc. and Robert S. Ippolito.
10.8	Form of Change in Control Payment Acknowledgement and Agreement between Penn National Gaming, Inc. and Certain Executive Officers of Penn National Gaming, Inc. (Incorporated by reference to Exhibit 10.1 the Company's current report on Form 8-K, filed on January 2, 2008).
10.8(a)	Schedule of executive officers entering into Change in Control Payment Acknowledgement and Agreement. (Incorporated by reference to Exhibit 10.8(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007).
10.9	Consulting Agreement dated August 29, 1994, between Penn National Gaming, Inc. and Peter D. Carlino. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1994).
10.10	Amended and Restated Lease dated April 5, 2005 between Wyomissing Professional Center III, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on April 8, 2005).
10.11	Lease dated January 25, 2002 between Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.12 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).
10.11(a)	Commencement Agreement, dated May 21, 2002, in connection with Lease dated January 25, 2002 Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.12(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).
10.11(b)	First Lease Amendment, dated December 4, 2002, to Lease dated January 25, 2002 Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.12(b) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).
10.12	Lease dated April 5, 2005 between Wyomissing Professional Center, Inc. and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on April 8, 2005).
10.13	Letter Agreement for the Construction of Certain Improvements, dated April 5, 2005, in connection with the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.3 to the Company's current report on Form 8-K, filed on April 8, 2005).
10.14	Lease dated August 22, 2003 between The Corporate Campus at Spring Ridge 1250, L.P. and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to Exhibit 10.13 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2004).
10.15	Agreement dated April 7, 2006 by and between PNGI Charles Town Gaming Limited Liability Company and the West Virginia Union of Mutuel Clerks, Local 553, Service Employees International Union, AFL—CIO. (Incorporated by reference to exhibit 10.1 to the Company's current report on Form 8-K, filed on April 24, 2006).
10.16*	Agreement dated February 20, 2009 between PNGI Charles Town Gaming Limited Liability Company and Charles Town HBPA, Inc.

Exhibit	Description of Exhibit
10.17	Credit Agreement, dated October 3, 2005 by and among Penn National Gaming, Inc., the subsidiary guarantors party thereto, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P. and Lehman Brothers Inc., as Joint Lead Arrangers and Joint Bookrunners, Goldman Sachs Credit Partners L.P. and Lehman Commercial Paper Inc., as Co-Syndication Agents, Deutsche Bank Trust Company Americas, as Swingline Lender, Administrative Agent and as Collateral Agent, and Calyon New York Branch, Wells Fargo Bank, National Association and Bank of Scotland, as Co-Documentation Agents, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed October 4, 2005).
10.17(a)	Amendment, dated September 18, 2006, to the Credit Agreement by and among Penn National Gaming, Inc., the subsidiary guarantors party thereto, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P. and Lehman Brothers Inc., as Joint Lead Arrangers and Joint Bookrunners, Goldman Sachs Credit Partners L.P. and Lehman Commercial Paper Inc., as Co-Syndication Agents, Deutsche Bank Trust Company Americas, as Swingline Lender, Administrative Agent and as Collateral Agent, and Calyon New York Branch, Wells Fargo Bank, National Association and Bank of Scotland, as Co-Documentation Agents, and the lenders party thereto. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on September 21, 2006).
10.18	Ground Lease dated as of October 11, 1993 between R.M. Leatherman and Hugh M. Mageveney, III, as Landlord, and SRCT, as Tenant. (Incorporated by reference to Exhibit 10.4 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).
10.19	Letter Agreement dated as of October 11, 1993 between R.M. Leatherman and Hugh M. Mageveney, III, as Landlord, and SRCT, as Tenant (relating to Ground Lease). (Incorporated by reference to Exhibit 10.5 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).
10.20	Assignment of Lease and Assumption Agreement dated as of May 31, 1994 between SRCT and STP (relating to Ground Lease). (Incorporated by reference to Exhibit 10.7 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).
10.21#	Penn National Gaming, Inc. Nonqualified Stock Option granted to Peter M. Carlino, dated February 6, 2003. (Incorporated by reference to Exhibit 10.26 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).
10.22	Ground Lease, dated March 23, 2007, between Skrmetta MS, LLC as Landlord and BTN, Inc., a wholly-owned subsidiary of Penn National Gaming, Inc., as Tenant. (Incorporated by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2007).
10.23	Penn-Argosy Merger Approval Agreement between the Illinois Gaming Board and Penn National Gaming, Inc., effective September 29, 2005. (Incorporated by reference to Exhibit 10.2 to the Company's quarterly report on Form 10-Q for the quarter ended September 30, 2005).
10.23(a)	First Amendment to the September 29, 2005 Penn-Argosy Merger Approval Agreement, dated April 25, 2006, between Penn National Gaming, Inc. and the Illinois Gaming Board. (Incorporated by reference to Exhibit 10.1 to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2006).

Exhibit	Description of Exhibit
10.24	Riverboat Gaming Development Agreement between the City of Lawrenceburg, Indiana and Indiana Gaming Company, L.P. dated as of April 13, 1994, as amended by Amendment Number One to Riverboat Development Agreement between the City of Lawrenceburg, Indiana and Indiana Gaming Company L.P., dated as of December 28, 1995 (Incorporated by reference to Argosy Gaming Company's annual report on Form 10-K for the fiscal year ended December 31, 1995 (File #00-21122)).
10.24(a)	Second Amendment to Riverboat Gaming Development Agreement Between City of Lawrenceburg, Indiana, and the Indiana Gaming Company, L.P. dated August 20, 1996. (Incorporated by reference to Exhibit 10.23(a) to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2005).
10.24(b)	Third Amendment to Riverboat Gaming Development Agreement Between City of Lawrenceburg, Indiana, and the Indiana Gaming Company, L.P. dated June 24, 2004. (Incorporated by reference to Exhibit 10.2 of Argosy Gaming Company's quarterly report on Form 10-Q for the quarter ended September 30, 2004 (File No. 1-11853)).
10.25	Claim Settlement Agreement among Penn National Gaming, Inc. and the insurance providers severally underwriting share of the Company's all-risk property insurance program, completed January 22, 2007. (Incorporated by reference to exhibit 10.24 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006).
10.26#	Compensatory Arrangements with Certain Executive Officers. (Incorporated by reference to Exhibit 10.26 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2007)
10.27#	Penn National Gaming, Inc. Deferred Compensation Plan, as amended. (Incorporated by reference to Exhibit 10.27 to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2006).
10.28#	Description of Penn National Gaming, Inc. Annual Incentive Plan. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on June 12, 2007).
10.29#	Employment Agreement by and between Penn National Gaming, Inc. and Tim Wilmott dated December 31, 2008. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K, filed on January 7, 2009).
10.30	Stock Purchase Agreement, dated as of July 3, 2008, by and among Penn National Gaming, Inc., FIF V PFD LLC, Centerbridge Capital Partners, L.P., DB Investment Partners, Inc. and Wachovia Investment Holdings, LLC. (Incorporated by reference to Exhibit 10.1 to the Company's current report on Form 8-K filed on July 9, 2008).
10.31	Termination and Settlement Agreement, dated as of July 3, 2008, by and among Penn National Gaming, Inc., PNG Acquisition Company Inc., PNG Merger Sub Inc., PNG Holdings LLC, FIG PNG Holdings LLC, Fortress Investment Fund V (Fund A) L.P., Fortress Investment Fund V (Fund D) L.P., Fortress Investment Fund V (Fund E) L.P., Fortress Investment Fund V (Fund B) L.P., Fortress Investment Fund V (Fund C) L.P., Fortress Investment Fund V (Fund F) L.P., CB PNG Holdings LLC, Centerbridge Capital Partners, L.P., Centerbridge Capital Partners Strategic, L.P., Centerbridge Capital Partners SBS, L.P., DB Investment Partners, Inc., Wachovia Investment Holdings, LLC, Deutsche Bank Securities Inc., Deutsche Bank AG New York Branch, Wachovia Capital Markets, LLC, Wachovia Bank, National Association and Wachovia Investment Holdings, LLC. (Incorporated by reference to Exhibit 10.2 to the Company's current report on Form 8-K filed on July 9, 2008).
10.32*	Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan.
10.33*	Form of Non-Qualified Stock Option Certificate for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan.

Exhibit	Description of Exhibit
10.34*	Form of Restricted Stock Award for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan.
10.35#*	Employment Agreement by and between Penn National Gaming, Inc. and John Finamore dated December 31, 2008.
14.1	Penn National Gaming, Inc. Code of Business Conduct. (Incorporated by reference to Exhibit 14.1 to the Company's current report on Form 8-K, filed on April 24, 2006).
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm.
31.1*	CEO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
31.2*	CFO Certification pursuant to rule 13a-14(a) or 15d-14(a) of the Securities Exchange Act of 1934.
32.1*	CEO Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2*	CFO Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
99.1*	Description of Governmental Regulation.

Compensation plans and arrangements for executives and others.

* Filed herewith.

Exhibit 4.8

SPECIMEN PREFERRED STOCK CERTIFICATE

SEE LEGENDS ON REVERSE SIDE

PENN NATIONAL GAMING, INC

Incorporated under the laws of the Commonwealth of Pennsylvania

12,500 Shares Series B Redeemable Preferred Stock

Par Value $0.01 Per Share

This Certifies that is the registered holder of
Shares of the Series B Redeemable Preferred Stock of Penn National Gaming, Inc., fully paid and non-assessable, transferable only on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this Certificate properly endorsed.

In Witness Whereof, the said Corporation has caused this Certificate to be signed by its duly authorized officers and its Corporate Seal to be hereunto affixed

this day of A.D. 20 .

/s/ /s/

Secretary Chairman

THE SECURITIES REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED. THEY MAY NOT BE SOLD OR OFFERED FOR SALE IN THE ABSENCE OF A REGISTRATION STATEMENT WHICH IS EFFECTIVE UNDER THAT ACT AS TO SAID SECURITIES OR AN OPINION, IN FORM AND SUBSTANCE SATISFACTORY TO THE COMPANY AND GIVEN BY COUNSEL SATISFACTORY TO THE COMPANY TO THE EFFECT THAT SUCH REGISTRATION IS NOT REQUIRED.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER AND CERTAIN OTHER LIMITATIONS SET FORTH IN A CERTAIN INVESTOR RIGHTS AGREEMENT DATED AS OF JULY 3, 2008, AMONG THE COMPANY AND THE PURCHASERS NAMED THEREIN, AS THE SAME MAY BE AMENDED FROM TIME TO TIME (THE "AGREEMENT"), COPIES OF WHICH AGREEMENT ARE ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO THE TERMS AND CONDITIONS OF A STATEMENT WITH RESPECT TO SHARES, FILED WITH THE DEPARTMENT OF STATE OF THE COMMONWEALTH OF PENNSYLVANIA ON JULY 9, 2008, WHICH SETS FORTH THE VOTING RIGHTS, PREFERENCES, LIMITATIONS AND SPECIAL RIGHTS, IF ANY, OF THE SHARES OF THIS SERIES (THE "STATEMENT WITH RESPECT TO SHARES"). THE COMPANY WILL FURNISH WITHOUT CHARGE TO EACH SHAREHOLDER UPON WRITTEN REQUEST A COPY OF THE FULL TEXT OF THE STATEMENT WITH RESPECT TO SHARES AND ANY AMENDMENTS THERETO AND AMENDMENTS AND RESTATEMENTS THEREOF FILED WITH THE DEPARTMENT OF STATE OF THE COMMONWEALTH OF PENNSYLVANIA.

IF AT ANY TIME A GAMING AUTHORITY IN A JURISDICTION IN WHICH THE COMPANY OPERATES FINDS THAT AN OWNER OF THIS SECURITY IS UNSUITABLE TO CONTINUE TO HAVE ANY INVOLVEMENT IN GAMING IN SUCH JURISDICTION, SUCH OWNER MUST DISPOSE OF SUCH SECURITY AS PROVIDED BY THE LAWS OF SUCH JURISDICTION AND THE REGULATIONS OF SUCH

GAMING AUTHORITY THEREUNDER. SUCH LAWS AND REGULATIONS MAY RESTRICT THE RIGHT UNDER CERTAIN CIRCUMSTANCES: (A) TO PAY OR RECEIVE ANY DIVIDEND OR INTEREST UPON SUCH SECURITY; (B) TO EXERCISE, DIRECTLY OR THROUGH ANY TRUSTEE OR NOMINEE, ANY VOTING RIGHT CONFERRED BY SUCH SECURITY; OR (C) TO RECEIVE ANY REMUNERATION IN ANY FORM FROM THE COMPANY FOR SERVICES RENDERED OR OTHERWISE.

For Value Received, hereby sell, assign and transfer unto
Shares represented by the within Certificate, and do hereby irrevocably constitute and appoint
Attorney to transfer the said Shares on the books of the within named Corporation with full power of substitution in the premises.

Dated 20

In presence of .

NOTICE: THE SIGNATURE OF THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME AS WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATEVER.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into on this 31st day of December, 2008 (the "Commencement Date") by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and Peter M. Carlino, an individual residing in Pennsylvania ("Executive").

WHEREAS, Executive and Company are party to that certain Employment Agreement dated May 26, 2004 (the "Existing Agreement").

WHEREAS, the parties wish to replace the Existing Agreement with the terms set forth below in this Agreement, which are intended to be in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A", see also Section 21 hereof).

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

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Chairman of the Board and Chief Executive Officer of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term. The term of this Agreement shall begin on the date hereof and shall terminate at the close of business on May 26, 2009 (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof. The term of this Agreement may be renewed for additional periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon the execution of a written renewal by the parties hereto. Notwithstanding the foregoing to the contrary, Sections 5 through 21 shall survive any termination of the Employment Term until the expiration of any applicable time periods set forth in Sections 5, 6 and 7.

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations, or providing oversight with respect to his personal investments, (including Carlino Development Group and its Affiliates) and the Carlino Family Trust and its Affiliates, so long as such service does not materially interfere with Executive's duties hereunder.

2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of at least One Million Five Hundred Sixty Thousand Dollars ($1,560,000), payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any increase in Base Salary or other compensation shall be made at the discretion of the Board or the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses. Executive shall participate in the Company's annual incentive compensation plan applicable to Peer Executives. Each annual bonus award earned in a fiscal year shall be paid pursuant to the terms of the annual incentive plan document (if any) by March 15 of the immediately following fiscal year, unless the written bonus plan provides for a different payment date or unless Executive shall elect to defer the receipt of such bonus award pursuant to an arrangement that meets the requirements of Section 409A.

2.3. Equity Compensation. The Company may grant to Executive options or other equity compensation pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. The Compensation Committee shall set the amount and terms of such options or other equity compensation.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate.

2.5. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.6. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives. Such reimbursements shall be made in such manner and at such times as provided in the reimbursement policies applicable to Peer Executives.

2.7. Automobile. During the term of this Agreement, the Company shall provide Executive with an automobile of such make and model consistent with the Company's policy for its provision of automobiles to Peer Executives. The Company shall reimburse Executive for all expenses arising from or related to the maintenance, repair and daily operation of such automobile in carrying out Executive's duties hereunder, including but not limited to, fuel, service and insurance costs, provided that Executive presents vouchers evidencing such expenses as required by the Company.

2.8. Perquisites. The Company shall continue to reimburse Executive for annual membership fees and assessments for a country club of Executive's choice. The Company shall pay the premiums for a life insurance policy in an amount to be determined by the Company and Executive.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(d) Without Cause. The Company may terminate Executive's employment at any time without Cause (as such term is defined in subsection (b) below) upon delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(e) With Cause. The Company may terminate Executive's employment at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any material Company policy or any material term hereof, including, without limitation, Sections 4 through 7 and, in each case, fails to cure such breach within 15 days after receipt of written notice thereof; or

(iv) Executive misappropriates corporate funds as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination). The Company and Executive, however, recognize and agree that they mutually agreed upon the term of this Agreement and that Executive is expected to complete fully the Employment Term.

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, Executive's employment shall terminate effective as of the date of Executive's death or disability. The term "disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Already Accrued Base Salary and Expense. Upon any termination of employment during the Employment Term, Executive shall be entitled to receive any amounts due for Base Salary accrued but unpaid through the effective date of termination, and such amounts shall be paid in accordance with the Company's then current payroll system for Peer Executives. Any expenses incurred but not reimbursed through the effective date of termination shall be paid at such time and in such manner as provided under the Company's expense reimbursement policy applicable to Peer Executives.

(b) Severance Pay and Benefits. Subject to the conditions in subsection (c) hereof, if Executive's employment is terminated under Section 3.1(a) or Section 3.3 or if Executive delivers a written notice of resignation within 30 days after the expiration of the Employment Term, the Company does not offer to renew the Employment Term during such 30-day period on terms no less favorable in the aggregate to the Executive than those contained herein and Executive thereupon terminates his employment at the end of such 30-day period, then Executive will be entitled to receive, and the Company will provide Executive with, the following severance pay and benefits (in addition to any amounts payable under subsection (a) hereof); provided, for purposes of Section 409A, each payment (whether an installment or lump sum) of severance pay under this subsection (b) shall be considered a separate payment:

(i) Amount of Post-Employment Base Salary and Bonus. The Company shall pay to Executive an amount equal to the product of (A) the sum of (1) Executive's monthly Base Salary at the highest rate in effect during the 24-month period immediately preceding the date of Executive's termination of employment (the "Termination Date"), and (2) Executive's monthly bonus value (determined by dividing by 12 the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Termination Date; and (B) the greater of (1) the number of full and partial months remaining in the Employment Term as of the Termination Date, and (2) 36 months (with the period described in clause (B) hereof being referred to as the "Severance Period").

(ii) Payment of Post-Employment Base Salary and Bonus. The amount described in subsection (b)(i) shall be paid to Executive in cash in two lump-sum payments as follows: (A) 75% of such amount shall be paid within 15 days after the Termination Date but no later than March 15 of the calendar year following the year in which this payment vests; and (B) the remaining 25% of such amount shall be paid in a lump sum by March 15 of the calendar year following the calendar year in which this payment vests.

(iii) Continued Medical Benefits Coverage. During the Severance Period, the Company shall provide Executive, and, if any, Executive's spouse and dependents with

medical benefits coverage substantially similar to the coverage in effect on the effective date of termination. After the Severance Period, Executive and his dependents will have the opportunity under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") to elect COBRA continuation coverage. If elected in a timely manner, COBRA coverage generally will commence as of the first day of the next calendar month after the end of the Severance Period and will end on the last day of the 18th month thereafter (unless an earlier end date or an extension is required under COBRA).

(iv) Vesting of Stock Options. All options granted to Executive that would have vested during the Severance Period shall vest as of the Termination Date, provided, however, that any such options may not be exercised during the Severance Period until the same time(s) as such options would have vested had Executive continued to be employed through the Severance Period. Any options that would not have vested during the Severance Period shall terminate on the Termination Date.

(c) Release Agreement. Executive's entitlement to any severance pay and benefit subsidies under Section 3(b) is conditioned upon Executive's first entering into a release agreement in substantially the form attached hereto as Exhibit "A"; provided, such release agreement shall be delivered to Executive within 7 days after the Termination Date. Any payment of severance pay or benefit subsidies due under subsection (b) hereof shall be delayed until after the expiration of the 7-day revocation period required for an effective age-based release, and any amount otherwise due under said subsection (b) before the end of such revocation period shall be paid upon the day after the end of such period in a single lump-sum payment, but not later than March 15 of the calendar year following the calendar year in which the Termination Date occurs.

(d) No Other Payments or Benefits. Except as otherwise provided in this Section 3.4, Section 8 or Section 9, no other payments or benefits shall be due under this Agreement to Executive

3.5. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment that would materially interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer lists, and other business related information for the Company's customers). Executive agrees that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to: (i) the remainder of the Employment Term in effect on the effective date of termination if Executive resigns other than for Good Reason, or (ii) the Severance Period if Executive's employment is terminated for one of the events specified in Section 3.4(b). In the event the Executive is terminated by the Company for one of the events specified in Section 3.4(b), during the Severance Period Executive may elect to terminate the Restriction Period at any time by delivering written notice to the Company that Executive has made such election and that, in consideration therefore, is forfeiting the right to receive any payment or the right to receive any future payments under Section 3.4(b) or an equivalent amount under Section 8; provided however, if Executive elects to reduce the geographic limitation of this non-competition provision, and Executive has already received payment pursuant to Section 3.4(b) or an equivalent amount under Section 8, Executive shall reimburse the Company for that portion of the severance payments already received by Executive which relates to the number of days left in the Severance Period. For clarity, regardless of whether Executive shall receive payments pursuant to Section 3.4(b) or Section 8 of this Agreement in order to reduce the Restriction Period, Executive shall only be required to forfeit or re-pay the amounts that Executive would have received pursuant to Section 3.4(b). In that case, Executive may nevertheless receive payments and/or need not reimburse the Company for any amounts paid to Executive pursuant to Section 8 which are in excess of the payments and benefits that Executive would have been entitled to receive under Section 3.4(b). If Executive terminates his employment for good Reason, then Executive shall not be subject to the provisions of this Section 6.

(b) During Executive's employment by the Company and for the duration of the Restriction Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates, or is actively seeking to own or operate, a gaming or pari-mutuel located within North America.

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities

Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

(d) Executive acknowledges that the covenants contained in Sections 5 through 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and, in particular, that the duration and geographic scope of such covenants are reasonable given the nature of this Agreement and the position that Executive will hold within the Company. Executive further agrees to disclose the existence and terms of such covenants to any employer that Executive works for during the Restriction Period.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an executive or management employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control.

8.1. Consideration

(a) Change of Control. In the event of a Change of Control (as defined below), Executive shall be entitled to receive a cash payment in an amount equal to the product of three times the sum of (i) the highest annual rate of Base Salary in effect for Executive during the 24-month period immediately preceding the effective date of the Change in Control (the "Trigger Date") and (ii) the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Trigger Date.

(b) Restrictive Provisions. As consideration for the foregoing payments, Executive agrees not to challenge the enforceability of any of the restrictions contained in Sections 5, 6 or 7 of this Agreement upon or after the occurrence of a Change of Control.

8.2. Payment Terms. This change of control payment shall be made in two lump sum payments as follows: (i) 75% of such amount shall be paid to Executive in a lump-sum cash payment upon the Trigger Date; and (ii) 25% of such amount shall be paid to Executive in a lump-sum cash payment upon the 75th day following the Trigger Date, but not later than March 15 of the calendar year following the calendar year in which the Trigger Date occurs. Notwithstanding any of the foregoing to the contrary, the payment contemplated by clause (ii) shall be paid immediately upon the earlier occurrence of any of the following: (a) Executive's employment is terminated by the Company; or (b) Executive terminates employment for Good Reason (as defined below).

8.3. Certain Other Terms. In the event payments are being made to Executive under this Section 8, no payments shall be due under Section 3.4(b)(i) with respect to any termination of Executive's employment following a Change of Control. At the option of the Company, the Company may require Executive to execute the release attached hereto as Exhibit A; provided, however, that this requirement shall not in any way alter the timing of the payments to be made under Section 8.2. In the event that the Company announces that it has signed a definitive agreement with respect to a Change of Control, the provisions of this Section 8 shall continue to apply to Executive if, during the period after the public announcement and immediately preceding the date such transaction is consummated or terminated, the Company terminates Executive's employment without Cause or due to a disability; provided, however, that, in such event, any amount payable under this Section 8 shall be reduced by any payments received pursuant to Section 3.4(b)(i).

8.4. Defined Terms.

(a) The term Change of Control shall have the meaning given to such term in the Company's 2008 Long Term Incentive Compensation Plan, as such may be amended or modified.

(b) Good Reason. The occurrence of any of the following events that the Company fails to cure within 10 days after receiving written notice thereof from Executive: (i) assignment to Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or inconsistent with Executive's legal or fiduciary obligations; (ii) any reduction in Executive's compensation or substantial reduction in Executive's benefits taken as a whole; (iii) any travel requirements materially greater than Executive's travel requirements prior to the Change of Control; or (iv) breach of any material term of this Agreement by the Company.

9. Certain Tax Matters.

9.1. Generally. In the event Executive becomes entitled to receive the payments (the "Severance Payments") provided under Section 3 or Section 8 hereof or under any other plan or arrangement providing for payments under circumstances similar to those contemplated by such sections, and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to Executive at the time specified for such payments, an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise Tax payable on the payment provided for by this Section 9.

9.2. Illustration. For example, if the Severance Payments are $1,000,000 and if Executive is subject to the Excise Tax, then the Gross-Up Payment will be such that Executive will retain an amount of $1,000,000 less only any normal and ordinary taxes on such amount. The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this Section 9 will not be deemed normal and ordinary taxes.

9.3. Certain Terms. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(a) Any other payments or benefits received or to be received by Executive in connection with a Change in Control of the Company or Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Company's Compensation Committee and acceptable to Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(b) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying subsection (a), above); and

(c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive on the Trigger Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes; and

(d) In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of determination then, subject to applicable law, appropriate adjustments will be made with respect to future payment(s) hereunder (if any). If Executive becomes entitled to a Gross-Up Payment in excess of the amount initially determined and paid under Section 9.1, the Company shall pay the additional Gross-Up Payment within five (5) business days of the date on which the Company is notified of the amount of the Gross-Up Payment, but only to the extent that the Gross-Up Payment would be made by the March 15 following the calendar year in which the Executive would be considered to have vested in the Gross-Up Payment for purposes of Section 409A. To the extent any Gross-Up Payment is greater than initially determined and paid under Section 9.1 and cannot be made by the March 15 following the end of the calendar year in which the Executive vests in such payment, then the Company shall instead make the payment promptly following the date on which the Executive remits the taxes to which the Gross-Up Payment relates to the applicable taxing authority, and in no event later than the last day of the

calendar year following the calendar year in which such taxes are remitted; provided, however, that if the Executive is a key employee (within the meaning of Section 409A) and the Gross-Up Payment would be considered deferred compensation payable on account of Executive's separation from service (as defined in Section 409A), payment will in no event be made prior to 6 months after the date of Executive's separation from service.

9.4. Fees and Expenses. The Company shall reimburse Executive for all reasonable legal fees and expenses incurred by Executive in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code or any regulations pertaining thereto to any payment or benefit provided hereunder. Any expense reimbursements made to satisfy the terms of this section shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to the Company (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any benefits under this paragraph shall not be subject to liquidation or exchange for another benefit.

10. Document Surrender. Upon the termination of Executive's employment for any reason, Executive shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

12. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper forum for adjudicating such a claim.

13. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842
Attention: President

If to Executive, to:

His then current home address.

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

14. Contents of Agreement; Amendment and Assignment.

14.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto, including without limitation, the Initial Agreement which is hereby terminated. This Agreement cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

14.2. Executive may not assign any of his rights or obligations under this Agreement. The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of its assets or business by means of liquidation, dissolution, merger, consolidation, transfer of assets or otherwise.

15. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances. In addition, if any court determines that any part of Sections 5, 6 or 7 hereof is unenforceable because of its duration, geographical scope or otherwise, such court will have the power to modify such provision and, in its modified form, such provision will then be enforceable.

16. Remedies.

16.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

16.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

16.3. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by Executive and that the Company shall be entitled to specific performance and injunctive relief as remedies for any such breach, in addition to all other remedies available at law or equity to the Company.

17. Construction. This Agreement is the result of thoughtful negotiations and reflects an arms' length bargain between two sophisticated parties, each represented by counsel. The parties agree that, if this Agreement requires interpretation, neither party should be considered "the drafter" nor be entitled to any presumption that ambiguities are to be resolved in his or her favor.

18. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

19. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

20. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

21. Section 409A. This Agreement is intended to comply with the requirements of Section 409A and shall be construed accordingly. Any payments or distributions to be made to Employee under this Agreement upon a separation from service (as defined in Section 409A) of amounts classified as "nonqualified deferred compensation" for purposes of Code Section 409A, shall in no event be made or commence until 6 months after such separation from service. Each payment of nonqualified deferred compensation under this Agreement shall be treated as a separate payment for purposes of Code Section 409A. Any reimbursements made pursuant to this Agreement shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to Corporation (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any such benefits shall not be subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Robert S. Ippolito
Name: Robert S. Ippolito
Title: Vice President, Secretary and Treasurer

EXECUTIVE

/s/ Peter M. Carlino
Peter M. Carlino

Exhibit A

SEPARATION AGREEMENT AND GENERAL RELEASE

This is a Separation Agreement and General Release (hereinafter referred to as the "Agreement") between (hereinafter referred to as the "Employee") and Penn National Gaming, Inc. (hereinafter referred to as the "Employer"). In consideration of the mutual promises and commitments made in this Agreement, and intending to be legally bound, Employee, on the one hand, and the Employer on the other hand, agree to the terms set forth in this Agreement.

1. Employer and Employee hereby acknowledge that [the Company notified Employee/Employee notified the Company on that Executive's employment pursuant to that certain Employment Agreement executed on ("Employment Agreement") would be terminated as of [ ]. Upon the termination of the Employment Agreement, Employee will be subject to the obligations and be the beneficiary of the surviving benefits, all as described in the Employment Agreement. Employee's last day of work will be .

2. (a) When used in this Agreement, the word "Releasees" means the Employer and all or any of its past and present parent, subsidiary and affiliated corporations, companies, partnerships, joint ventures and other entities and their groups, divisions, departments and units, and their past and present directors, trustees, officers, managers, partners, supervisors, employees, attorneys, agents and consultants, and their predecessors, successors and assigns.

(b) When used in this Agreement, the word "Claims" means each and every claim, complaint, cause of action, and grievance, whether known or unknown and whether fixed or contingent, and each and every promise, assurance, contract, representation, guarantee, warranty, right and commitment of any kind, whether known or unknown and whether fixed or contingent.

3. In consideration of the promises of the Employer set forth in this Agreement and the Employment Agreement, and intending to be legally bound, Employee hereby irrevocably remises, releases and forever discharges all Releasees of and from any and all Claims that he (on behalf of either himself or any other person or persons) ever had or now has against any and all of the Releasees, or which he (or his heirs, executors, administrators or assigns or any of them) hereafter can, shall or may have against any and all of the Releasees, for or by reason of any cause, matter, thing, occurrence or event whatsoever through the effective date of this Agreement. Employee acknowledges and agrees that the Claims released in this paragraph include, but are not limited to, (a) any and all Claims based on any law, statute or constitution or based on contract or in tort on common law, and (b) any and all Claims based on or arising under any civil rights laws, such as any Pennsylvania employment laws, or Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e et seq.), or the Federal Age Discrimination in Employment Act (29 U.S.C. § 621 et seq.) (hereinafter referred to as the "ADEA"), and (c) any and all Claims under any grievance or complaint procedure of any kind, and (d) any and all Claims based on or arising out of or related to his recruitment by, employment with, the termination of his employment with, his performance of any services in any capacity for, or any business transaction with, each or any of the Releasees. Employee also understands, that by signing this Agreement, he is waiving all Claims against any and all of the Releasees released by this Agreement; provided, however, that as set forth in section 7 (f) (1) (c) of the ADEA, as added by the Older Workers Benefit Protection Act of 1990, nothing in this Agreement constitutes or shall (i) be construed to constitute a waiver by Employee of any rights or claims that may arise after this Agreement is executed by Employee, or (ii) impair Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or any state agency or to participate in an investigation or proceeding conducted by the EEOC or any state agency.

4. In consideration of the promises of the Employee set forth in this Agreement and the Employment Agreement and intending to be legally bound, Employer hereby irrevocably remises, releases and forever discharges Employee and his heirs, successors and assigns from any and all Claims that the Employer ever had or now has though the effective date of this Agreement.

5. Employee and Employer covenant and agree not to sue each other or any of the Releasees for any Claims released by this Agreement and to waive any recovery related to any Claims covered by this Agreement.

6. Employee agrees to provide reasonable transition assistance to Employer (including without limitation assistance on regulatory matters, operational matters and in connection with litigation) for a period of one year from the execution of this Agreement at no additional cost; provided, such assistance shall not unreasonably interfere with Employee's pursuit of gainful employment or result in Employee not having a separation from service (as defined in Section 409A of the Internal Revenue Code of 1986). Any assistance beyond this period will be provided at a mutually agreed cost. Employee further agrees that he will return to the Employer all property in his possession, including, but not limited to, keys, identification cards and credit cards, files, records, publications, address lists and documents that belong to each or any of the Releasees. Such documents also include, without limitation, any documents created or made by Employee during his employment with the Employer.

7. Employee agrees that, except as specifically provided in this Agreement and the Employment Agreement, there are no compensation, benefits, or other payments due or owed to him by each or any of the Releasees.

8. Except where disclosure has been made by the Company pursuant to applicable federal or state law, rule or regulation, Employee agrees that the terms of this Agreement are confidential and that he will not disclose or publicize the terms of this Agreement and the amounts paid or agreed to be paid pursuant to this Agreement to any person or entity, except to his spouse, his attorney, his accountant, and to a government agency for the purpose of payment or collection of taxes or application for unemployment compensation benefits. Employee agrees that his disclosure of the terms of this Agreement to his spouse, his attorney and his accountant shall be conditioned upon his obtaining agreement from them, for the benefit of the Employer, not to disclose or publicize to any person or entity the terms of this Agreement and the amounts paid or agreed to be paid under this Agreement. Further, Employer and Employee agree not to make any false, misleading, defamatory or disparaging communications about the other party (including without limitation Employer's products, services, partners, investors or personnel) and to refrain from taking any action designed to harm the public perception of the other party or the Releasees. Employee further agrees that he has disclosed to Employer all information, if any, in his possession, custody or control related to any legal, compliance or regulatory obligations of Employer and any failures to meet such obligations.

9. The terms of this Agreement are not to be considered as an admission on behalf of either party. Neither this Agreement nor its terms shall be admissible as evidence of any liability or wrongdoing by each or any of the Releasees in any judicial, administrative or other proceeding now pending or hereafter instituted by any person or entity. The Employer is entering into this Agreement solely for the purpose of effectuating a mutually satisfactory separation of Employee's employment.

10. All provisions of this Agreement are severable and if any of them is determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

11. This Agreement shall be governed by and interpreted under and in accordance with the laws of Pennsylvania. Any suit, claim or cause of action arising under or related to this Agreement shall be submitted by the parties hereto to the exclusive jurisdiction of the courts of Pennsylvania or to the federal courts located therein if they otherwise have jurisdiction. The breach of any promise in this Agreement by any party shall not invalidate this Agreement or the release and shall not be a defense to the enforcement of the Agreement against any party.

12. This Agreement constitutes a complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, offer letters, negotiations, or discussions relating to the subject matter of this Agreement. With the exception of the Employment Agreement, no other agreement shall be binding upon each or any of the Releasees, including, but not limited to, any agreement made hereafter, unless in writing and signed by an officer of the Employer, and only such agreement shall be binding against the Employer.

13. Employee is advised, and acknowledges that he has been advised, to consult with an attorney before signing this Agreement.

14. Employee acknowledges that he is signing this Agreement voluntarily, with full knowledge of the nature and consequences of its terms.

15. All executed copies of this Agreement and photocopies thereof shall have the same force and effect and shall be as legally binding and enforceable as the original.

16. Employee acknowledges that he has been given up to twenty-one (21) days within which to consider this Agreement before signing it. Subject to paragraph 17 below, this Agreement will become effective on the date of Employee's signature hereof.

17. For a period of seven (7) calendar days following his signature of this Agreement, Employee may revoke the Agreement, and the Agreement shall not become effective or enforceable until the seven (7) day revocation period has expired. Employee may revoke this Agreement at any time within that seven (7) day period, by sending a written notice of revocation to the . Such written notice must be actually received by the Employer within that seven (7) day period in order to be valid. If a valid revocation is received within that seven (7) day period, this Agreement shall be null and void for all purposes. Payment of the severance pay amount set forth in the Employment Agreement will be paid in the manner and at the time(s) described in the Employment Agreement.

IN WITNESS WHEREOF, the Parties have read, understand and do voluntarily execute this Separation Agreement and General Release which consists of four pages.

EMPLOYER	EMPLOYEE
By: _____	_____
Date: _____	Date: _____

CONFIDENTIAL

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into on this 31st day of December, 2008 (the "Commencement Date") by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and William J. Clifford, an individual residing in Pennsylvania ("Executive").

WHEREAS, Executive and Company are party to that certain Employment Agreement dated June 10, 2005 (the "Existing Agreement").

WHEREAS, the parties wish to replace the Existing Agreement with the terms set forth below in this Agreement, which are intended to be in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A", see also Section 21 hereof).

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

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Senior Vice President and Chief Financial Officer of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the Chief Executive Officer and the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term. The term of this Agreement shall begin on the date hereof and shall terminate at the close of business on June 10, 2011 (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof. The term of this Agreement may be renewed for additional periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon the execution of a written renewal by the parties hereto. Notwithstanding the foregoing to the contrary, Sections 5 through 21 shall survive any termination of the Employment Term until the expiration of any applicable time periods set forth in Sections 5, 6 and 7

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations, or providing oversight with respect to his personal investments, so long as such service does not materially interfere with Executive's duties hereunder.

2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of at least Seven Hundred Twenty Eight Thousand Dollars ($728,000), payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any increase in Base Salary or other compensation shall be made at the discretion of the Board or the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses. Executive shall participate in the Company's annual incentive compensation plan applicable to Peer Executives. Each annual bonus award earned in a fiscal year shall be paid pursuant to the terms of the annual incentive plan document (if any) by March 15 of the immediately following fiscal year, unless the written bonus plan provides for a different payment date or unless Executive shall elect to defer the receipt of such bonus award pursuant to an arrangement that meets the requirements of Section 409A.

2.3. Equity Compensation. The Company may grant to Executive options or other equity compensation pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. The Compensation Committee shall set the amount and terms of such options or other equity compensation.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate.

2.5. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.6. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives. Such reimbursements shall be made in such manner and at such times as provided in the reimbursement policies applicable to Peer Executives.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(a) Without Cause. The Company may terminate Executive's employment at any time without Cause (as such term is defined in subsection (b) below) upon delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(b) With Cause. The Company may terminate Executive's employment at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any material Company policy or any material term hereof, including, without limitation, Sections 4 through 7 and, in each case, fails to cure such breach within 15 days after receipt of written notice thereof; or

(iv) Executive misappropriates corporate funds as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination).

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, Executive's employment shall terminate effective as of the date of Executive's death or disability. The term "disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Already Accrued Base Salary and Expense. Upon any termination of employment during the Employment Term, Executive shall be entitled to receive any amounts due for Base Salary accrued but unpaid through the effective date of termination, and such amounts shall be paid in accordance with the Company's then current payroll system for Peer Executives. Any expenses incurred but not reimbursed through the effective date of termination shall be paid at such time and in such manner as provided under the Company's expense reimbursement policy applicable to Peer Executives.

(b) Severance Pay and Benefits. Subject to the conditions in subsection (c) hereof, if Executive's employment is terminated under Section 3.1(a) or Section 3.3 or if Executive delivers a written notice of resignation within 30 days after the expiration of the Employment Term, the Company does not offer to renew the Employment Term during such 30-day period on terms no less favorable in the aggregate to the Executive than those contained herein and Executive thereupon terminates his employment at the end of such 30-day period, then Executive will be entitled to receive, and the Company will provide Executive with, the following severance pay and benefits (in addition to any amounts payable under subsection (a) hereof); provided, for purposes of Section 409A, each payment (whether an installment or lump sum) of severance pay under this subsection (b) shall be considered a separate payment:

(i) Amount of Post-Employment Base Salary and Bonus. The Company shall pay to Executive an amount equal to the product of (A) the sum of (1) Executive's monthly Base Salary at the highest rate in effect during the 24-month period immediately preceding the date of Executive's termination of employment (the "Termination Date"), and (2) Executive's monthly bonus value (determined by dividing by 12 the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Termination Date; and (B) the greater of (1) the number of full and partial months remaining in the Employment Term as of the Termination Date, and (2) 24 (with the period described in clause (B) hereof being referred to as the "Severance Period").

(ii) Payment of Post-Employment Base Salary and Bonus. The amount described in subsection (b)(i) shall be paid to Executive in cash in two lump-sum payments as follows: (A) 75% of such amount shall be paid within 15 days after the Termination Date but no later than March 15 of the calendar year following the year in which this payment vests; and (B) the remaining 25% of such amount shall be paid in a lump sum by March 15 of the calendar year following the calendar year in which this payment vests.

(iii) Continued Medical Benefits Coverage. During the Severance Period, the Company shall provide Executive, and, if any, Executive's spouse and dependents with medical benefits coverage substantially similar to the coverage in effect on the effective date of termination. After the Severance Period, Executive and his dependents will have the opportunity under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") to elect COBRA continuation coverage. If elected in a timely manner, COBRA coverage generally will commence as of the first day of the next calendar month after the end of the Severance Period and will end on the last day of the 18th month thereafter (unless an earlier end date or an extension is required under COBRA).

(iv) Vesting of Stock Options. All options granted to Executive that would have vested during the Severance Period shall vest as of the Termination Date, provided, however, that any such options may not be exercised during the Severance Period until the same time(s) as such options would have vested had Executive continued to be employed through the Severance Period. Any options that would not have vested during the Severance Period shall terminate on the Termination Date.

(c) Release Agreement. Executive's entitlement to any severance pay and benefit subsidies under Section 3(b) is conditioned upon Executive's first entering into a release agreement in substantially the form attached hereto as Exhibit "A"; provided, such release agreement shall be delivered to Executive within 7 days after the Termination Date. Any payment of severance pay or benefit subsidies due under subsection (b) hereof shall be delayed until after the expiration of the 7-day revocation period required for an effective age-based release, and any amount otherwise due under said subsection (b) before the end of such revocation period shall be paid upon the day after the end of such period in a single lump-sum payment, but not later than March 15 of the calendar year following the calendar year in which the Termination Date occurs.

(d) No Other Payments or Benefits. Except as otherwise provided in this Section 3.4, Section 8 or Section 9, no other payments or benefits shall be due under this Agreement to Executive

3.5. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment that would materially interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer lists, and other business related information for the Company's customers). Executive agrees that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to: (i) the remainder of the Employment Term in effect on the effective date of termination if Executive resigns other than for Good Reason, or (ii) the Severance Period if Executive's employment is terminated for one of the events specified in Section 3.4(b). In the event the Executive is terminated by the Company for one of the events specified in Section 3.4(b), during the Severance Period Executive may elect to terminate the Restriction Period at any time by delivering written notice to the Company that Executive has made such election and that, in consideration therefore, is forfeiting the right to receive any payment or the right to receive any future payments under Section 3.4(b) or an equivalent amount under Section 8; provided however, if Executive elects to reduce the geographic limitation of this non-competition provision, and Executive has already received payment pursuant to Section 3.4(b) or an equivalent amount under Section 8, Executive shall reimburse the Company for that portion of the severance payments already received by Executive which relates to the number of days left in the Severance Period. For clarity, regardless of whether Executive shall receive payments pursuant to Section 3.4(b) or Section 8 of this Agreement in order to reduce the Restriction Period, Executive shall only be required to forfeit or re-pay the amounts that Executive would have received pursuant to Section 3.4(b). In that case, Executive may nevertheless receive payments and/or need not reimburse the Company for any amounts paid to Executive pursuant to Section 8 which are in excess of the payments and benefits that Executive would have been entitled to receive under Section 3.4(b). If Executive terminates his employment for good Reason, then Executive shall not be subject to the provisions of this Section 6.

(b) During Executive's employment by the Company and for the duration of the Restriction Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates, or is actively seeking to own or operate, a gaming or pari-mutuel located within North America.

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

(d) Executive acknowledges that the covenants contained in Sections 5 through 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and, in particular, that the duration and geographic scope of such covenants are reasonable given the nature of this Agreement and the position that Executive will hold within

the Company. Executive further agrees to disclose the existence and terms of such covenants to any employer that Executive works for during the Restriction Period.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an executive or management employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control.

8.1. Consideration

(a) Change of Control. In the event of a Change of Control (as defined below), Executive shall be entitled to receive a cash payment in an amount equal to the product of three times the sum of (i) the highest annual rate of Base Salary in effect for Executive during the 24-month period immediately preceding the effective date of the Change in Control (the "Trigger Date") and (ii) the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Trigger Date.

(b) Restrictive Provisions. As consideration for the foregoing payments, Executive agrees not to challenge the enforceability of any of the restrictions contained in Sections 5, 6 or 7 of this Agreement upon or after the occurrence of a Change of Control.

8.2. Payment Terms. This change of control payment shall be made in two lump sum payments as follows: (i) 75% of such amount shall be paid to Executive in a lump-sum cash payment upon the Trigger Date; and (ii) 25% of such amount shall be paid to Executive in a lump-sum cash payment upon the 75th day following the Trigger Date, but not later than March 15 of the calendar year following the calendar year in which the Trigger Date occurs. Notwithstanding any of the foregoing to the contrary, the payment contemplated by clause (ii) shall be paid immediately upon the earlier occurrence of any of the following: (a) Executive's employment is terminated by the Company; or (b) Executive terminates employment for Good Reason (as defined below).

8.3. Certain Other Terms. In the event payments are being made to Executive under this Section 8, no payments shall be due under Section 3.4(b)(i) with respect to any termination of Executive's employment following a Change of Control. At the option of the Company, the Company may require Executive to execute the release attached hereto as Exhibit A; provided, however, that this requirement shall not in any way alter the timing of the payments to be made under Section 8.2. In the event that the Company announces that it has signed a definitive agreement with respect to a Change of Control, the provisions of this Section 8 shall continue to apply to Executive if, during the period after the public announcement and immediately preceding the date such transaction is consummated or terminated, the Company terminates

Executive's employment without Cause or due to a disability; provided, however, that, in such event, any amount payable under this Section 8 shall be reduced by any payments received pursuant to Section 3.4(b)(i).

8.4. Defined Terms.

(a) The term Change of Control shall have the meaning given to such term in the Company's 2008 Long Term Incentive Compensation Plan, as such may be amended or modified.

(b) Good Reason. The occurrence of any of the following events that the Company fails to cure within 10 days after receiving written notice thereof from Executive: (i) assignment to Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or inconsistent with Executive's legal or fiduciary obligations; (ii) any reduction in Executive's compensation or substantial reduction in Executive's benefits taken as a whole; (iii) any travel requirements materially greater than Executive's travel requirements prior to the Change of Control; or (iv) breach of any material term of this Agreement by the Company.

9. Certain Tax Matters.

9.1. Generally. In the event Executive becomes entitled to receive the payments (the "Severance Payments") provided under Section 3 or Section 8 hereof or under any other plan or arrangement providing for payments under circumstances similar to those contemplated by such sections, and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to Executive at the time specified for such payments, an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise Tax payable on the payment provided for by this Section 9.

9.2. Illustration. For example, if the Severance Payments are $1,000,000 and if Executive is subject to the Excise Tax, then the Gross-Up Payment will be such that Executive will retain an amount of $1,000,000 less only any normal and ordinary taxes on such amount. The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this Section 9 will not be deemed normal and ordinary taxes.

9.3. Certain Terms. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(a) Any other payments or benefits received or to be received by Executive in connection with a Change in Control of the Company or Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company

shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax

counsel selected by the Company's Compensation Committee and acceptable to Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(b) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying subsection (a), above); and

(c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive on the Trigger Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes; and

(d) In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of determination then, subject to applicable law, appropriate adjustments will be made with respect to future payment(s) hereunder (if any). If Executive becomes entitled to a Gross-Up Payment in excess of the amount initially determined and paid under Section 9.1, the Company shall pay the additional Gross-Up Payment within five (5) business days of the date on which the Company is notified of the amount of the Gross-Up Payment, but only to the extent that the Gross-Up Payment would be made by the March 15 following the calendar year in which the Executive would be considered to have vested in the Gross-Up Payment for purposes of Section 409A. To the extent any Gross-Up Payment is greater than initially determined and paid under Section 9.1 and cannot be made by the March 15 following the end of the calendar year in which the Executive vests in such payment, then the Company shall instead make the payment promptly following the date on which the Executive remits the taxes to which the Gross-Up Payment relates to the applicable taxing authority, and in no event later than the last day of the calendar year following the calendar year in which such taxes are remitted; provided, however, that if the Executive is a key employee (within the meaning of Section 409A) and the Gross-Up Payment would be considered deferred compensation payable on account of Executive's separation from service (as defined in Section 409A), payment will in no event be made prior to 6 months after the date of Executive's separation from service.

9.4. Fees and Expenses. The Company shall reimburse Executive for all reasonable legal fees and expenses incurred by Executive in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code or any regulations pertaining thereto to any payment or benefit provided hereunder. Any expense reimbursements

made to satisfy the terms of this section shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to the Company (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any benefits under this paragraph shall not be subject to liquidation or exchange for another benefit.

10. Document Surrender. Upon the termination of Executive's employment for any reason, Executive shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

12. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper forum for adjudicating such a claim.

13. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842

Attention: Chairman

If to Executive, to:

His then current home address.

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

14. Contents of Agreement; Amendment and Assignment.

14.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto, including without limitation, the Initial Agreement which is hereby terminated. This Agreement cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

14.2. Executive may not assign any of his rights or obligations under this Agreement. The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of its assets or business by means of liquidation, dissolution, merger, consolidation, transfer of assets or otherwise.

15. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances. In addition, if any court determines that any part of Sections 5, 6 or 7 hereof is unenforceable because of its duration, geographical scope or otherwise, such court will have the power to modify such provision and, in its modified form, such provision will then be enforceable.

16. Remedies.

16.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

16.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

16.3. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by Executive and that the Company shall be entitled to specific performance and injunctive relief as remedies for any such breach, in addition to all other remedies available at law or equity to the Company.

17. Construction. This Agreement is the result of thoughtful negotiations and reflects an arms' length bargain between two sophisticated parties, each represented by counsel. The parties agree that, if this Agreement requires interpretation, neither party should be considered "the drafter" nor be entitled to any presumption that ambiguities are to be resolved in his or her favor.

18. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

19. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

20. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

21. Section 409A. This Agreement is intended to comply with the requirements of Section 409A and shall be construed accordingly. Any payments or distributions to be made to Employee under this Agreement upon a separation from service (as defined in Section 409A) of amounts classified as "nonqualified deferred compensation" for purposes of Code Section 409A, shall in no event be made or commence until 6 months after such separation from service. Each payment of nonqualified deferred compensation under this Agreement shall be treated as a separate payment for purposes of Code Section 409A. Any reimbursements made pursuant to this Agreement shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to Corporation (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any such benefits shall not be subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Peter M. Carlino
Name: Peter M. Carlino
Title: Chairman and Chief Executive Officer

EXECUTIVE

/s/ William J. Clifford
William J. Clifford

Exhibit A

SEPARATION AGREEMENT AND GENERAL RELEASE

This is a Separation Agreement and General Release (hereinafter referred to as the "Agreement") between (hereinafter referred to as the "Employee") and Penn National Gaming, Inc. (hereinafter referred to as the "Employer"). In consideration of the mutual promises and commitments made in this Agreement, and intending to be legally bound, Employee, on the one hand, and the Employer on the other hand, agree to the terms set forth in this Agreement.

1. Employer and Employee hereby acknowledge that [the Company notified Employee/Employee notified the Company on that Executive's employment pursuant to that certain Employment Agreement executed on ("Employment Agreement") would be terminated as of [ ]. Upon the termination of the Employment Agreement, Employee will be subject to the obligations and be the beneficiary of the surviving benefits, all as described in the Employment Agreement. Employee's last day of work will be .

2. (a) When used in this Agreement, the word "Releasees" means the Employer and all or any of its past and present parent, subsidiary and affiliated corporations, companies, partnerships, joint ventures and other entities and their groups, divisions, departments and units, and their past and present directors, trustees, officers, managers, partners, supervisors, employees, attorneys, agents and consultants, and their predecessors, successors and assigns.

(b) When used in this Agreement, the word "Claims" means each and every claim, complaint, cause of action, and grievance, whether known or unknown and whether fixed or contingent, and each and every promise, assurance, contract, representation, guarantee, warranty, right and commitment of any kind, whether known or unknown and whether fixed or contingent.

3. In consideration of the promises of the Employer set forth in this Agreement and the Employment Agreement, and intending to be legally bound, Employee hereby irrevocably remises, releases and forever discharges all Releasees of and from any and all Claims that he (on behalf of either himself or any other person or persons) ever had or now has against any and all of the Releasees, or which he (or his heirs, executors, administrators or assigns or any of them) hereafter can, shall or may have against any and all of the Releasees, for or by reason of any cause, matter, thing, occurrence or event whatsoever through the effective date of this Agreement. Employee acknowledges and agrees that the Claims released in this paragraph include, but are not limited to, (a) any and all Claims based on any law, statute or constitution or based on contract or in tort on common law, and (b) any and all Claims based on or arising under any civil rights laws, such as any Pennsylvania employment laws, or Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e et seq.), or the Federal Age Discrimination in Employment Act (29 U.S.C. § 621 et seq.) (hereinafter referred to as the "ADEA"), and (c) any and all Claims under any grievance or complaint procedure of any kind, and (d) any and all Claims based on or arising out of or related to his recruitment by, employment with, the termination of his employment with, his performance of any services in any capacity for, or any business transaction with, each or any of the Releasees. Employee also understands, that by signing this Agreement, he is waiving all Claims against any and all of the Releasees released by this Agreement; provided, however, that as set forth in section 7 (f) (1) (c) of the ADEA, as added by the Older Workers Benefit Protection Act of 1990, nothing in this Agreement constitutes or shall (i) be construed to constitute a waiver by Employee of any rights or claims that may arise after this Agreement is executed by Employee, or (ii) impair Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or any state agency or to participate in an investigation or proceeding conducted by the EEOC or any state agency.

4. In consideration of the promises of the Employee set forth in this Agreement and the Employment Agreement and intending to be legally bound, Employer hereby irrevocably remises, releases and forever discharges Employee and his heirs, successors and assigns from any and all Claims that the Employer ever had or now has though the effective date of this Agreement.

5. Employee and Employer covenant and agree not to sue each other or any of the Releasees for any Claims released by this Agreement and to waive any recovery related to any Claims covered by this Agreement.

6. Employee agrees to provide reasonable transition assistance to Employer (including without limitation assistance on regulatory matters, operational matters and in connection with litigation) for a period of one year from the execution of this Agreement at no additional cost; provided, such assistance shall not unreasonably interfere with Employee's pursuit of gainful employment or result in Employee not having a separation from service (as defined in Section 409A of the Internal Revenue Code of 1986). Any assistance beyond this period will be provided at a mutually agreed cost. Employee further agrees that he will return to the Employer all property in his possession, including, but not limited to, keys, identification cards and credit cards, files, records, publications, address lists and documents that belong to each or any of the Releasees. Such documents also include, without limitation, any documents created or made by Employee during his employment with the Employer.

7. Employee agrees that, except as specifically provided in this Agreement and the Employment Agreement, there are no compensation, benefits, or other payments due or owed to him by each or any of the Releasees.

8. Except where disclosure has been made by the Company pursuant to applicable federal or state law, rule or regulation, Employee agrees that the terms of this Agreement are confidential and that he will not disclose or publicize the terms of this Agreement and the amounts paid or agreed to be paid pursuant to this Agreement to any person or entity, except to his spouse, his attorney, his accountant, and to a government agency for the purpose of payment or collection of taxes or application for unemployment compensation benefits. Employee agrees that his disclosure of the terms of this Agreement to his spouse, his attorney and his accountant shall be conditioned upon his obtaining agreement from them, for the benefit of the Employer, not to disclose or publicize to any person or entity the terms of this Agreement and the amounts paid or agreed to be paid under this Agreement. Further, Employer and Employee agree not to make any false, misleading, defamatory or disparaging communications about the other party (including without limitation Employer's products, services, partners, investors or personnel) and to refrain from taking any action designed to harm the public perception of the other party or the Releasees. Employee further agrees that he has disclosed to Employer all information, if any, in his possession, custody or control related to any legal, compliance or regulatory obligations of Employer and any failures to meet such obligations.

9. The terms of this Agreement are not to be considered as an admission on behalf of either party. Neither this Agreement nor its terms shall be admissible as evidence of any liability or wrongdoing by each or any of the Releasees in any judicial, administrative or other proceeding now pending or hereafter instituted by any person or entity. The Employer is entering into this Agreement solely for the purpose of effectuating a mutually satisfactory separation of Employee's employment.

10. All provisions of this Agreement are severable and if any of them is determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

11. This Agreement shall be governed by and interpreted under and in accordance with the laws of Pennsylvania. Any suit, claim or cause of action arising under or related to this Agreement shall be submitted by the parties hereto to the exclusive jurisdiction of the courts of Pennsylvania or to the federal courts located therein if they otherwise have jurisdiction. The breach of any promise in this Agreement by any party shall not invalidate this Agreement or the release and shall not be a defense to the enforcement of the Agreement against any party.

12. This Agreement constitutes a complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, offer letters, negotiations, or discussions relating to the subject matter of this Agreement. With the exception of the Employment Agreement, no other agreement shall be binding upon each or any of the Releasees, including, but not limited to, any agreement made hereafter, unless in writing and signed by an officer of the Employer, and only such agreement shall be binding against the Employer.

13. Employee is advised, and acknowledges that he has been advised, to consult with an attorney before signing this Agreement.

14. Employee acknowledges that he is signing this Agreement voluntarily, with full knowledge of the nature and consequences of its terms.

15. All executed copies of this Agreement and photocopies thereof shall have the same force and effect and shall be as legally binding and enforceable as the original.

16. Employee acknowledges that he has been given up to twenty-one (21) days within which to consider this Agreement before signing it. Subject to paragraph 17 below, this Agreement will become effective on the date of Employee's signature hereof.

17. For a period of seven (7) calendar days following his signature of this Agreement, Employee may revoke the Agreement, and the Agreement shall not become effective or enforceable until the seven (7) day revocation period has expired. Employee may revoke this Agreement at any time within that seven (7) day period, by sending a written notice of revocation to the . Such written notice must be actually received by the Employer within that seven (7) day period in order to be valid. If a valid revocation is received within that seven (7) day period, this Agreement shall be null and void for all purposes. Payment of the severance pay amount set forth in the Employment Agreement will be paid in the manner and at the time(s) described in the Employment Agreement.

IN WITNESS WHEREOF, the Parties have read, understand and do voluntarily execute this Separation Agreement and General Release which consists of four pages.

EMPLOYER EMPLOYEE

By: _____ _____

Date: _____ Date: _____

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into on this 31st day of December, 2008 (the "Commencement Date") by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and Jordan B. Savitch, an individual residing in Pennsylvania ("Executive").

WHEREAS, Executive and Company are party to that certain Employment Agreement dated June 10, 2005 (the "Existing Agreement").

WHEREAS, the parties wish to replace the Existing Agreement with the terms set forth below in this Agreement, which are intended to be in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A", see also Section 21 hereof).

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

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Senior Vice President and General Counsel of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the Chief Executive Officer and the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term. The term of this Agreement shall begin on the date hereof and shall terminate at the close of business on June 10, 2011 (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof. The term of this Agreement may be renewed for additional periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon the execution of a written renewal by the parties hereto. Notwithstanding the foregoing to the contrary, Sections 5 through 21 shall survive any termination of the Employment Term until the expiration of any applicable time periods set forth in Sections 5, 6 and 7

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations, or providing oversight with respect to his personal investments, so long as such service does not materially interfere with Executive's duties hereunder.

2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of at least Four Hundred Twenty One Thousand Two Hundred Dollars ($421,200), payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any increase in Base Salary or other compensation shall be made at the discretion of the Board or the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses. Executive shall participate in the Company's annual incentive compensation plan applicable to Peer Executives. Each annual bonus award earned in a fiscal year shall be paid pursuant to the terms of the annual incentive plan document (if any) by March 15 of the immediately following fiscal year, unless the written bonus plan provides for a different payment date or unless Executive shall elect to defer the receipt of such bonus award pursuant to an arrangement that meets the requirements of Section 409A.

2.3. Equity Compensation. The Company may grant to Executive options or other equity compensation pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. The Compensation Committee shall set the amount and terms of such options or other equity compensation.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate.

2.5. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.6. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives. Such reimbursements shall be made in such manner and at such times as provided in the reimbursement policies applicable to Peer Executives.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(d) Without Cause. The Company may terminate Executive's employment at any time without Cause (as such term is defined in subsection (b) below) upon delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(e) With Cause. The Company may terminate Executive's employment at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any material Company policy or any material term hereof, including, without limitation, Sections 4 through 7 and, in each case, fails to cure such breach within 15 days after receipt of written notice thereof; or

(iv) Executive misappropriates corporate funds as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination).

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, Executive's employment shall terminate effective as of the date of Executive's death or disability. The term "disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Already Accrued Base Salary and Expense. Upon any termination of employment during the Employment Term, Executive shall be entitled to receive any amounts due for Base Salary accrued but unpaid through the effective date of termination, and such amounts shall be paid in accordance with the Company's then current payroll system for Peer Executives. Any expenses incurred but not reimbursed through the effective date of termination shall be paid at such time and in such manner as provided under the Company's expense reimbursement policy applicable to Peer Executives.

(b) Severance Pay and Benefits. Subject to the conditions in subsection (c) hereof, if Executive's employment is terminated under Section 3.1(a) or Section 3.3 or if Executive delivers a written notice of resignation within 30 days after the expiration of the Employment Term, the Company does not offer to renew the Employment Term during such 30-day period on terms no less favorable in the aggregate to the Executive than those contained herein and Executive thereupon terminates his employment at the end of such 30-day period, then Executive will be entitled to receive, and the Company will provide Executive with, the following severance pay and benefits (in addition to any amounts payable under subsection (a) hereof); provided, for purposes of Section 409A, each payment (whether an installment or lump sum) of severance pay under this subsection (b) shall be considered a separate payment:

(i) Amount of Post-Employment Base Salary and Bonus. The Company shall pay to Executive an amount equal to the product of (A) the sum of (1) Executive's monthly Base Salary at the highest rate in effect during the 24-month period immediately preceding the date of Executive's termination of employment (the "Termination Date"), and (2) Executive's monthly bonus value (determined by dividing by 12 the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Termination Date; and (B) the greater of (1) the number of full and partial months remaining in the Employment Term as of the Termination Date, and (2) 18 (with the period described in clause (B) hereof being referred to as the "Severance Period").

(ii) Payment of Post-Employment Base Salary and Bonus. The amount described in subsection (b)(i) shall be paid to Executive in cash in two lump-sum payments as follows: (A) 75% of such amount shall be paid within 15 days after the Termination Date but no later than March 15 of the calendar year following the year in which this payment vests; and (B) the remaining 25% of such amount shall be paid in a lump sum by March 15 of the calendar year following the calendar year in which this payment vests.

(iii) Continued Medical Benefits Coverage. During the Severance Period, the Company shall provide Executive, and, if any, Executive's spouse and dependents with medical benefits coverage substantially similar to the coverage in effect on the effective date of termination. After the Severance Period, Executive and his dependents will have the opportunity under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") to elect COBRA continuation coverage. If elected in a timely manner, COBRA coverage generally will commence as of the first day of the next calendar month after the end of the Severance Period and will end on the last day of the 18th month thereafter (unless an earlier end date or an extension is required under COBRA).

(iv) Vesting of Stock Options. All options granted to Executive that would have vested during the Severance Period shall vest as of the Termination Date, provided, however, that any such options may not be exercised during the Severance Period until the same time(s) as such options would have vested had Executive continued to be employed through the Severance Period. Any options that would not have vested during the Severance Period shall terminate on the Termination Date.

(c) Release Agreement. Executive's entitlement to any severance pay and benefit subsidies under Section 3(b) is conditioned upon Executive's first entering into a release agreement in substantially the form attached hereto as Exhibit "A"; provided, such release agreement shall be delivered to Executive within 7 days after the Termination Date. Any payment of severance pay or benefit subsidies due under subsection (b) hereof shall be delayed until after the expiration of the 7-day revocation period required for an effective age-based release, and any amount otherwise due under said subsection (b) before the end of such revocation period shall be paid upon the day after the end of such period in a single lump-sum payment, but not later than March 15 of the calendar year following the calendar year in which the Termination Date occurs.

(d) No Other Payments or Benefits. Except as otherwise provided in this Section 3.4, Section 8 or Section 9, no other payments or benefits shall be due under this Agreement to Executive

3.5. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment that would materially interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer lists, and other business related information for the Company's customers). Executive agrees that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to: (i) the remainder of the Employment Term in effect on the effective date of termination if Executive resigns other than for Good Reason, or (ii) the Severance Period if Executive's employment is terminated for one of the events specified in Section 3.4(b). In the event the Executive is terminated by the Company for one of the events specified in Section 3.4(b), during the Severance Period Executive may elect to terminate the Restriction Period at any time by delivering written notice to the Company that Executive has made such election and that, in consideration therefore, is forfeiting the right to receive any payment or the right to receive any future payments under Section 3.4(b) or an equivalent amount under Section 8; provided however, if Executive elects to reduce the geographic limitation of this non-competition provision, and Executive has already received payment pursuant to Section 3.4(b) or an equivalent amount under Section 8, Executive shall reimburse the Company for that portion of the severance payments already received by Executive which relates to the number of days left in the Severance Period. For clarity, regardless of whether Executive shall receive payments pursuant to Section 3.4(b) or Section 8 of this Agreement in order to reduce the Restriction Period, Executive shall only be required to forfeit or re-pay the amounts that Executive would have received pursuant to Section 3.4(b). In that case, Executive may nevertheless receive payments and/or need not reimburse the Company for any amounts paid to Executive pursuant to Section 8 which are in excess of the payments and benefits that Executive would have been entitled to receive under Section 3.4(b). If Executive terminates his employment for good Reason, then Executive shall not be subject to the provisions of this Section 6.

(b) During Executive's employment by the Company and for the duration of the Restriction Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates, or is actively seeking to own or operate, a gaming or pari-mutuel located within North America.

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

(d) Executive acknowledges that the covenants contained in Sections 5 through 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and, in particular, that the duration and geographic scope of such covenants are reasonable given the nature of this Agreement and the position that Executive will hold within

the Company. Executive further agrees to disclose the existence and terms of such covenants to any employer that Executive works for during the Restriction Period.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an executive or management employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control.

8.1. Consideration

(a) Change of Control. In the event of a Change of Control (as defined below), Executive shall be entitled to receive a cash payment in an amount equal to the product of three times the sum of (i) the highest annual rate of Base Salary in effect for Executive during the 24-month period immediately preceding the effective date of the Change in Control (the "Trigger Date") and (ii) the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Trigger Date.

(b) Restrictive Provisions. As consideration for the foregoing payments, Executive agrees not to challenge the enforceability of any of the restrictions contained in Sections 5, 6 or 7 of this Agreement upon or after the occurrence of a Change of Control.

8.2. Payment Terms. This change of control payment shall be made in two lump sum payments as follows: (i) 75% of such amount shall be paid to Executive in a lump-sum cash payment upon the Trigger Date; and (ii) 25% of such amount shall be paid to Executive in a lump-sum cash payment upon the 75th day following the Trigger Date, but not later than March 15 of the calendar year following the calendar year in which the Trigger Date occurs. Notwithstanding any of the foregoing to the contrary, the payment contemplated by clause (ii) shall be paid immediately upon the earlier occurrence of any of the following: (a) Executive's employment is terminated by the Company; or (b) Executive terminates employment for Good Reason (as defined below).

8.3. Certain Other Terms. In the event payments are being made to Executive under this Section 8, no payments shall be due under Section 3.4(b)(i) with respect to any termination of Executive's employment following a Change of Control. At the option of the Company, the Company may require Executive to execute the release attached hereto as Exhibit A; provided, however, that this requirement shall not in any way alter the timing of the payments to be made under Section 8.2. In the event that the Company announces that it has signed a definitive agreement with respect to a Change of Control, the provisions of this Section 8 shall continue to apply to Executive if, during the period after the public announcement and immediately preceding the date such transaction is consummated or terminated, the Company terminates

Executive's employment without Cause or due to a disability; provided, however, that, in such event, any amount payable under this Section 8 shall be reduced by any payments received pursuant to Section 3.4(b)(i).

8.4. Defined Terms.

(a) The term Change of Control shall have the meaning given to such term in the Company's 2008 Long Term Incentive Compensation Plan, as such may be amended or modified.

(b) Good Reason. The occurrence of any of the following events that the Company fails to cure within 10 days after receiving written notice thereof from Executive: (i) assignment to Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or inconsistent with Executive's legal or fiduciary obligations; (ii) any reduction in Executive's compensation or substantial reduction in Executive's benefits taken as a whole; (iii) any travel requirements materially greater than Executive's travel requirements prior to the Change of Control; or (iv) breach of any material term of this Agreement by the Company.

9. Certain Tax Matters.

9.1. Generally. In the event Executive becomes entitled to receive the payments (the "Severance Payments") provided under Section 3 or Section 8 hereof or under any other plan or arrangement providing for payments under circumstances similar to those contemplated by such sections, and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to Executive at the time specified for such payments, an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise Tax payable on the payment provided for by this Section 9.

9.2. Illustration. For example, if the Severance Payments are $1,000,000 and if Executive is subject to the Excise Tax, then the Gross-Up Payment will be such that Executive will retain an amount of $1,000,000 less only any normal and ordinary taxes on such amount. The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this Section 9 will not be deemed normal and ordinary taxes.

9.3. Certain Terms. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(a) Any other payments or benefits received or to be received by Executive in connection with a Change in Control of the Company or Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company

shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax

counsel selected by the Company's Compensation Committee and acceptable to Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(b) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying subsection (a), above); and

(c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive on the Trigger Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes; and

(d) In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of determination then, subject to applicable law, appropriate adjustments will be made with respect to future payment(s) hereunder (if any). If Executive becomes entitled to a Gross-Up Payment in excess of the amount initially determined and paid under Section 9.1, the Company shall pay the additional Gross-Up Payment within five (5) business days of the date on which the Company is notified of the amount of the Gross-Up Payment, but only to the extent that the Gross-Up Payment would be made by the March 15 following the calendar year in which the Executive would be considered to have vested in the Gross-Up Payment for purposes of Section 409A. To the extent any Gross-Up Payment is greater than initially determined and paid under Section 9.1 and cannot be made by the March 15 following the end of the calendar year in which the Executive vests in such payment, then the Company shall instead make the payment promptly following the date on which the Executive remits the taxes to which the Gross-Up Payment relates to the applicable taxing authority, and in no event later than the last day of the calendar year following the calendar year in which such taxes are remitted; provided, however, that if the Executive is a key employee (within the meaning of Section 409A) and the Gross-Up Payment would be considered deferred compensation payable on account of Executive's separation from service (as defined in Section 409A), payment will in no event be made prior to 6 months after the date of Executive's separation from service.

9.4. Fees and Expenses. The Company shall reimburse Executive for all reasonable legal fees and expenses incurred by Executive in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code or any regulations pertaining thereto to any payment or benefit provided hereunder. Any expense reimbursements

made to satisfy the terms of this section shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to the Company (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any benefits under this paragraph shall not be subject to liquidation or exchange for another benefit.

10. Document Surrender. Upon the termination of Executive's employment for any reason, Executive shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

12. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper forum for adjudicating such a claim.

13. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842

Attention: Chairman

If to Executive, to:

His then current home address.

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

14. Contents of Agreement; Amendment and Assignment.

14.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto, including without limitation, the Initial Agreement which is hereby terminated. This Agreement cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

14.2. Executive may not assign any of his rights or obligations under this Agreement. The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of its assets or business by means of liquidation, dissolution, merger, consolidation, transfer of assets or otherwise.

15. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances. In addition, if any court determines that any part of Sections 5, 6 or 7 hereof is unenforceable because of its duration, geographical scope or otherwise, such court will have the power to modify such provision and, in its modified form, such provision will then be enforceable.

16. Remedies.

16.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

16.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

16.3. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by Executive and that the Company shall be entitled to specific performance and injunctive relief as remedies for any such breach, in addition to all other remedies available at law or equity to the Company.

17. Construction. This Agreement is the result of thoughtful negotiations and reflects an arms' length bargain between two sophisticated parties, each represented by counsel. The parties agree that, if this Agreement requires interpretation, neither party should be considered "the drafter" nor be entitled to any presumption that ambiguities are to be resolved in his or her favor.

18. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

19. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

20. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

21. Section 409A. This Agreement is intended to comply with the requirements of Section 409A and shall be construed accordingly. Any payments or distributions to be made to Employee under this Agreement upon a separation from service (as defined in Section 409A) of amounts classified as "nonqualified deferred compensation" for purposes of Code Section 409A, shall in no event be made or commence until 6 months after such separation from service. Each payment of nonqualified deferred compensation under this Agreement shall be treated as a separate payment for purposes of Code Section 409A. Any reimbursements made pursuant to this Agreement shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to Corporation (which payment date shall in no event be later than the last day of the calendar year following the calendar year in

which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any such benefits shall not be subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Peter M. Carlino
Name: Peter M. Carlino
Title: Chairman and Chief Executive Officer

EXECUTIVE

/s/ Jordan B. Savitch
Jordan B. Savitch

Exhibit A

SEPARATION AGREEMENT AND GENERAL RELEASE

This is a Separation Agreement and General Release (hereinafter referred to as the "Agreement") between (hereinafter referred to as the "Employee") and Penn National Gaming, Inc. (hereinafter referred to as the "Employer"). In consideration of the mutual promises and commitments made in this Agreement, and intending to be legally bound, Employee, on the one hand, and the Employer on the other hand, agree to the terms set forth in this Agreement.

1. Employer and Employee hereby acknowledge that [the Company notified Employee/Employee notified the Company on that Executive's employment pursuant to that certain Employment Agreement executed on ("Employment Agreement") would be terminated as of [ ]. Upon the termination of the Employment Agreement, Employee will be subject to the obligations and be the beneficiary of the surviving benefits, all as described in the Employment Agreement. Employee's last day of work will be .

2. (a) When used in this Agreement, the word "Releasees" means the Employer and all or any of its past and present parent, subsidiary and affiliated corporations, companies, partnerships, joint ventures and other entities and their groups, divisions, departments and units, and their past and present directors, trustees, officers, managers, partners, supervisors, employees, attorneys, agents and consultants, and their predecessors, successors and assigns.

(b) When used in this Agreement, the word "Claims" means each and every claim, complaint, cause of action, and grievance, whether known or unknown and whether fixed or contingent, and each and every promise, assurance, contract, representation, guarantee, warranty, right and commitment of any kind, whether known or unknown and whether fixed or contingent.

3. In consideration of the promises of the Employer set forth in this Agreement and the Employment Agreement, and intending to be legally bound, Employee hereby irrevocably remises, releases and forever discharges all Releasees of and from any and all Claims that he (on behalf of either himself or any other person or persons) ever had or now has against any and all of the Releasees, or which he (or his heirs, executors, administrators or assigns or any of them) hereafter can, shall or may have against any and all of the Releasees, for or by reason of any cause, matter, thing, occurrence or event whatsoever through the effective date of this Agreement. Employee acknowledges and agrees that the Claims released in this paragraph include, but are not limited to, (a) any and all Claims based on any law, statute or constitution or based on contract or in tort on common law, and (b) any and all Claims based on or arising under any civil rights laws, such as any Pennsylvania employment laws, or Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e et seq.), or the Federal Age Discrimination in Employment Act (29 U.S.C. § 621 et seq.) (hereinafter referred to as the "ADEA"), and (c) any and all Claims under any grievance or complaint procedure of any kind, and (d) any and all Claims based on or arising out of or related to his recruitment by, employment with, the termination of his employment with, his performance of any services in any capacity for, or any business transaction with, each or any of the Releasees. Employee also understands, that by signing this Agreement, he is waiving all Claims against any and all of the Releasees released by this Agreement; provided, however, that as set forth in section 7 (f) (1) (c) of the ADEA, as added by the Older Workers Benefit Protection Act of 1990, nothing in this Agreement constitutes or shall (i) be construed to constitute a waiver by Employee of any rights or claims that may arise after this Agreement is executed by Employee, or (ii) impair Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or any state agency or to participate in an investigation or proceeding conducted by the EEOC or any state agency.

4. In consideration of the promises of the Employee set forth in this Agreement and the Employment Agreement and intending to be legally bound, Employer hereby irrevocably remises, releases and forever discharges Employee and his heirs, successors and assigns from any and all Claims that the Employer ever had or now has though the effective date of this Agreement.

5. Employee and Employer covenant and agree not to sue each other or any of the Releasees for any Claims released by this Agreement and to waive any recovery related to any Claims covered by this Agreement.

6. Employee agrees to provide reasonable transition assistance to Employer (including without limitation assistance on regulatory matters, operational matters and in connection with litigation) for a period of one year from the execution of this Agreement at no additional cost; provided, such assistance shall not unreasonably interfere with Employee's pursuit of gainful employment or result in Employee not having a separation from service (as defined in Section 409A of the Internal Revenue Code of 1986). Any assistance beyond this period will be provided at a mutually agreed cost. Employee further agrees that he will return to the Employer all property in his possession, including, but not limited to, keys, identification cards and credit cards, files, records, publications, address lists and documents that belong to each or any of the Releasees. Such documents also include, without limitation, any documents created or made by Employee during his employment with the Employer.

7. Employee agrees that, except as specifically provided in this Agreement and the Employment Agreement, there are no compensation, benefits, or other payments due or owed to him by each or any of the Releasees.

8. Except where disclosure has been made by the Company pursuant to applicable federal or state law, rule or regulation, Employee agrees that the terms of this Agreement are confidential and that he will not disclose or publicize the terms of this Agreement and the amounts paid or agreed to be paid pursuant to this Agreement to any person or entity, except to his spouse, his attorney, his accountant, and to a government agency for the purpose of payment or collection of taxes or application for unemployment compensation benefits. Employee agrees that his disclosure of the terms of this Agreement to his spouse, his attorney and his accountant shall be conditioned upon his obtaining agreement from them, for the benefit of the Employer, not to disclose or publicize to any person or entity the terms of this Agreement and the amounts paid or agreed to be paid under this Agreement. Further, Employer and Employee agree not to make any false, misleading, defamatory or disparaging communications about the other party (including without limitation Employer's products, services, partners, investors or personnel) and to refrain from taking any action designed to harm the public perception of the other party or the Releasees. Employee further agrees that he has disclosed to Employer all information, if any, in his possession, custody or control related to any legal, compliance or regulatory obligations of Employer and any failures to meet such obligations.

9. The terms of this Agreement are not to be considered as an admission on behalf of either party. Neither this Agreement nor its terms shall be admissible as evidence of any liability or wrongdoing by each or any of the Releasees in any judicial, administrative or other proceeding now pending or hereafter instituted by any person or entity. The Employer is entering into this Agreement solely for the purpose of effectuating a mutually satisfactory separation of Employee's employment.

10. All provisions of this Agreement are severable and if any of them is determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

11. This Agreement shall be governed by and interpreted under and in accordance with the laws of Pennsylvania. Any suit, claim or cause of action arising under or related to this Agreement shall be submitted by the parties hereto to the exclusive jurisdiction of the courts of Pennsylvania or to the federal courts located therein if they otherwise have jurisdiction. The breach of any promise in this Agreement by any party shall not invalidate this Agreement or the release and shall not be a defense to the enforcement of the Agreement against any party.

12. This Agreement constitutes a complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, offer letters, negotiations, or discussions relating to the subject matter of this Agreement. With the exception of the Employment Agreement, no other agreement shall be binding upon each or any of the Releasees, including, but not limited to, any agreement made hereafter, unless in writing and signed by an officer of the Employer, and only such agreement shall be binding against the Employer.

13. Employee is advised, and acknowledges that he has been advised, to consult with an attorney before signing this Agreement.

14. Employee acknowledges that he is signing this Agreement voluntarily, with full knowledge of the nature and consequences of its terms.

15. All executed copies of this Agreement and photocopies thereof shall have the same force and effect and shall be as legally binding and enforceable as the original.

16. Employee acknowledges that he has been given up to twenty-one (21) days within which to consider this Agreement before signing it. Subject to paragraph 17 below, this Agreement will become effective on the date of Employee's signature hereof.

17. For a period of seven (7) calendar days following his signature of this Agreement, Employee may revoke the Agreement, and the Agreement shall not become effective or enforceable until the seven (7) day revocation period has expired. Employee may revoke this Agreement at any time within that seven (7) day period, by sending a written notice of revocation to the . Such written notice must be actually received by the Employer within that seven (7) day period in order to be valid. If a valid revocation is received within that seven (7) day period, this Agreement shall be null and void for all purposes. Payment of the severance pay amount set forth in the Employment Agreement will be paid in the manner and at the time(s) described in the Employment Agreement.

IN WITNESS WHEREOF, the Parties have read, understand and do voluntarily execute this Separation Agreement and General Release which consists of four pages.

EMPLOYER

By: _____

Date: _____

EMPLOYEE

_____

Date: _____

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into on this 31st day of December, 2008 (the "Commencement Date") by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and Robert S. Ippolito, an individual residing in Pennsylvania ("Executive").

WHEREAS, Executive and Company are party to that certain Employment Agreement dated June 10, 2005 (the "Existing Agreement").

WHEREAS, the parties wish to replace the Existing Agreement with the terms set forth below in this Agreement, which are intended to be in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A", see also Section 21 hereof).

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

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Vice President, Secretary and Treasurer of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the Chief Executive Officer and the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term. The term of this Agreement shall begin on the date hereof and shall terminate at the close of business on June 10, 2011 (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof. The term of this Agreement may be renewed for additional periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon the execution of a written renewal by the parties hereto. Notwithstanding the foregoing to the contrary, Sections 5 through 21 shall survive any termination of the Employment Term until the expiration of any applicable time periods set forth in Sections 5, 6 and 7.

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations, or providing oversight with respect to his personal investments, so long as such service does not materially interfere with Executive's duties hereunder.

2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of at least Two Hundred Eighty Nine Thousand Two Hundred Twenty Four Dollars ($289,224), payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any increase in Base Salary or other compensation shall be made at the discretion of the Board or the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses. Executive shall participate in the Company's annual incentive compensation plan applicable to Peer Executives. Each annual bonus award earned in a fiscal year shall be paid pursuant to the terms of the annual incentive plan document (if any) by March 15 of the immediately following fiscal year, unless the written bonus plan provides for a different payment date or unless Executive shall elect to defer the receipt of such bonus award pursuant to an arrangement that meets the requirements of Section 409A.

2.3. Equity Compensation. The Company may grant to Executive options or other equity compensation pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. The Compensation Committee shall set the amount and terms of such options or other equity compensation.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate.

2.5. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.6. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives. Such reimbursements shall be made in such manner and at such times as provided in the reimbursement policies applicable to Peer Executives.

2.7. Automobile. During the term of this Agreement, the Company shall provide Executive with an automobile of such make and model consistent with the Company's policy for its provision of automobiles to Peer Executives. The Company shall reimburse Executive for all expenses arising from or related to the maintenance, repair and daily operation of such automobile in carrying out Executive's duties hereunder, including but not limited to, fuel, service and insurance costs, provided that Executive presents vouchers evidencing such expenses as required by the Company.

2.8. Perquisites. The Company shall also continue to pay the premiums for all split dollar life insurance policies issued as of the date hereof and held by that certain irrevocable trust created by Executive.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(a) Without Cause. The Company may terminate Executive's employment at any time without Cause (as such term is defined in subsection (b) below) upon delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(b) With Cause. The Company may terminate Executive's employment at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any material Company policy or any material term hereof, including, without limitation, Sections 4 through 7 and, in each case, fails to cure such breach within 15 days after receipt of written notice thereof; or

(iv) Executive misappropriates corporate funds as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination).

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, Executive's employment shall terminate effective as of the date of Executive's death or disability. The term "disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Already Accrued Base Salary and Expense. Upon any termination of employment during the Employment Term, Executive shall be entitled to receive any amounts due for Base Salary accrued but unpaid through the effective date of termination, and such amounts shall be paid in accordance with the Company's then current payroll system for Peer Executives. Any expenses incurred but not reimbursed through the effective date of termination shall be paid at such time and in such manner as provided under the Company's expense reimbursement policy applicable to Peer Executives.

(b) Severance Pay and Benefits. Subject to the conditions in subsection (c) hereof, if Executive's employment is terminated under Section 3.1(a) or Section 3.3 or if Executive delivers a written notice of resignation within 30 days after the expiration of the Employment Term, the Company does not offer to renew the Employment Term during such 30-day period on terms no less favorable in the aggregate to the Executive than those contained herein and Executive thereupon terminates his employment at the end of such 30-day period, then Executive will be entitled to receive, and the Company will provide Executive with, the following severance pay and benefits (in addition to any amounts payable under subsection (a) hereof); provided, for purposes of Section 409A, each payment (whether an installment or lump sum) of severance pay under this subsection (b) shall be considered a separate payment:

(i) Amount of Post-Employment Base Salary and Bonus. The Company shall pay to Executive an amount equal to the product of (A) the sum of (1) Executive's monthly Base Salary at the highest rate in effect during the 24-month period immediately preceding the date of Executive's termination of employment (the "Termination Date"), and (2) Executive's monthly bonus value (determined by dividing by 12 the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Termination Date; and (B) the greater of (1) the number of full and partial months remaining in the Employment Term as of the Termination Date, and (2) 18 (with the period described in clause (B) hereof being referred to as the "Severance Period").

(i) (ii) Payment of Post-Employment Base Salary and Bonus. The amount described in subsection (b)(i) shall be paid to Executive in cash in two lump-sum payments as follows: (A) 75% of such amount shall be paid within 15 days after the Termination Date but no later than March 15 of the calendar year following the year in which this payment vests; and (B) the remaining 25% of such amount shall be paid in a lump sum by March 15 of the calendar year following the calendar year in which this payment vests.

(ii) (iii) Continued Medical Benefits Coverage. During the Severance Period, the Company shall provide Executive, and, if any, Executive's spouse and dependents with medical benefits coverage substantially similar to the coverage in effect on the effective date of termination. After the Severance Period, Executive and his dependents will have the opportunity under the provisions of the Consolidated Omnibus

Budget Reconciliation Act of 1986 ("COBRA") to elect COBRA continuation coverage. If elected in a timely manner, COBRA coverage generally will commence as of the first

day of the next calendar month after the end of the Severance Period and will end on the last day of the 18th month thereafter (unless an earlier end date or an extension is required under COBRA).

(iii) (iv) Vesting of Stock Options. All options granted to Executive that would have vested during the Severance Period shall vest as of the Termination Date, provided , however, that any such options may not be exercised during the Severance Period until the same time(s) as such options would have vested had Executive continued to be employed through the Severance Period. Any options that would not have vested during the Severance Period shall terminate on the Termination Date.

(c) Release Agreement. Executive's entitlement to any severance pay and benefit subsidies under Section 3(b) is conditioned upon Executive's first entering into a release agreement in substantially the form attached hereto as Exhibit "A"; provided, such release agreement shall be delivered to Executive within 7 days after the Termination Date. Any payment of severance pay or benefit subsidies due under subsection (b) hereof shall be delayed until after the expiration of the 7-day revocation period required for an effective age-based release, and any amount otherwise due under said subsection (b) before the end of such revocation period shall be paid upon the day after the end of such period in a single lump-sum payment, but not later than March 15 of the calendar year following the calendar year in which the Termination Date occurs.

(c) No Other Payments or Benefits. Except as otherwise provided in this Section 3.4, Section 8 or Section 9, no other payments or benefits shall be due under this Agreement to Executive

3.5. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment that would materially interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer

lists, and other business related information for the Company's customers). Executive agrees that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to: (i) the remainder of the Employment Term in effect on the effective date of termination if Executive resigns other than for Good Reason, or (ii) the Severance Period if Executive's employment is terminated for one of the events specified in Section 3.4(b). In the event the Executive is terminated by the Company for one of the events specified in Section 3.4(b), during the Severance Period Executive may elect to terminate the Restriction Period at any time by delivering written notice to the Company that Executive has made such election and that, in consideration therefore, is forfeiting the right to receive any payment or the right to receive any future payments under Section 3.4(b) or an equivalent amount under Section 8; provided however, if Executive elects to reduce the geographic limitation of this non-competition provision, and Executive has already received payment pursuant to Section 3.4(b) or an equivalent amount under Section 8, Executive shall reimburse the Company for that portion of the severance payments already received by Executive which relates to the number of days left in the Severance Period. For clarity, regardless of whether Executive shall receive payments pursuant to Section 3.4(b) or Section 8 of this Agreement in order to reduce the Restriction Period, Executive shall only be required to forfeit or re-pay the amounts that Executive would have received pursuant to Section 3.4(b). In that case, Executive may nevertheless receive payments and/or need not reimburse the Company for any amounts paid to Executive pursuant to Section 8 which are in excess of the payments and benefits that Executive would have been entitled to receive under Section 3.4(b). If Executive terminates his employment for good Reason, then Executive shall not be subject to the provisions of this Section 6.

(b) During Executive's employment by the Company and for the duration of the Restriction Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates, or is actively seeking to own or operate, a gaming or pari-mutuel located within North America.

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial

obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

(d) Executive acknowledges that the covenants contained in Sections 5 through 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and, in particular, that the duration and geographic scope of such covenants are reasonable given the nature of this Agreement and the position that Executive will hold within the Company. Executive further agrees to disclose the existence and terms of such covenants to any employer that Executive works for during the Restriction Period.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an executive or management employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control.

8.1. Consideration

(a) Change of Control. In the event of a Change of Control (as defined below), Executive shall be entitled to receive a cash payment in an amount equal to the product of three times the sum of (i) the highest annual rate of Base Salary in effect for Executive during the 24-month period immediately preceding the effective date of the Change in Control (the "Trigger Date") and (ii) the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Trigger Date.

(b) Restrictive Provisions. As consideration for the foregoing payments, Executive agrees not to challenge the enforceability of any of the restrictions contained in Sections 5, 6 or 7 of this Agreement upon or after the occurrence of a Change of Control.

8.2. Payment Terms. This change of control payment shall be made in two lump sum payments as follows: (i) 75% of such amount shall be paid to Executive in a lump-sum cash payment upon the Trigger Date; and (ii) 25% of such amount shall be paid to Executive in a lump-sum cash payment upon the 75th day following the Trigger Date, but not later than March 15 of the calendar year following the calendar year in which the Trigger Date occurs. Notwithstanding any of the foregoing to the contrary, the payment contemplated by clause (ii) shall be paid immediately upon the earlier occurrence of any of the following: (a) Executive's employment is terminated by the Company; or (b) Executive terminates employment for Good Reason (as defined below).

8.3. Certain Other Terms. In the event payments are being made to Executive under this Section 8, no payments shall be due under Section 3.4(b)(i) with respect to any termination of Executive's employment following a Change of Control. At the option of the Company, the

Company may require Executive to execute the release attached hereto as Exhibit A; provided, however, that this requirement shall not in any way alter the timing of the payments to be made under Section 8.2. In the event that the Company announces that it has signed a definitive agreement with respect to a Change of Control, the provisions of this Section 8 shall continue to apply to Executive if, during the period after the public announcement and immediately preceding the date such transaction is consummated or terminated, the Company terminates Executive's employment without Cause or due to a disability; provided, however, that, in such event, any amount payable under this Section 8 shall be reduced by any payments received pursuant to Section 3.4(b)(i).

8.4. Defined Terms.

(a) The term Change of Control shall have the meaning given to such term in the Company's 2008 Long Term Incentive Compensation Plan, as such may be amended or modified.

(b) Good Reason. The occurrence of any of the following events that the Company fails to cure within 10 days after receiving written notice thereof from Executive: (i) assignment to Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or inconsistent with Executive's legal or fiduciary obligations; (ii) any reduction in Executive's compensation or substantial reduction in Executive's benefits taken as a whole; (iii) any travel requirements materially greater than Executive's travel requirements prior to the Change of Control; or (iv) breach of any material term of this Agreement by the Company.

9. Certain Tax Matters.

9.1. Generally. In the event Executive becomes entitled to receive the payments (the "Severance Payments") provided under Section 3 or Section 8 hereof or under any other plan or arrangement providing for payments under circumstances similar to those contemplated by such sections, and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to Executive at the time specified for such payments, an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise Tax payable on the payment provided for by this Section 9.

9.2. Illustration. For example, if the Severance Payments are $1,000,000 and if Executive is subject to the Excise Tax, then the Gross-Up Payment will be such that Executive will retain an amount of $1,000,000 less only any normal and ordinary taxes on such amount. The Excise Tax and federal, state and local taxes and any Excise Tax on the payment provided by this Section 9 will not be deemed normal and ordinary taxes.

9.3. Certain Terms. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(a) Any other payments or benefits received or to be received by Executive in connection with a Change in Control of the Company or Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax counsel selected by the Company's Compensation Committee and acceptable to Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(b) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying subsection (a), above); and

(c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive on the Trigger Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes; and

(d) In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of determination then, subject to applicable law, appropriate adjustments will be made with respect to future payment(s) hereunder (if any). If Executive becomes entitled to a Gross-Up Payment in excess of the amount initially determined and paid under Section 9.1, the Company shall pay the additional Gross-Up Payment within five (5) business days of the date on which the Company is notified of the amount of the Gross-Up Payment, but only to the extent that the Gross-Up Payment would be made by the March 15 following the calendar year in which the Executive would be considered to have vested in the Gross-Up Payment for purposes of Section 409A. To the extent any Gross-Up Payment is greater than initially determined and paid under Section 9.1 and cannot be made by the March 15 following the end of the calendar year in which the Executive vests in such payment, then the Company shall instead make the payment promptly following the date on which the Executive remits the taxes to which the Gross-Up Payment relates to the applicable taxing authority, and in no event later than the last day of the calendar year following the calendar year in which such taxes are remitted; provided, however, that if the Executive is a key employee (within the meaning of Section 409A) and the Gross-Up Payment would be considered deferred compensation payable on account of Executive's

separation from service (as defined in Section 409A), payment will in no event be made prior to 6 months after the date of Executive's separation from service.

9.4. Fees and Expenses. The Company shall reimburse Executive for all reasonable legal fees and expenses incurred by Executive in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code or any regulations pertaining thereto to any payment or benefit provided hereunder. Any expense reimbursements made to satisfy the terms of this section shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to the Company (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any benefits under this paragraph shall not be subject to liquidation or exchange for another benefit.

10. Document Surrender. Upon the termination of Executive's employment for any reason, Executive shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

12. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper forum for adjudicating such a claim.

13. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile

(with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842

Attention: Chairman

If to Executive, to:

His then current home address.

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

14. Contents of Agreement; Amendment and Assignment.

14.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto, including without limitation, the Initial Agreement which is hereby terminated. This Agreement cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

14.2. Executive may not assign any of his rights or obligations under this Agreement. The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of its assets or business by means of liquidation, dissolution, merger, consolidation, transfer of assets or otherwise.

15. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances. In addition, if any court determines that any part of Sections 5, 6 or 7 hereof is unenforceable because of its duration, geographical scope or otherwise, such court will have the power to modify such provision and, in its modified form, such provision will then be enforceable.

16. Remedies.

16.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

16.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any

such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

16.3. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by Executive and that the Company shall be entitled to specific performance and injunctive relief as remedies for any such breach, in addition to all other remedies available at law or equity to the Company.

17. Construction. This Agreement is the result of thoughtful negotiations and reflects an arms' length bargain between two sophisticated parties, each represented by counsel. The parties agree that, if this Agreement requires interpretation, neither party should be considered "the drafter" nor be entitled to any presumption that ambiguities are to be resolved in his or her favor.

18. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

19. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental

rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

20. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

21. Section 409A. This Agreement is intended to comply with the requirements of Section 409A and shall be construed accordingly. Any payments or distributions to be made to Employee under this Agreement upon a separation from service (as defined in Section 409A) of amounts classified as "nonqualified deferred compensation" for purposes of Code Section 409A, shall in no event be made or commence until 6 months after such separation from service. Each payment of nonqualified deferred compensation under this Agreement shall be treated as a separate payment for purposes of Code Section 409A. Any reimbursements made pursuant to this Agreement shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to Corporation (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any such benefits shall not be subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Peter M. Carlino
Name: Peter M. Carlino
Title: Chairman and Chief Executive Officer

EXECUTIVE

/s/ Robert S. Ippolito
Robert S. Ippolito

Exhibit A

SEPARATION AGREEMENT AND GENERAL RELEASE

This is a Separation Agreement and General Release (hereinafter referred to as the "Agreement") between (hereinafter referred to as the "Employee") and Penn National Gaming, Inc. (hereinafter referred to as the "Employer"). In consideration of the mutual promises and commitments made in this Agreement, and intending to be legally bound, Employee, on the one hand, and the Employer on the other hand, agree to the terms set forth in this Agreement.

1. Employer and Employee hereby acknowledge that [the Company notified Employee/Employee notified the Company on that Executive's employment pursuant to that certain Employment Agreement executed on ("Employment Agreement") would be terminated as of [ ]. Upon the termination of the Employment Agreement, Employee will be subject to the obligations and be the beneficiary of the surviving benefits, all as described in the Employment Agreement. Employee's last day of work will be .

2. (a) When used in this Agreement, the word "Releasees" means the Employer and all or any of its past and present parent, subsidiary and affiliated corporations, companies, partnerships, joint ventures and other entities and their groups, divisions, departments and units, and their past and present directors, trustees, officers, managers, partners, supervisors, employees, attorneys, agents and consultants, and their predecessors, successors and assigns.

(b) When used in this Agreement, the word "Claims" means each and every claim, complaint, cause of action, and grievance, whether known or unknown and whether fixed or contingent, and each and every promise, assurance, contract, representation, guarantee, warranty, right and commitment of any kind, whether known or unknown and whether fixed or contingent.

3. In consideration of the promises of the Employer set forth in this Agreement and the Employment Agreement, and intending to be legally bound, Employee hereby irrevocably remises, releases and forever discharges all Releasees of and from any and all Claims that he (on behalf of either himself or any other person or persons) ever had or now has against any and all of the Releasees, or which he (or his heirs, executors, administrators or assigns or any of them) hereafter can, shall or may have against any and all of the Releasees, for or by reason of any cause, matter, thing, occurrence or event whatsoever through the effective date of this Agreement. Employee acknowledges and agrees that the Claims released in this paragraph include, but are not limited to, (a) any and all Claims based on any law, statute or constitution or based on contract or in tort on common law, and (b) any and all Claims based on or arising under any civil rights laws, such as any Pennsylvania employment laws, or Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e et seq.), or the

Federal Age Discrimination in Employment Act (29 U.S.C. § 621 et seq.) (hereinafter referred to as the "ADEA"), and (c) any and all Claims under any grievance or complaint procedure of any kind, and (d) any and all Claims based on or arising out of or related to his recruitment by, employment with, the termination of his employment with, his performance of any services in any capacity for, or any business transaction with, each or any of the Releasees. Employee also understands, that by signing this Agreement, he is waiving all Claims against any and all of the Releasees released by this Agreement; provided, however, that as set forth in section 7 (f) (1) (c) of the ADEA, as added by the Older Workers Benefit Protection Act of 1990, nothing in this Agreement constitutes or shall (i) be construed to constitute a waiver by Employee of any rights or claims that may arise after this Agreement is executed by Employee, or (ii) impair Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or any state agency or to participate in an investigation or proceeding conducted by the EEOC or any state agency.

4. In consideration of the promises of the Employee set forth in this Agreement and the Employment Agreement and intending to be legally bound, Employer hereby irrevocably remises, releases and forever discharges Employee and his heirs, successors and assigns from any and all Claims that the Employer ever had or now has though the effective date of this Agreement.

5. Employee and Employer covenant and agree not to sue each other or any of the Releasees for any Claims released by this Agreement and to waive any recovery related to any Claims covered by this Agreement.

6. Employee agrees to provide reasonable transition assistance to Employer (including without limitation assistance on regulatory matters, operational matters and in connection with litigation) for a period of one year from the execution of this Agreement at no additional cost; provided, such assistance shall not unreasonably interfere with Employee's pursuit of gainful employment or result in Employee not having a separation from service (as defined in Section 409A of the Internal Revenue Code of 1986). Any assistance beyond this period will be provided at a mutually agreed cost. Employee further agrees that he will return to the Employer all property in his possession, including, but not limited to, keys, identification cards and credit cards, files, records, publications, address lists and documents that belong to each or any of the Releasees. Such documents also include, without limitation, any documents created or made by Employee during his employment with the Employer.

7. Employee agrees that, except as specifically provided in this Agreement and the Employment Agreement, there are no compensation, benefits, or other payments due or owed to him by each or any of the Releasees.

8. Except where disclosure has been made by the Company pursuant to applicable federal or state law, rule or regulation, Employee agrees that the terms of this Agreement are confidential and that he will not disclose or publicize the terms of this Agreement and the amounts paid or agreed to be paid pursuant to this Agreement to any person or entity, except to his spouse, his attorney, his accountant, and to a government agency for the purpose of payment or collection of taxes or application for unemployment compensation benefits. Employee agrees that his disclosure of the terms of this Agreement to his spouse, his attorney and his accountant shall be conditioned upon his obtaining agreement from them, for the benefit of the Employer, not to disclose or publicize to any person or entity the terms of this Agreement and the amounts paid or agreed to be paid under this Agreement. Further, Employer and Employee agree not to make any false, misleading, defamatory or disparaging communications about the other party (including without limitation Employer's products, services, partners, investors or personnel) and to refrain from taking any action designed to harm the public perception of the other party or the Releasees. Employee further agrees that he has disclosed to Employer all information, if any, in his possession, custody or control related to any legal, compliance or regulatory obligations of Employer and any failures to meet such obligations.

9. The terms of this Agreement are not to be considered as an admission on behalf of either party. Neither this Agreement nor its terms shall be admissible as evidence of any liability or wrongdoing by each or any of the Releasees in any judicial, administrative or other proceeding now pending or hereafter instituted by any person or entity. The Employer is entering into this Agreement solely for the purpose of effectuating a mutually satisfactory separation of Employee's employment.

10. All provisions of this Agreement are severable and if any of them is determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

11. This Agreement shall be governed by and interpreted under and in accordance with the laws of Pennsylvania. Any suit, claim or cause of action arising under or related to this Agreement shall be submitted by the parties hereto to the exclusive jurisdiction of the courts of Pennsylvania or to the federal courts located therein if they otherwise have jurisdiction. The breach of any promise in this Agreement by any party shall not invalidate this Agreement or the release and shall not be a defense to the enforcement of the Agreement against any party.

12. This Agreement constitutes a complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, offer letters, negotiations, or discussions relating to the subject matter of this Agreement. With the exception of the Employment Agreement, no other agreement shall be binding upon each or any of the Releasees, including, but not limited to, any agreement made hereafter, unless in writing and signed by an officer of the Employer, and only such agreement shall be binding against the Employer.

13. Employee is advised, and acknowledges that he has been advised, to consult with an attorney before signing this Agreement.

14. Employee acknowledges that he is signing this Agreement voluntarily, with full knowledge of the nature and consequences of its terms.

15. All executed copies of this Agreement and photocopies thereof shall have the same force and effect and shall be as legally binding and enforceable as the original.

16. Employee acknowledges that he has been given up to twenty-one (21) days within which to consider this Agreement before signing it. Subject to paragraph 17 below, this Agreement will become effective on the date of Employee's signature hereof.

17. For a period of seven (7) calendar days following his signature of this Agreement, Employee may revoke the Agreement, and the Agreement shall not become effective or enforceable until the seven (7) day revocation period has expired. Employee may revoke this Agreement at any time within that seven (7) day period, by sending a written notice of revocation to the . Such written notice must be actually received by the Employer within that seven (7) day period in order to be valid. If a valid revocation is received within that seven (7) day period, this Agreement shall be null and void for all purposes. Payment of the severance pay amount set forth in the Employment Agreement will be paid in the manner and at the time(s) described in the Employment Agreement.

IN WITNESS WHEREOF, the Parties have read, understand and do voluntarily execute this Separation Agreement and General Release which consists of four pages.

EMPLOYER	EMPLOYEE
By: _____	_____
Date: _____	Date: _____

CONFIDENTIAL

Exhibit 10.16

AGREEMENT

THIS AGREEMENT, made and entered into this 20th day of February, 2009, by and between **PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY,** a West Virginia Limited Liability Company (hereinafter "Charles Town Races"), and **CHARLES TOWN HBPA, INC.,** a West Virginia not-for-profit corporation (hereinafter "HBPA").

W I T N E S S E T H:

WHEREAS, Charles Town Races is licensed by the West Virginia Racing Commission, pursuant to Chapter 19, Article 23-1, et seq., of the West Virginia Code, to conduct live thoroughbred horse racing with pari-mutuel wagering and, in accordance with that licensure, Charles Town Races owns and operates a thoroughbred racing facility under the trade name Charles Town Races (hereinafter the physical facility will be referred to as the "Racetrack"); and

WHEREAS, the HBPA is an Association comprised of owners, trainers and owner-trainers (the "members") of thoroughbred racing horses; and

WHEREAS, the HBPA provides benevolent programs and other services for its members and their employees who are engaged in live thoroughbred racing at the Racetrack; and

WHEREAS, Charles Town Races and the HBPA validly extended the prior Agreement between the parties through February 28, 2009 and cooperatively worked toward a new agreement; and

WHEREAS, the parties desire to reaffirm their mutual interest in the promotion, preservation, and enhancement of live thoroughbred racing at the Racetrack; and

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WHEREAS, the parties hereto reaffirm their support for quality live thoroughbred racing activities and reaffirm their desire for the promotion of such activities in the State of West Virginia; and

WHEREAS, Charles Town Races acknowledges that the HBPA is the exclusive bargaining agent and representative of its members, as certified by the West Virginia Racing Commission. Charles Town Races shall only negotiate with the exclusive bargaining agent and representatives of the Horsemen as certified by the West Virginia Racing Commission during the term of this Agreement and any amendments thereto or any Agreement which shall supersede this Agreement for the provision of services in connection with live thoroughbred racing activities, safety and back stretch conditions; and

WHEREAS, the parties hereto desire to memorialize and set forth in writing the contractual agreements by and between Charles Town Races and the HBPA concerning live thoroughbred racing at the Racetrack.

NOW, THEREFORE, in consideration of the promises and the mutual covenants contained herein, the parties desire to be legally bound, do agree as follows:

1. **Term of Agreement.** This Agreement shall become effective as of March 1, 2009, and shall remain in full force and effect until December 31, 2011 (the " Initial Term"). At the end of the Initial Term, the term of this Agreement shall automatically be extended under the same terms and conditions for a period of one (1) year (hereinafter the "First Extension Term") unless either party shall give notice to the other party, in writing, of its intent to terminate the Agreement not later than September 30, 2011. At the end of the First Extension Term, the term of the Agreement shall automatically be extended under the same terms and conditions for a period of an additional one (1) year (hereinafter the

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"Second Extension Term"), unless either party shall give notice to the other party, in writing, of its intent to terminate the Agreement not later than September 30, 2012.

Notwithstanding the term of this Agreement or anything else in this Agreement to the contrary, in the event of a cessation of Video Lottery activity at Charles Town Races for any reason, the obligations of the parties under this Agreement are suspended for such period of inactivity. For clarity, neither Charles Town Races nor any of its affiliates shall be responsible for any expenses or lost profits of the HBPA or its members during any such period of inactivity.

2. **Exclusive Representation.** The HBPA is currently recognized by the West Virginia Racing Commission as the duly qualified and exclusive representative of the owners, trainers, and owner-trainers of live thoroughbred horse racing at the Racetrack as certified by the West Virginia Racing Commission. Charles Town Races shall only negotiate with the exclusive bargaining agent and representative of the Horsemen as certified by the West Virginia Racing Commission. Any negotiation or discussion of the terms and provisions of this Agreement, or any amendment thereto, or any Agreement which shall supersede the terms and provisions of this Agreement with any person, entity or representative of an entity that is not the exclusive bargaining agent and representative of the Horsemen, as certified by the West Virginia Racing Commission, shall constitute a breach of this Agreement.

Charles Town Races agrees that it shall negotiate with and conduct any and all business which is the subject of this Agreement and any matters reasonably related to any provision of this Agreement with the duly elected officers of the HBPA or their duly designated representatives.

The HBPA agrees that it shall provide to Charles Town Races, in writing, on an annual basis, the name and address of each and every duly elected member of the Board of Directors, the name and address of each duly elected officer of the HBPA who shall have the authority to negotiate with the Charles Town Races, and the name and address of each representative duly designated by the Board of Directors of the HBPA to negotiate on its behalf.

3. **Racing Schedule.** During the term of this Agreement, Charles Town Races shall request a license each year from the West Virginia Racing Commission to conduct racing, and in fact conduct racing, for not less than the minimum number of days required by the West Virginia Code, which is currently two hundred twenty (220) days per year. Charles Town Races shall provide a copy of its Annual License Application filed with the West Virginia Racing Commission to the HBPA within three (3) days of the date of its filing. Notwithstanding the first sentence of this paragraph, it is understood and agreed that, subject to receiving approval from the West Virginia Racing Commission, Charles Town Races shall schedule a total of 235 racing days, with not less than 9 races per racing day, during each year of this Agreement. Any reduction in race days below 235 shall be subject to the prior approval of the HBPA, which shall not be unreasonably withheld or unduly delayed, and the West Virginia Racing Commission In the event racing days are cancelled due to weather, track conditions, unavailability of horses or any other reason beyond the reasonable control of Charles Town Races, any such cancellation and the fact that 235 racing days are not held, shall not be considered a breach of this Agreement.

Charles Town Races shall reschedule such race day and provide notice to the HBPA of the rescheduled date as soon as practicable.

Charles Town Races agrees that it will not discontinue racing for a period of more than one (1) three (3) week period in any calendar year, unless agreed upon by the HBPA, except in the event of an act of God or other catastrophe, or conditions beyond the reasonable control of Charles Town Races.

4. Minimum Purse and Purse Scheduling.

A. **Minimum Daily Purses.** With respect to the daily minimum purse distribution, Charles Town Races shall make reasonable efforts to maintain a ratio of the then current minimum daily purse schedule for a given month to the then current amount generated for daily purses for that month that is equal to the historical ratio of One Hundred Twenty-Five Thousand Dollars ($125,000) to the average daily amount generated for purses between January 1, 2005 and December 31, 2008.

It is mutually agreed that, as far as possible and consistent with the foregoing, the principle of “better purse for better horses” shall be followed in establishing the purse payable for any one race. Charles Town Races further agrees that, if necessary, better purses will be reduced to maintain minimum purse schedules.

Notwithstanding anything in this Agreement to the contrary, it is understood and agreed that the funding of purses shall be solely in accordance with applicable provisions of W.Va. Code §19-23-1, et seq., Horse and Dog Racing; W.Va. Code §29-22-A-1, et seq., The Racetrack Video Lottery Act; W.Va. Code 29-22C-1, West Virginia Lottery Table Games Act, and any such further legislation that may be enacted which provides for the payment of monies into the purse fund as more fully provided for in Section 7 of this Agreement, and that Charles Town Races shall not be required to otherwise fund the payment of purses.

Except as provided below with respect to Stake Races, Charles Town agrees to pay one hundred dollars ($100.00) to the owner’s account for horses finishing in places seven through ten which shall be paid from the purse fund.

B. **Purse Schedule Distribution.** Charles Town Races and HBPA will establish and publish a purse schedule distribution, which shall show the purse distribution planned for various classes of horses at various distances. Such schedule shall be updated as necessary. Said schedule with any amendments thereto shall be posted in the Racing Secretary’s office and the Condition Book. In the event of a purse schedule distribution decrease, the purses for bottom claiming races shall not be reduced unless the purses for all races are also reduced (though not necessarily by the same percentage).

C. **Stakes Schedule.** Each year purses for Stake races shall not exceed, in the aggregate, eight percent (8%) of the total purses paid, from the purse account, in the immediately preceding calendar year excluding the amounts paid for stake races and amounts received for sponsorship of races unless otherwise authorized by the HBPA. Charles Town Races shall determine the number of and purses for stake races and submit the stakes schedule to HBPA for written comment prior to submission of the stakes schedule to the West Virginia Racing Commission.

D. Charles Town Races agrees to pay purses for Stakes Races back through not less than five (5) places.

E. It is understood by both parties that purse schedules shall not be in conflict with the rules of racing of the West Virginia Racing Commission as presently constituted or as may be reconstituted..

F. **West Virginia Accredited Races.** Charles Town Races shall include in its Condition Book a minimum of two (2) races on every live racing day devoted exclusively for

West Virginia accredited horses unless sufficient horses and purse funds are not available therefore, in accordance with the requirements of the West Virginia Racing Commission pursuant to the provisions of §19-23-13(b) of the West Virginia Code. Races devoted exclusively for West Virginia accredited horses shall be run if no less than seven (7) betting interests have been entered therein.

5. **Purse Funds.**

A. During the term of this Agreement, Charles Town Races shall allocate and pay purse moneys as required by applicable state law

B. In the event any Underpayment Money exists in the purse account at the end of any calendar year, then said Underpayment Money shall be added to the sum available for the payment of purses for the next year.

C. This is the Agreement regarding the proceeds from video lottery terminals as provided in West Virginia Code §29-22A-7(a) (6).

6. **Simulcasting.** Charles Town Races shall conduct simulcasting, both import and export, in accordance with applicable provisions of State and Federal Law, including the West Virginia Horse Racing Statute, §19-23-1 et seq, and the Interstate Horseracing Act of 1978, as amended, 15 U.S.C. §3001, et seq.

With respect to obtaining the approval of the HBPA of each simulcast contract, Charles Town Races shall make commercially reasonable efforts to get either the proposed contract or a summary of the principal terms of the contract, including the name and location of the entity, any secondary recipients of said entity for exports, commission rates charged to, for exports, or from, for imports, the simulcast entity and the term of the contract to the HBPA for its review and approval not less than fifteen

(15) days prior to the commencement date of the contract. The HBPA shall have seventy-two (72) hours from receipt of the proposed contracts to either approve or disapprove. The HBPA agrees not to unreasonably withhold or unduly delay its approval of simulcast contracts and, in the event it elects to disapprove a contract, to promptly support its disapproval with the detailed written reasons therefore. Charles Town Races shall provide the HBPA with copies of any contract for which it has provided the HBPA a summary of contract terms, within two days of receipt.

To enable the HBPA to verify receipts for simulcasting, commissions retained or deducted, costs of transmission, taxes paid and payments into the purse fund, Charles Town Races shall provide the HBPA with copies of any and all documentation within its possession or under its control or which it is able to obtain by written request, reflecting such payments and expenses.

7. **Revenue from Off-Track Betting, Telephone Wagering, Table Gaming, or any other form of Gaming.** In the event additional revenue or payments from telephone wagering, off-track betting, table gaming, or any other form of gaming of any kind or nature is available as a result of legislation, the percentage distribution as set forth in the legislation shall determine the party's interest in such additional revenue. In the event there is no division of revenue in the statutory legislation, the parties agree to negotiate in good faith whether a division of revenue is to occur and if so, the amount thereof.

8. **Condition Book.** The HBPA shall create a condition book committee which shall be comprised of not less than three nor more than five individuals, being trainers and owners who are actively racing a cross section of thoroughbred horses at Charles Town Races ("the HBPA Condition Book Committee"). Charles Town Races

will provide the HBPA Condition Book Committee with a draft copy of each Condition Book not less than five days prior to the printing date and the HBPA Condition Book Committee shall have three days from receipt to review and provide its recommendations to the Charles Town Races Racing Secretary for inclusion in the Charles Town Races Condition Book. Charles Town Races promises to give good faith consideration and not unreasonably refuse the recommendations of the HBPA Condition Book Committee. However, the decision of Charles Town Races with respect to the contents of the Condition Books shall be final and unappealable.

9. **Horsemen's Bookkeeper.** A Horsemen's Bookkeeper shall be employed by Charles Town Races and shall be subject to the policies generally applicable to Charles Town Races' employees. The Horsemen's Bookkeeper shall perform those functions set forth from time to time by statute and the West Virginia Rules of Racing, and Charles Town Races shall provide such equipment as shall be reasonably necessary for the performance of the Horsemen's Bookkeeper's statutory duties.

10. **Segregated Bank Accounts.** The following bank accounts shall be maintained by Charles Town Races in a bank approved by the West Virginia Racing Commission. Currently, the approved bank is United Bank.

A. **Purse Account.** Charles Town Races shall establish and maintain a separate overnight investment account and a separate checking account into which all monies received for the future payment of purses are to be deposited. All disbursements from these accounts shall be solely for the payment of earned purses and such other disbursements as may be authorized by law or as otherwise directed by the West Virginia Racing Commission. All interest earned on this Purse Account shall be added to the funds available for the payment of purses. These accounts shall be subject to inspection and

audit by the Racing Commission at any time. The HBPA shall also be permitted to review these accounts upon request during normal business hours.

B. **Horsemen's Trust Accounts.** Charles Town Races shall establish and maintain a separate investment account (the "Horsemen's Investment Account") and a separate checking account (the "Horsemen's Daily Account") (collectively hereafter the "Horsemen's Trust Accounts") into which the Horsemen's Bookkeeper shall receive, maintain and disburse the purses of each race and all stakes, entrance money, jockey fees, purchase money in claiming races, along with all applicable taxes and other monies that properly come into the Horsemen's Bookkeepers' possession in accordance with the provisions of the Racing Commission Rules.

All of the funds in Horsemen's Trust Accounts are recognized as being trust funds held for the benefit of all of the respective account owners, as reflected by the records maintained by the Horsemen's Bookkeeper.

Charles Town Races agrees to transfer from the Purse Account and deposit into the Horsemen's Daily Account the full amount of daily earned purses within two (2) business days. Purse winnings will be posted within two (2) business days and made available to the earners thereof when the race results are declared official, i.e. once drug test results have been received; provided further, however, that in the event of any dispute as to the result of a race due to a drug test or other regulatory inquiry, the purse money shall not be made available to the earners thereof until there has been a final non-appealable resolution thereof by the Charles Town Races Stewards, the West Virginia Racing Commission, or a court of competent jurisdiction, as the case may be.

The Horsemen's Bookkeeper will deduct from the owner ledger accounts, jockey fees, pony fees, track lasix fees, nomination fees, entry fees, starting fees, photographs,

veterinary lasix charges, and sales tax on claiming amounts. No other deductions shall be made by the Horsemen's Bookkeeper unless requested in writing by the person, persons or entities to whom such monies are payable, or to his, her or its duly authorized representative, or as required by order of the Charles Town Races Stewards, the West Virginia Racing Commission, or a court of competent jurisdiction. Notwithstanding the preceding clause, nothing herein shall be construed as requiring the Horsemen's Bookkeeper to provide personal accounting services to any horseman and/or the payment of any expenses of any horsemen not contemplated by the provision of this paragraph, even if authorized in writing.

The Horsemen's Trust Accounts shall be subject to inspection by the Racing Commission at any time and may be examined by the President of the HBPA or his or her duly designated representative at the offices of Charles Town Races at such reasonable time or times as shall be determined upon the mutual agreement of Charles Town Races and the HBPA. Such consent shall not be unreasonably withheld.

The interest earned on monies invested in the Horsemen's Investment Account will be transferred to the Horsemen's Daily Account and paid to a joint account to be set up by the HBPA Welfare Benefit Trust and the HBPA as more fully set forth in a written agreement between the HBPA and the Charles Town Welfare Benefit Trust , a copy of which will be provided to Charles Town Races. The HBPA and the HBPA Welfare Benefit Trust shall jointly establish a bank account dedicated to the receipt of the funds paid by Charles Town Races pursuant to this section and divide the money between them pursuant to that agreement..

11. **Racing Committee.**

Charles Town Races and the HBPA shall organize and maintain a joint committee (hereinafter the "Racing Committee") to address issues related to and associated with live thoroughbred racing at the Racetrack. The HBPA and Charles Town shall each appoint three (3) representatives to the Racing Committee. This Committee shall meet at the request of any member of the Racing Committee. The Racing Committee shall have no authority to alter the terms and conditions of this Agreement.

12. **Stalls.**

A. Charles Town Races shall make available a minimum of 1,148 stalls, free of charge, to Horsemen each race meeting. It is recognized by both parties that effective stall utilization is important to Charles Town Races management and that equitable allocation is essential to the livelihood of Horsemen. During the Initial Term of this Agreement, Charles Town Races agrees that it will not tear down or demolish the existing Charles Town stalls unless required to do so as a result of governmental order or an act of God beyond the reasonable control of Charles Town Races.

B. Charles Town Races shall not discriminate in the allocation of stalls by reason of HBPA membership or activity or condone its representatives or employees discriminating in the allocation of stalls. Subject to this limitation, the allocation of stalls shall be in the discretion of Charles Town Races.

C. Charles Town Races shall establish a cut-off date for stall applications. Charles Town Races shall make every effort to provide Horsemen with five (5) days prior notice of the acceptance or rejection of stall applications and may demand immediate confirmation from the Horsemen of their intent to use allotted stalls.

D. The terms and conditions for all stall applications shall be determined by and set forth in an application by Charles Town Races. Charles Town Races shall send to the

HBPA, not later than ten (10) days prior to the first day of each Race Meeting, a copy of its current Stall Application Agreement.

E. Charles Town Races agrees to provide the stall and shed row area with proper fill within a reasonable time period, upon written request of HBPA.

13. **Barn Area.**

A. The Barn area will be available to Horsemen at all times and the Racetrack will be available to Horsemen during scheduled training times (including scheduled training times during the period racing is discontinued).

B. The HBPA recognizes an obligation of Horsemen and backside personnel to maintain the stable area in a sanitary condition, free from litter and other foreign objects. HBPA will use its best efforts to ensure that Horsemen and their employees fulfill their obligations in this regard. Horse washing will only be permitted in certain areas designated by Charles Town Races for such purposes, which is consistent with the Rules of the West Virginia

Department of Environment Protection. Charles Town Races retains its right to discipline (including removal) Horsemen or their employees who fail to obey Charles Town Races' published rules and regulations.

C. Charles Town Races shall maintain all barn area restroom facilities in a safe and healthy environment.

D. During winter months, Charles Town Races agrees to maintain both main roads leading to and from the Racetrack, between all barns and all Horsemen parking lots, for both training and racing purposes. Charles Town Races further agrees to make necessary repairs to the backside and stall areas as Charles Town Races considers appropriate giving consideration to any input provided by the HBPA.

E. Charles Town Races agrees to remove all manure from the barn area at no cost to the Horsemen.

F. Charles Town Races, in conjunction with the HBPA, shall establish Barn Area Rules and Regulations for the purpose of promoting safety and security on the backstretch, which shall remain in full force and effect and shall be binding upon the parties pursuant to their own terms and provisions during the term or terms of these agreements. Charles Town Races agrees to provide a copy of barn area rules to the HBPA and post the rules in the Track kitchen.

14. **Racing Surfaces.**

A. The Track Surface Committee, consisting of two Horsemen, two jockeys (appointed by their respective associations), the Charles Town Races' Superintendent, at least one steward, and a representative of Charles Town Races, shall meet pursuant to a published schedule to assess track surface conditions. Charles Town Races shall maintain the Racetrack as it determines to be appropriate giving consideration to input provided by the Track Surface Committee.

B. Trainers shall have the right to enter onto the Racetrack for the purpose of determining the safety of the racing surface.

15. **Racetrack Facilities.** The racing strip, the barns, and related backside facilities at the Racetrack (collectively known as the "backside facilities") necessary for training purposes shall be made available by Charles Town Races without charge to Horsemen who have horses training for the immediate upcoming live race meet. Charles Town Races will, at its own expense, make water, hot water, tack room heating, and electricity available to each barn in use and keep the racing surface harrowed and watered.

The racing strip, barns, tack rooms and other facilities of Charles Town Races useful for training purposes, shall be made available for Horsemen without charge. Charles Town Races agrees that these facilities shall be made available to Horsemen during reasonable hours for training purposes, subject to weather conditions.

At least thirty (30) days written notice shall be given to the HBPA of any intended shut-down of the Racetrack. Included with such notice shall be the date of closing, the date of re-opening, and any plans concerning the availability of stalls in the stable area during the shutdown. The notice period shall be calculated from the last scheduled race meeting day of the then current race meeting.

16. **Training Facility.** The track surface of the Training Facility shall be the same as the track surface on the Charles Town track. There shall be a chute with a small starting gate together with a necessary crew of not less than three (3) individuals for training purposes only as well as a warning system for loose horses. An outrider during training hours, a general shack for trainers and proper guards to manage the facility shall likewise be provided. Charles Town agrees to provide the HBPA's consultant with a copy of the design plans for review.

17. **Training Track Gate.** Charles Town Races agrees to allow ingress and egress to the training track, main track and barn area of horses on foot through a gate to be constructed on the Northwest side of 5th Avenue ("the Training Track Gate"), subject to the following conditions:

a) the HBPA will reimburse Charles Town Races its actual cost of constructing and installing the gate and constructing and outfitting a guard shack at the Training Track Gate. Charles Town Races will provide the HBPA with a detailed accounting of its costs associated with the construction and outfitting of the guard shack

and the HBPA will reimburse Charles Town Races within fifteen (15) days of receipt of such accounting;

b) the HBPA shall reimburse Charles Town Races each calendar quarter its costs of operating the Training Track Gate including, but not limited to, Charles Town Races labor costs to man the Training Track Gate, and for maintenance, repair and replacement of the guard shack and equipment. Charles Town Races will provide the HBPA with a detailed accounting of all operating costs for which it seeks reimbursement;

c) ingress and egress through the Training Track Gate may only take place during training hours and such other times as may be specified by Charles Town Races;

d) ingress and egress shall be subject to reasonable policies and procedures established by Charles Town Races and provided to the HBPA in writing which are designed to ensure the biosecurity of the track, enforce the health certificate and Coggins rules of the State of West Virginia, and

e) initial and continuing approval of the West Virginia Department of Agriculture and/or any other governmental agency having jurisdiction over Charles Town Races, of the use of the Training Track Gate and the policies and procedures in place. In the event the West Virginia Department of Agriculture and/or any other governmental agency having jurisdiction over Charles Town Races, disapproves of the use of the Training Track Gate, the parties shall use their reasonable efforts to promptly obtain such approval and shall implement such procedures as may be required to keep the training gate open during the approval process.

18. **Racetrack Kitchen.** Charles Town Races has constructed a new Racetrack kitchen which has received the approval of the HBPA and which includes a seating area, for use by the Horsemen. Charles Town Races shall continue to provide and not reduce the size of the Racetrack kitchen during the Term of this Agreement. The Racetrack kitchen shall continue to be equipped with customary fixtures and equipment for the operation of a food service operation of its type. It is understood and agreed that the space provided for the Racetrack kitchen and the fixtures and equipment shall be provided by Charles Town Races at no cost to the HBPA or the operator of the kitchen. The HBPA shall be permitted to select an operator of its choice to provide provisions and prepare food, subject to the approval of Charles Town Races which shall not be unreasonably withheld or unduly delayed. The Racetrack kitchen must be operated in compliance with all health, sanitation and regulatory requirements for the legal and safe operation of the Racetrack kitchen. The operator selected by the HBPA shall be required to have general liability and personal injury insurance coverage in amounts customarily required of similarly situated vendors conducting business on Charles Town Races' property. Evidence of such coverage shall be provided and the operator shall be required to name Charles Town Races and the HBPA as an additional insured on such policy(ies).

19 **Paddock Blacksmith.** Charles Town Races shall provide a paddock blacksmith to be available in the paddock for each and every race day.

20. **HBPA Amenities.**

A. Charles Town Races shall provide one (1) grandstand box with twelve (12) seats available to Horsemen on each racing day.

B. Charles Town Races shall provide parking consisting of seventy-five (75) spaces designated for trainers only.

C. Charles Town Races shall provide seventy-five (75) parking spaces for owners.

D. Charles Town Races shall provide the HBPA with at least two hundred (200) programs each racing day during the week and three hundred (300) programs on each racing day that falls on a Saturday, Sunday, or holiday at an agreed upon location.

21. **Other Agreements.** The parties shall also use their best efforts to address and resolve in a timely and expeditious manner the following matters of mutual concern to the parties:

A. Rodent and pest control and eradication.

B. Uniform rules and regulations concerning the operation of all vending or concession enterprises in the stable area.

C. Creation and continuing maintenance of a common fund for the payment of rewards for information leading to a conviction for theft, conversion, or malicious destruction of personal property belonging to Horsemen or their employees, Charles Town Races or its employees, and the general public.

22 **Racing Officials.** Charles Town Races shall mail the President of the HBPA a written list of the persons appointed by Charles Town Races to serve as racing officials during any race meeting on the same date that it submits said list to the West Virginia Racing Commission in accordance with the provisions of the West Virginia Rules of Racing.

23. **HBPA Administrative Fund.** In accordance with Chapter 19, Article 23, Section 9(b) (1) of the West Virginia Code, Charles Town Races agrees to pay to HBPA during the term of this Agreement an amount equal to two percent (2%) of regular purses actually paid during the preceding month from the special fund required by this section, i.e.,

"purse account", (excluding, however, all purses funded from sources other than the purse account, including by way of example and not limitation accredited stakes races and other sponsored races, and as may be otherwise excluded by applicable law) to be divided between the HBPA Welfare Benefit Trust for backstretch personnel and the HBPA for administrative fees, as more fully set forth in a written agreement between the HBPA and the HBPA Welfare benefit Trust, a copy of which will be provided to Charles Town Races. The HBPA and the HBPA Welfare Benefit Trust shall jointly establish a bank account dedicated to the receipt of the funds paid by Charles Town Races pursuant to this section which shall be promptly paid after the end of each month.

24. **Indemnification.** The HBPA shall indemnify and save harmless Charles Town Races, its agents, representatives, employees, officers, directors and shareholders, and their respective successors and assigns, and all persons acting by, through, under or in concert with any of them, from any and all loss, costs or expenses (including reasonable attorneys' fees), arising out of any claim of a person or entity pertaining to the Charles Town Race's performance, excluding Charles Town Race's negligence or willful misconduct, under paragraph 23 of this Agreement relating to contributions to the HBPA,

25. **No Monopoly on Goods and Services.** Charles Town Races shall not establish or impose upon Horsemen a monopoly, restriction or requirement regarding the use of blacksmiths, feed men, track suppliers, veterinarians or other services customarily used by Horsemen. Charles Town Races

will permit any supplier of commodities or services to enter the stable area; provided, however, that such supplier of services or commodities has received a clearance from management and the West Virginia Racing Commission, which will authorize admission to the stable area. Charles Town Races

agrees not to unreasonably withhold said clearance. Any owner or trainer stabled on grounds will be permitted at any time to haul in hay or grain for his own use only.

26. **Security.** Charles Town Races agrees to provide and maintain reasonable security at its main gate and such other gates providing ingress and egress to its stable areas.

27. **Starting Gate.**

A. Charles Town Races agrees to provide a minimum of ten (10) assistant starters for the safety of jockeys and horses for each and every race and on each and every race day.

B. Unless prohibited by applicable law, Charles Town Races agrees to double load horses into the starting gate for each and every race.

28. **Daily Meeting Figures.** The pari-mutuel handle and purse distribution figures as well as the percentage figures which represent the relationship between purses and the total of pari-mutuel handle, shall be provided to the HBPA office each day of a race meet in progress.

29. **Valuable Property Right.** Charles Town Races recognizes that the horses and participants in races and related events occurring prior or subsequent to the running of a race are valuable property rights belonging to the owners and trainers, and Charles Town Races will not produce or exhibit still or motion pictures, videotapes, radio or television programs, or authorize or license others to make or exhibit motion pictures or television programs of any of said events without prior consultation and written agreement of the HBPA. Notwithstanding the preceding sentence, it is understood and agreed that Charles Town Races shall have the right to use pictures, still or moving, of the horses and

participants to advertise and/or promote the Racetrack facility at no cost and without prior consultation and written agreement of the HBPA.

30. **HBPA Fire and Hazard Insurance.** Charles Town Races agrees to pay to HBPA's national office on or before May 15th of each year during the term of this Agreement, its proportional share of the total annual premium as determined annually by the National HBPA for a national policy of fire and other hazards insurance covering horses and tack belonging to HBPA members stabled at Charles Town Races or at locations covered by such HBPA policy. It is understood, however, by and between the parties, that the limits and types of coverage and the annual premium amount will not be increased without the prior written consent of Charles Town Races.

31. **Dead Horse Removal.** The cost of removing dead horses from the racing strip shall be paid by Charles Town Races. The cost of removing dead horses from the Racetrack facility generally shall be paid one-half by the HBPA and one-half by Charles Town Races.

32. **Arbitration.** Any all disputes between the parties arising out of this Agreement or the alleged breach thereof, which the parties are unable to amicably resolve on their own, shall, upon the written demand of either party, be submitted to arbitration by the American Arbitration Association ("AAA"). The arbitration shall be conducted in accordance with rules and guidelines of the AAA, with each party selecting an arbitrator from the list of qualified arbitrators provided by the AAA. The two chosen arbitrators shall select a third arbitrator from the same list. If they cannot agree to a selection, the AAA shall make the selection for them. Each party shall bear the costs of its arbitrator and shall share equally the costs of the third arbitrator and the arbitration process. A decision agreed to by two of the arbitrators shall be binding and

enforceable by a court of competent of competent jurisdiction. The locale for all arbitration proceedings shall be Charles Town, West Virginia, unless otherwise agreed to by the parties.

By execution of this Agreement, the parties acknowledge that arbitration is intended to be the exclusive means of resolving grievances, disputes and disagreements between the parties arising out of this Agreement, except that this provision shall not foreclose a party from obtaining initial equitable relief from a court of compentent jurisdiction pending outcome of arbitration.

33. **Right to Terminate.** Each party may terminate this Agreement upon the other party's failure to substantially perform its duties and obligations as required under the terms and provisions of this Agreement, and such failure continues for thirty (30) days following the date in which written notice of default is mailed in accordance with paragraph 36, Notices, of this Agreement. Such termination shall not constitute an election of remedy, nor shall it constitute a waiver of a party's other remedies at law or in equity.

34. **Further Assurances.** The HBPA and Charles Town Races shall execute such instruments and documents, and give such further assurances as may be necessary to accomplish the purposes and intent of this Agreement.

35. **Counter-part Originals.** This Agreement may be executed in two or more counter-part originals, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

36. **Notices.** All notices, requests, demands or other communications which may be required by this Agreement shall be in writing, and if mailed, shall be mailed by certified mail, return receipt requested, and shall be deemed to have been given when received by

personal delivery or otherwise. A courtesy copy of such communication shall also be sent via facsimile to the last known facsimile number of the other party. Current addresses of the persons to whom communications are to be sent are as follows:

Charles Town RACES:	General Manager Charles Town Races U. S. Route 340 P. O. Box 551 Charles Town, WV 25414
Copy to:	President Penn National Gaming, Inc. Wyomissing Professional Center 825 Berkshire Blvd., Suite 203 Wyomissing, PA 19610
Copy to:	VP/Deputy General Counsel Penn National Gaming, Inc. Wyomissing Professional Center 825 Berkshire Blvd., Suite 203 Wyomissing, PA 19610
Copy to:	VP/Legal Affairs Charles Town Races P. O. Box 551 Charles Town, WV 25414
HBPA:	President Charles Town HBPA, Inc. P. O. Box 581 Charles Town, WV 25414
Copy to:	Clarence E. Martin, Esq. Martin & Seibert P. O. Box 1286 Martinsburg, WV 25402

37. **Waivers.** No waiver of any breach of this Agreement or any term hereof shall be effective unless such waiver is in writing. No waiver of any breach shall be deemed a waiver of any other or subsequent breach.

38. **Applicable Law.** This Agreement shall be executed and delivered by the parties hereto in the State of West Virginia, and shall be interpreted, construed and enforced in accordance with the laws of the State of West Virginia. Nothing in this Agreement is intended to or has the effect of contradicting, superseding or construing the provision of Article 23, Chapter 19 (§§19-23-1 et seq.), Horse and Dog Racing,Article 29, Chapter 22A (§§22-A-1 et seq.) The Racetrack Video Lottery Act, and/or Article 29, Chapter 22C (§§29-22C-1, et seq.) Reference in this Agreement to the West Virginia Racing Commission will refer to the present Commission or to any successor regulatory body having jurisdiction over thoroughbred racing at Charles Town Races.

39. **Severability.** If any provision of this Agreement is declared invalid by any Court of competent jurisdiction, or becomes invalid or inoperative by the operation of law, the remaining provisions of this Agreement shall not be affected thereby and shall remain in full force and effect.

40. **Entire Agreement; Modification.** This Agreement contains the entire agreement between the parties and, as of the date of this Agreement, supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject hereof. No modification, variation or amendment of this Agreement shall be effective unless such modification, variation or amendment shall be in writing and has been signed by all parties to this Agreement.

41. **Binding Effect.** This Agreement shall be binding upon the parties, their successors and assigns.

WITNESS the following signatures:

SIGNATURE PAGES FOLLOW

CHARLES TOWN H.B.P.A., INC.

By: /s/ Raymond J. Funkhouser

Raymond J. Funkhouser
President

STATE OF WEST VIRGINIA

COUNTY OF JEFFERSON, to wit:

I, Patricia M. Evans, a notary public for the County and State aforesaid, certify that **Raymond J. Funkhouser,** whose name is signed to the foregoing Agreement by and between PNGI Charles Town Gaming, Limited Liability Company and Charles Town H.B.P.A., Inc. as the President of the Charles Town H.B.P.A., Inc., a West Virginia not-for-profit Corporation, dated the 20th day of February, 2009, acknowledged the same on behalf of the Corporation before me in the County aforesaid.

Given under my hand and official seal this 20th day of February, 2009.

Patricia M. Evans
Notary Public

My commission expires on September 18, 2016.

OFFICIAL SEAL
Notary Public, State Of West Virginia
PATRICIA M. EVANS
1101 Brucetown Rd.
Kearneysville, WV 25430
My Commission Expires September 18, 2016

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

By: /s/ Albert Britton
Albert Britton
General Manager

STATE OF WEST VIRGINIA

COUNTY OF JEFFERSON, to wit:

I, Margaret A Fineagan, a notary public for the County and State aforesaid, certify that **Albert Britton,** whose name is signed to the foregoing Agreement by and between PNGI Charles Town Gaming, Limited Liability Company and the Charles Town HBPA, Inc. as the General Manager of PNGI Charles Town Gaming, Limited Liability Company, a West Virginia Limited Liability Company, dated the 20th day of February 2009, acknowledged the same on behalf of the Limited Liability Company before me in the County aforesaid.

Given under my hand and official seal this 20th day of February, 2009.

Margaret A Fineagan
Notary Public

My commission expires on June 21, 2012.

OFFICIAL SEAL
NOTARY PUBLIC
STATE OF WEST VIRGINIA
MARGARET A. FINEAGAN
[illegible]
My Commission Expires June 21, 2012

Exhibit 10.32

PENN NATIONAL GAMING, INC.

2008 LONG TERM INCENTIVE COMPENSATION PLAN

(Effective November 12, 2008)

Table of Contents

PENN NATIONAL GAMING, INC.
2008 LONG TERM INCENTIVE COMPENSATION PLAN

ARTICLE I
PURPOSE

The 2008 Long Term Incentive Compensation Plan is intended to advance the interests of Penn National Gaming, Inc., a Pennsylvania corporation, and its shareholders by providing a means by which the Company and its subsidiaries and affiliates shall be able to motivate directors and selected key employees (including officers) to direct their efforts to those activities that will contribute materially to the Company's success. The Plan is also intended to serve the best interests of the shareholders by linking remunerative benefits paid to employees who have substantial responsibility for the successful operation, administration and management of the Company and/or its subsidiaries and affiliates with the enhancement of shareholder value while such key employees increase their proprietary interest in the Company. Finally, the Plan is intended to enable the Company to attract and retain in its service highly qualified persons for the successful conduct of its business.

ARTICLE II
DEFINITIONS AND CONSTRUCTION

Section 2.1 Definitions

The following words and phrases when used in the Plan with an initial capital letter, unless their context clearly indicates to the contrary, shall have the respective meanings set forth below in this Section 2.1:

Act. The Securities Exchange Act of 1934, as now in effect or as hereafter amended from time to time. References to any Section or Subsection of the Act are to such Section or Subsection as the same may from time to time be amended or renumbered and/or any comparable or succeeding provisions of any legislation that amends, supplements or replaces such Section or Subsection.

Award. A grant of one of the following under the Plan: "Stock Option Award"; "Stock Appreciation Right Award"; "Restricted Stock Award"; "Phantom Stock Unit Award"; and "Other Award"; all as further defined herein.

Award Agreement. The written instrument delivered by the Company to a Grantee evidencing an Award, and setting forth such terms and conditions of the Award as may be deemed appropriate by the Grantor. The Award Agreement shall be in a form approved by the Grantor, and once executed, shall be amended from time to time to include such additional or amended terms and conditions as the Grantor may specify after the execution in the exercise of his or its, as the case may be, powers under the Plan.

Beneficiary. Any individual, estate or trust who or which by designation of the a Holder pursuant to Section 12.3 or operation of law succeeds to the rights and obligations of the Holder under the Plan and one or more Award Agreements.

Board. The Board of Directors of the Company, as it may be constituted from time to time.

Cause. Fraud, embezzlement, theft or dishonesty against the Company, conviction of a felony, willful misconduct, being found unsuitable by a regulatory authority having jurisdiction over the Company, willful and wrongful disclosure of confidential information, engagement in competition with the Company and any other conduct defined as cause in any agreement between a Grantee and the Company or any Subsidiary, in each case during employment with the Company and all Subsidiaries or service as a Director, as the case may be.

Chairman. The Chairman of the Board of the Company or his designee(s).

Change of Control.

(a) With respect to Awards that are not "deferred compensation" under Section 409A of the Code, any of the following events shall constitute a Change of Control for purposes of this Plan:

(i) the acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Act) (a "Person") of beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Act) of fifty percent (50%) or more of either (A) the then outstanding shares of the Company (the "Outstanding Company Shares") or (B) the combined voting power of the then outstanding voting securities of the Company entitled to vote generally in the election of directors (the "Outstanding Company Voting Securities"); provided, however, that for purposes of this Subsection (i), the following acquisitions shall not constitute a Change of Control: (1) any acquisition directly from the Company; (2) any acquisition by the Company; (3) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (4) any acquisition pursuant to a transaction which complies with clauses (A), (B) and (C) of Subsection (iii) below; or

(ii) approval by the shareholders of the Company of a complete liquidation or dissolution of the Company; or

(iii) consummation of a reorganization, merger or consolidation or sale or other disposition of all or substantially all of the assets of the Company or the acquisition of assets of another entity (each, a "Corporate Transaction"), in each case, unless, following such Corporate Transaction, (A) all or substantially all of the individuals and entities who were the beneficial owners, respectively, of the Outstanding Company Shares and Outstanding Company Voting Securities immediately prior to such Corporate Transaction beneficially own, directly or indirectly, more than fifty percent (50%) of, respectively, the then outstanding shares and the combined voting power of the then outstanding voting securities entitled to vote generally in the election of directors, as the case may be, of the corporation or other entity resulting from such Corporate Transaction (including, without limitation, a corporation which as a result of such transaction owns the Company or all or substantially all of the Company's assets either directly or through

one or more subsidiaries) in substantially the same proportions as their ownership, immediately prior to such Corporate Transaction of the Outstanding Company Shares and Outstanding Company Voting Securities, as the case may be, (B) no Person (excluding any employee benefit plan or related trust of the Company or such corporation resulting from such Corporate Transaction) beneficially owns, directly or indirectly, twenty percent (20%) or more of, respectively, the then outstanding shares of the corporation resulting from such Corporate Transaction or the combined voting power of the then outstanding voting securities of such corporation except to the extent that such ownership of the Company existed prior to the Corporate Transaction and (C) at least a majority of the members of the board of directors of the corporation (or other governing board of a non-corporate entity) resulting from such Corporate Transaction were members of the Incumbent Board at the time of the execution of the initial agreement, or of the action of the Board, providing for such Corporate Transaction; or

(iv) individuals who, as of the Effective Date, constitute the Board (the "Incumbent Board") cease for any reason to constitute at least a majority of the Board; provided, however, that any individual becoming a director subsequent to the Effective Date whose election, or nomination for election by the Company's shareholders, was approved by a vote of at least two-thirds ($^2/_3$) of the directors then comprising the Incumbent Board shall be considered as though such individual were a member of the Incumbent Board, but excluding, for this purpose, any such individual whose

initial assumption of office occurs as a result of an actual or threatened election contest with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a Person other than the Board.

(b) With respect to Awards that are "deferred compensation" under Section 409A of the Code, each of the foregoing events shall only be deemed to be a Change of Control for purposes of the Plan to the extent such event qualifies as a "change in control event" for purposes of Section 409A of the Code. The Grantor shall be entitled to amend or interpret the terms of any Award to the extent necessary to avoid adverse Federal income tax consequences to a Grantee under Section 409A of the Code.

Code. The Internal Revenue Code of 1986, amended from time to time, and any successor thereto, the Treasury Regulations thereunder and other relevant interpretive guidance issued by the Internal Revenue Service or the Treasury Department. Reference to any specific section of the Code shall be deemed to include such regulations and guidance, as well as any successor provision of the Code.

Committee. The Compensation Committee of the Board.

Common Stock. Common stock of the Company, par value $.01.

Company. Penn National Gaming, Inc., a Pennsylvania corporation, and its successors and assigns.

Date of Grant. The date as of which the Grantor grants an Award.

Director. A member of the Board who is not also an employee of the Company or any Subsidiary.

Disability. A physical or mental impairment sufficient to make the Grantee who is an Employee eligible for benefits under the Company's or Subsidiary's long-term disability plan in which the Grantee is a participant. A Grantee who is a Director shall be treated as having a Disability if a physical or mental impairment would have made the Director eligible for benefits under the Company's long-term disability plan had the Director been an Employee.

Effective Date. November 12, 2008, the date on which the shareholders of the Company approved the Plan.

Employee. An employee of the Company or any Subsidiary or "parent corporation" within the meaning of Section 424(e) of the Code.

Fair Market Value. With respect to the Common Stock on any day, (i) the closing sales price on the immediately preceding business day of a share of Common Stock as reported on the principal securities exchange on which shares of Common Stock are then listed or admitted to trading, or (ii) if the Common Stock is not listed or admitted to trading on a securities exchange, as determined in a manner specified by the Committee determined in accordance with Section 409A of the Code. A "business day" is any day on which the relevant market is open for trading.

Grantee. An Employee or former Employee of the Company or any Subsidiary to whom an Award is or has been granted. With respect to an Award, other than an Incentive Stock Option, a Director to whom an Award is or has been granted is also a Grantee.

Grantor. With respect to an Award granted to an Employee, the Committee or the Chairman, as the case may be, that grants the Award. With respect to an Award granted to a Director, the Board or Committee is the Grantor.

Holder. The individual who holds an Award, who shall be the Grantee or a Beneficiary.

Incentive Stock Option or ISO. An Option that is intended to meet, and structured with a view to satisfying, the requirements of Section 422 of the Code and is designated by the Grantor as an Incentive Stock Option.

Non-Qualified Stock Option. An Option that is not designated by the Grantor as an Incentive Stock Option, or an Option that is designated by the Grantor as an Incentive Stock Option if it does not satisfy the requirements of Section 422 of the Code.

Nonreporting Person. A Grantee who is not subject to Section 16 of the Act.

Option or Stock Option. A right granted pursuant to Article V.

Option Period. The period beginning on the Date of Grant of an Option and ending on the date the Option terminates.

Option Price. The per share price at which shares of Common Stock may be purchased upon exercise of a particular Option.

Other Award. Awards granted pursuant to Article IX.

Performance Goals. One or more of the following performance criteria, either individually, alternatively or in any combination, applied to either the Company as a whole or to a business unit or related company, and measured either annually or cumulatively over a period of years, on an absolute basis or relative to a pre-established target, to a previous year's results or to a designated comparison group, in each case as specified by the Grantor in the Award: free cash flow, EBITDA, sales, revenue, revenue growth, income, operating income, net income, net earnings, earnings per share, return on total capital, return on equity, cash flow, operating profit and margin rate, gross margins, debt leverage (debt to capital), market capitalization, total enterprise value (market capitalization plus debt), total shareholder return and stock price. With respect to any Award that is intended to be "performance-based compensation" under Section 162 of the Code, (i) the outcome of the Performance Goals must be substantially uncertain at the time the Grantor establishes the Performance Goals, and (ii) to the extent consistent with Section 162 of the Code, the Grantor shall appropriately adjust any Performance Goal to take into account the impact of any of the following events on the Company that occurs during the period to which such Performance Goal is applied: asset write-downs; litigation, claims, judgments, settlements; currency fluctuations and other non-cash charges; changes in applicable law, rule or regulation or accounting principles; accruals for

reorganization and restructuring programs; costs incurred in the pursuit of acquisition opportunities; strikes, delays or similar disruptions by organized labor, guilds or horsemen's organizations; national macroeconomic conditions; terrorism and other international hostilities; significant regional weather events; and any other extraordinary, unusual or non-recurring as described in Accounting Principles Board Opinion No. 30 and/or management's discussion and analysis of financial condition and results of operations appearing in the Company's securities filings. Any Award may be granted subject to the attainment of such Performance Goals as determined by the Grantor.

Phantom Stock Unit. A right granted under Article VIII.

Phantom Stock Unit Award. An Award of Phantom Stock Units under Article VIII.

Plan. Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, as set forth herein and as amended from time to time.

Reporting Person. A Grantee who is subject to Section 16 of the Act.

Restricted Period. The period of time beginning with the Date of Grant of a Restricted Stock Award or Phantom Stock Unit Award and ending when the Restricted Stock or Phantom Stock Unit is forfeited or when all conditions for vesting are satisfied.

Restricted Stock. Shares of Common Stock issued pursuant to a Restricted Stock Award.

Restricted Stock Award. An Award of Restricted Stock under Article VII.

Retirement. Termination of service by the Grantee on or after the normal retirement date under a plan maintained by the Company or a Subsidiary in which the Grantee is a participant or under an applicable Company policy or procedure or as otherwise agreed to by the Company.

Rule 16b-3. Rule 16b-3 of the General Rules and Regulations under the Act, or any law, rule, regulation or other provision that may hereafter replace such Rule.

SAR Base Amount. An amount set forth in the Award Agreement for a SAR.

Stock Appreciation Right or SAR. A right granted under Article VI.

Stock Appreciation Right Award. An Award of Stock Appreciation Rights under Article VI.

Stock Option Award. An Award of Options under Article V.

Subsidiary. Any corporation, partnership, joint venture or other entity in which the Committee has determined that the Company had made, directly or indirectly through one or more intermediaries, a substantial investment or commitment, including, without limit, through the purchase of equity or debt or the entering into of a management agreement or joint operating agreement. In the case of Incentive Stock Options, Subsidiary shall mean any entity that qualifies as a "subsidiary corporation" of the Company under Section 424(f) of the Code.

Ten Percent Shareholder. A person owning shares possessing more than 10% of the total combined voting power of all classes of shares of the Company, any subsidiary corporation (within the meaning of Section 424(f) of the Code) or parent corporation (within the meaning of Section 424(e) of the Code).

Section 2.2 Construction

Whenever any words are used herein in the masculine gender, they shall be construed as though they were also used in the feminine gender in all cases where they would so apply, and wherever any words are used herein in the singular form they shall be construed as though they were also used in the plural form in all cases where they would so apply. Headings of Sections and Subsections of the Plan are inserted for convenience of reference, are not a part of the Plan, and are not to be considered in the construction hereof. The words "hereof", "herein", "hereunder" and other similar compounds of the word "here" shall mean and refer to the entire Plan, and not to any particular provision or Section. The words "includes", "including" and other similar compounds of the word "include" shall mean and refer to including without limitation. All references herein to specific Articles, Sections or Subsections shall mean Articles, Sections or Subsections of this document unless otherwise qualified.

ARTICLE III
STOCK AVAILABLE FOR AWARDS

Section 3.1 Common Stock

Shares of Common Stock may be delivered under the Plan, such shares to be made available from authorized but unissued shares or from shares reacquired by the Company, including shares purchased in the open market.

Section 3.2 Number of Shares Deliverable

Subject to adjustments as provided in Section 11.2, no more than 6,900,000 shares of Common Stock may be issued under the Plan. Any shares of Common Stock issued under Options or Stock Appreciation Rights shall be counted against this limit as one (1) share of Common Stock. Any shares of Common Stock issued under Awards other than Options or Stock Appreciation Rights shall be counted against this limit as two and sixteen one hundredths (2.16) shares of Common Stock. Any Awards that are not settled in shares of Common Stock shall not count against this limit.

Section 3.3 Reusable Shares

Shares of Common Stock subject to an Award that are forfeited to the Company shall again be available for issuance under the Plan.

ARTICLE IV
AWARDS AND AWARD AGREEMENTS

Section 4.1 General

4.1.1 Subject to the provisions of the Plan, the Committee may at any time and from time to time (i) determine and designate those Reporting Persons who are Employees to whom Awards are to be granted; (ii) determine the time or times when Awards to Reporting Persons who are Employees shall be granted; (iii) determine the form or forms of Awards to be granted to any Reporting Person who is an Employee; (iv) determine the number of shares of Common Stock or dollar amounts subject to or denominated by each Award to be granted to any Reporting Person who is an Employee; (v) determine the terms and conditions of each Award to a Reporting Person who is an Employee; (vi) determine the maximum aggregate number of shares or, for purposes of Other Awards payable in cash, the aggregate amount of cash subject to Awards to be granted to Nonreporting Persons, as a group, who are Employees; and (vii) determine the general form or forms of Awards to be granted to Nonreporting Persons who are Employees.

4.1.2 The Committee or the Chairman, subject to the provisions of the Plan and authorization by the Committee, may, at any time and from time to time, (i) determine and designate at any time and from time to time those Nonreporting Persons who are Employees to whom Awards are to be granted; (ii) determine the time or times when Awards to Nonreporting Persons who are Employees shall be granted; (iii) determine the form or forms of Award to be granted to any Nonreporting Person who is an Employee, from among the form or forms

approved by the Committee; (iv) determine the number of shares of Common Stock or dollar amounts subject to or denominated by each Award to be granted to any Nonreporting Person who is an Employee; and (v) determine the terms and conditions of each Award to a Nonreporting Person who is an Employee.

4.1.3 Subject to the provisions of the Plan, the Board or Committee may, at any time and from time to time, (i) determine and designate at any time and from time to time those Directors to whom Awards, other than Incentive Stock Options, are to be granted; (ii) determine the time or times when Awards to Directors shall be granted; (iii) determine the form or forms of Awards to be granted to any Director; (iv) determine the number of shares of Common Stock or dollar amounts subject to or denominated by each Award to be granted to a Director; and (v) determine the terms and condition of each Award to a Director.

4.1.4 Awards may be granted singly, in combination or in tandem and may be made in combination or in tandem with or in replacement of, or as alternatives to awards or grants under any other employee plan maintained by the Company or its Subsidiaries. No Awards shall be granted under the Plan after the tenth anniversary of the Effective Date.

Section 4.2 Eligibility

Any Director or Employee, including any officer who is an Employee and any director who is an Employee, and, except with respect to Stock Options and SARs, an individual who has accepted the Company's or a Subsidiary's offer of employment but who has not commenced performing services for the Company or a Subsidiary, shall be eligible to receive Awards under the Plan.

Section 4.3 Terms and Conditions; Award Agreements

4.3.1 *Terms and Conditions.* Each Award granted pursuant to the Plan shall be subject to all of the terms, conditions and restrictions provided in the Plan and such other terms, conditions and restrictions, if any, as may be specified by the Grantor with respect to the Award at the time of the making of the Award or as may be amended or specified thereafter by the Grantor in the exercise of its or his, as the case may be, powers under the Plan. Without limiting the foregoing, it is understood that the Grantor may, at any time and from time to time after the granting of an Award hereunder, specify such amended or additional terms, conditions and restrictions with respect to such Award as may be deemed necessary or appropriate to ensure compliance with any and all applicable laws, including, but not limited to, compliance with Federal and state securities laws, compliance with Federal and state gaming or racing laws, compliance with Federal and state tax laws that would otherwise result in adverse and unintended tax consequences for a Grantee, the Company or any Subsidiary and methods of withholding or providing for the payment of required taxes. The terms, conditions and restrictions with respect to any Award, Grantee or Award Agreement need not be identical with the terms, conditions and restrictions with respect to any other Award, Grantee or Award Agreement.

4.3.2 *Award Agreements.* Except as otherwise provided in the Plan, each Award granted pursuant to the Plan shall be evidenced by an Award Agreement and shall comply with, and be subject to, the provisions of the Plan.

ARTICLE V
OPTIONS

Section 5.1 Award of Options

5.1.1 *Grants.* From time to time, the Committee may grant Stock Option Awards to such Reporting Persons who are Employees as the Committee may select in its sole discretion. From time to time, the Committee or the Chairman may grant Stock Option Awards in such number as the Committee or the Chairman may determine to such Nonreporting Persons who are Employees as the Committee or the Chairman may select in its or his, as the case may be, sole discretion; *provided, however,* each and all such grants shall be subject to any maximum aggregate amount of Awards in general and Options in particular (if any) established by the Committee for grants under the Plan for Nonreporting Persons who are Employees as a group. From time to time, the Board or Committee may grant Options to such Directors as the Board or Committee may select in its sole discretion. The Grantor shall determine the number of

shares of Common Stock to which each Option relates. A Stock Option entitles the holder thereof to purchase full shares of Common Stock at a stated price for a specified period of time.

5.1.2 *Types of Options*

5.1.2.1 *Employees.* Options granted to Employees pursuant to the Plan may be either in the form of Incentive Stock Options or in the form of Non-Qualified Stock Options.

5.1.2.2 *Directors.* Options granted to Directors pursuant to the Plan will be in the form of Non-Qualified Stock Options.

5.1.3 *Maximum Award To An Individual.* No individual shall be granted in any calendar year Options to purchase more than 1,000,000 shares of Common Stock.

5.1.4 *Internal Revenue Code Limits.* Options designated as Incentive Stock Options shall not be eligible for treatment under the Code as "incentive stock options" (and will be deemed to be Non-Qualified Stock Options) to the extent that either (1) the aggregate Fair Market Value of Shares (determined as of the time of grant) with respect to which such Options are exercisable for the first time by the Grantee during any calendar year (under all plans of the Company and any Subsidiary) exceeds $100,000, taking Options into account in the order in which they were granted or (2) such Options otherwise remain exercisable but are not exercised within three (3) months of termination of employment (or such other period of time provided in Section 422 of the Code).

Section 5.2 Option Price

The Option Price of Common Stock covered by each Option shall be determined by the Grantor, but shall not be less than 100% of the Fair Market Value of a share of Common Stock on the Date of Grant, *provided, however*, in the case of an Incentive Stock Option granted to Ten

Percent Shareholder, the Option Price shall be no less than 110% of the Fair Market Value of the of a share of Common Stock on the Date of Grant.

Section 5.3 Option Periods

The Grantor shall, from time to time, determine the term of each Option which shall be reflected in the Award Agreement. No Option may be exercised after the expiration of its term. Subject to earlier termination as provided in the Plan, the term shall not exceed seven (7) years from the Date of Grant; *provided*, that the term of an Incentive Stock Option granted to a Ten Percent Shareholder shall not exceed 5 years.

Section 5.4 Exercisability

5.4.1 Subject to Article X and XIII, each Option shall be exercisable at any time or times during the term of the Option and in such amount or amounts and subject to such conditions, including, without limitation, attainment of one or more Performance Goals, as the Grantor may prescribe in the applicable Award Agreement.

5.4.2 Except as provided in Article X, or as otherwise provided in an Award Agreement, an Option may be exercised only during the Grantee's employment with the Company or any of its Subsidiaries or service as a Director. No Option may be exercised for a fractional share.

5.4.3 *Method of Exercise.* A Holder may exercise an Option, in whole or from time to time in part, by giving notice of exercise to the Company, in a form and manner acceptable to the Company.

Section 5.5 Time and Method of Payment for Options

5.5.1 *Form of Payment.* The Holder shall pay the Option Price in cash (including a personal check) or, with the Grantor's permission and according to such rules as it may prescribe, by delivering shares of Common Stock already owned by the Holder having a Fair Market Value on the date of exercise equal to the Option Price, or a combination of cash and such shares. The Grantor may also permit payment in accordance with a cashless exercise program under which, if so instructed by the Holder, shares of Common Stock may be issued directly to the Holder's broker or dealer who in turn will sell the shares and pay the Option Price in cash to the Company from the sale proceeds. Finally, the Grantor may permit payment by reducing the number of shares of Common Stock delivered upon exercise by an amount equal to the largest number of whole shares of Common Stock with a Fair Market Value that does not exceed the Option Price, with the remainder of the Option Price being payable in cash.

5.5.2 *Time of Payment.* Except in the case where exercise is conditioned on a simultaneous sale of the Option shares pursuant to a cashless exercise, the Holder shall pay the Option Price before an Option is exercised.

5.5.3 *Methods for Tendering Shares.* The Grantor shall determine acceptable methods for tendering shares of Common Stock as payment upon exercise of an Option and may impose

such limitations and restrictions on the use of shares of Common stock to exercise an Option as it or he, as the case may be, deems appropriate.

Section 5.6 Delivery of Shares Pursuant to Exercise of Option

No shares of Common Stock shall be delivered pursuant to the exercise, in whole or in part, of any Option, unless and until (i) payment in full of the Option Price for such shares is received by the Company and (ii) compliance with all applicable requirements and conditions of the Plan, the Award Agreement and such rules and regulations as may be established by the Grantor, that are preconditions to delivery. Following exercise of the Option and

payment in full of the Option Price and compliance with the conditions described in the preceding sentence, the Company shall promptly effect the issuance to the Grantee of such number of shares of Common Stock as are subject to the Option exercise.

ARTICLE VI
STOCK APPRECIATION RIGHTS

Section 6.1 Award of SARs

6.1.1 *Grants.* From time to time the Committee may grant Stock Appreciation Rights Awards to such Reporting Persons who are Employees as the Committee may select in its sole discretion. From time to time, the Committee or the Chairman may grant Stock Appreciation Rights Awards in such number as the Committee or the Chairman may determine to such Nonreporting Persons who are Employees as the Committee or the Chairman may select in its or his, as the case may be, sole discretion; *provided*, *however*, each and all such grants shall be subject to any maximum aggregate amount of Awards in general and SARs in particular (if any) established by the Committee for grants under the Plan for Nonreporting Persons who are Employees as a group. From time to time, the Board or Committee may grant Stock Appreciation Rights to such Directors as the Board or Committee may select in its sole discretion. The Grantor shall determine the number of shares of Common Stock to which each SAR relates.

6.1.2 *Maximum Award To An Individual.* No individual shall be granted in any calendar year SARs to purchase more than 1,000,000 shares of Common Stock.

6.1.3 *SAR Base Amount.* The SAR Base Amount with respect to each SAR shall be determined by the Grantor, but shall not be less than 100% of the Fair Market Value of a share of Common Stock on the Date of Grant.

Section 6.2 SAR Periods

The Grantor shall, from time to time, determine the term of each SAR. No SAR may be exercised after the expiration of its term. Subject to earlier termination as provided in the Plan, the term shall not exceed seven (7) years from the Date of Grant.

Section 6.3 Exercisability

6.3.1 Subject to Articles X and XIII, each SAR shall be exercisable at any time or times during the term of the SAR and in such amount or amounts and subject to such conditions, including, without limitation, attainment of one or more Performance Goals, as the Grantor may, from time to time, prescribe in the applicable Award Agreement.

6.3.2 Except as provided in Article X, or as otherwise provided in an Award Agreement, a SAR may be exercised only during the Grantee's employment with the Company or any of its Subsidiaries or service as a Director.

Section 6.4 Method of Exercise

A Holder may exercise a SAR, in whole or from time to time in part, by giving notice of exercise to the Company, in a form and manner acceptable to the Company.

Section 6.5 Payment Amount, Time and Method of Payment With Respect to SARs

6.5.1 A SAR entitles the Holder thereof, upon the Holder's exercise of the SAR, to receive an amount equal to the product of (i) the amount by which the Fair Market Value on the exercise date of one share of Common Stock exceeds the SAR Base Amount for such SAR, and (ii) the number of shares covered by the SAR, or portion thereof, that is exercised.

6.5.2 Any payment which may become due from the Company by reason of a Grantee's exercise of a SAR may be paid to the Grantee all in cash, all in shares of Common Stock or partly in shares and partly in cash, as determined by the Grantor and as provided in the Award Agreement.

6.5.3 In the event that all or a portion of the payment is made in shares of Common Stock, the number of shares of Common Stock received shall be determined by dividing the amount of the payment by the Fair Market Value of a share of Common Stock on the exercise date of the SAR. Cash will be paid in lieu of any fractional share of Common Stock.

6.5.4 Amounts payable in connection with a SAR shall be paid to the Holder, as determined by the Grantor and as set forth in the applicable Award Agreement or in accordance with such rules, regulations and procedures as may be adopted by the Committee or Grantor.

Section 6.6 Nature of SARs

SARs shall be used solely as a device for the measurement and determination of the amount to be paid on behalf of Grantees as provided in the Plan. SARs shall not constitute or be treated as property or as a trust fund of any kind. All amounts at any time attributable to the SARs shall be and remain the sole property of the Company and all Grantees' rights hereunder are limited to the rights to receive cash and shares of Common Stock as provided in the Plan.

ARTICLE VII
RESTRICTED STOCK AWARDS

Section 7.1 Grants

From time to time, the Committee may grant Restricted Stock Awards in such number as it may determine to such Reporting Persons who are Employees as the Committee may select in its sole discretion. From time to time, the Committee or the Chairman may grant in such number as the Committee or the Chairman may determine Restricted Stock Awards to such Nonreporting Persons who are Employees as the Committee or the Chairman may select in its or his, as the case may be, sole discretion; *provided, however,* each and all such grants shall be subject to any maximum aggregate number of Awards in general and shares of Restricted Stock in particular established by the Committee for grants under the Plan for Nonreporting Persons who are Employees as a group. From time to time, the Board or Committee may grant Restricted Stock Awards to such Directors as the Board or Committee may select in its sole discretion. A Restricted Stock Award is a grant of shares of Common Stock subject to those conditions, if any, set forth in the Plan and the Award Agreement.

Section 7.2 Maximum Award to An Individual

No individual shall be granted or receive in any calendar year a Restricted Stock Award of more than 1,000,000 shares of Common Stock.

Section 7.3 Restricted Period

The Grantor may, from time to time, establish any condition or conditions on which the Restricted Stock Award will vest and no longer be subject to forfeiture. Such conditions may include, without limitation, continued employment by the Grantee or service as a Director, as the case may be, for a period of time specified in the Award Agreement or the attainment of one or more Performance Goals within a time period specified in the Award Agreement. A Restricted Stock Award may, if the Grantor in its sole discretion decides, provide for an unconditioned grant.

Section 7.4 Restrictions and Forfeiture

Except as otherwise provided in the Plan or the applicable Award Agreement, the Restricted Stock shall be subject to the following restrictions until the expiration or termination of the Restricted Period: (i) a Holder shall not be entitled to delivery of a certificate evidencing the shares of Restricted Stock until the end of the Restricted Period and the satisfaction of any and all other conditions specified in the Award Agreement applicable to such Restricted Stock and (ii) none of the Restricted Stock may be sold, transferred, assigned, pledged or otherwise encumbered or disposed of during the Restricted Period, and until the satisfaction of any and all other conditions specified in the Award Agreement applicable to such Restricted Stock. Upon the forfeiture of any Restricted Stock, such forfeited shares shall be transferred to the Company without further acts by the Holder.

Section 7.5 Issuance of Stock and Stock Certificate(s)

7.5.1 *Issuance.* As soon as practicable after the Date of Grant of a Restricted Stock Award, the Company shall cause to be issued in the name of the Grantee (and held by the Company, if applicable, under Section 7.4) such number of shares of Common Stock as constitutes the Restricted Stock awarded under the Restricted Stock Award. Each such issuance

shall be subject throughout the Restricted Period to the terms, conditions and restrictions contained in the Plan and/or the Award Agreement.

7.5.2 *Custody and Registration.* Any issuance of Restricted Stock may be evidenced in such manner as the Grantor may deem appropriate, including, without limitation, book-entry registration or issuance of a stock certificate or certificates. In the event any stock certificate is issued in respect of Restricted Stock, such certificate shall be registered in the name of the Grantee and shall bear an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock.

Section 7.6 Shareholder Rights

Following registration in the Grantee's name, during the Restricted Period, the Grantee shall have the entire beneficial interest in, and all rights and privileges of a shareholder as to, such shares of Common Stock covered by the Restricted Stock Award, including, but not limited to, the right to vote such shares and the right to receive dividends, subject to the restrictions and forfeitures set forth herein. Any shares of Common Stock distributed as a dividend or otherwise with respect to any shares of Restricted Stock as to which the restrictions have not yet lapsed shall be subject to the same restrictions as such Restricted Stock shares.

Section 7.7 Delivery of Shares

Upon the expiration (without a forfeiture) or earlier termination of the Restricted Period or at such earlier time as provided under the Plan, all shares of Restricted Stock shall be released from all restrictions and forfeiture provisions hereunder, any similar restrictions and forfeiture provisions under the Award Agreement applicable to such shares and all other restrictions and forfeiture provisions of the Plan or such Award Agreement. No payment will be required from the Holder upon the delivery of any shares of Restricted Stock, except that any amount necessary to satisfy applicable Federal, state or local tax requirements shall be paid by the Holder in accordance with the requirements of the Plan.

ARTICLE VIII
PHANTOM STOCK UNIT AWARDS

Section 8.1 Grants

From time to time, the Committee may grant Phantom Stock Unit Awards to such Reporting Persons who are Employees as the Committee may select in its sole discretion. From time to time, the Committee or the Chairman may grant Phantom Stock Unit Awards in such number as the Committee or the Chairman may determine to such Nonreporting Persons as the Committee or the Chairman may select in its or his, as the case May be, sole discretion who are Employees; *provided, however,* each and all such grants shall be subject to any maximum aggregate number of Awards in general and Phantom Stock Unit Awards in particular established by the Committee for grants under the Plan for Nonreporting Persons who are Employees as a group. From time to time, the Board or Committee may grant Phantom Stock Unit Awards to such Directors as the Board or Committee may select in its sole discretion. A Phantom Stock Unit represents the right to receive, without payment to the Company, shares of

Common Stock, an amount of cash equal to the value of a share of Common Stock on a future date or any combination thereof, as determined by the Grantor.

Section 8.2 Maximum Award to An Individual

No individual shall be granted or receive in any calendar year a combination of Phantom Stock Unit Awards representing more than 1,000,000 shares of Common Stock.

Section 8.3 Vesting of Phantom Stock Unit Awards

Phantom Stock Units shall become vested as determined by the Grantor, from time to time, and as set forth in the applicable Award Agreement, unless otherwise described in the Plan.

Section 8.4 Cash Value of Phantom Stock Unit Payments

The amount payable with respect to each vested Phantom Stock Unit payable in cash shall be an amount determined by multiplying the number of Phantom Stock Units by the Fair Market Value of one share of Common Stock as of the date of payment.

Section 8.5 Time of Payment

Amounts payable in connection with a Phantom Stock Unit shall be paid to the Holder, as determined by the Grantor and as set forth in the applicable Award Agreement or in accordance with such rules, regulations and procedures as may be adopted by the Grantor but in no event later than two and one-half months following the end of the calendar year in which a restriction lapses or a vesting condition is met.

Section 8.6 Nature of Phantom Stock Units

Phantom Stock Units shall be used solely as a device for the measurement and determination of the amount to be paid on behalf of Grantees as provided in the Plan. Phantom Stock Units shall not constitute or be treated as property or as a trust fund of any kind. All amounts at any time attributable to the Phantom Stock Units shall be and remain the sole property of the Company and all Grantees' rights hereunder are limited to the rights to receive cash or shares of Common Stock as provided in the Plan.

ARTICLE IX
OTHER AWARDS

Section 9.1 Grants

From time to time, the Committee may grant Other Awards to such Reporting Persons who are Employees as the Committee may select in its sole discretion. From time to time, the Committee or the Chairman may grant Other Awards to such Nonreporting Persons who are Employees as the Committee or the Chairman may select in its or his, as the case may be, sole discretion; *provided, however,* each and all such grants shall be subject to any maximum aggregate amount of Awards in general and Other Awards in particular (if any) established by the Committee for grants under the Plan for Nonreporting Persons who are Employees as a

group. From time to time, the Board or Committee may grant Other Awards to such Directors as the Board or Committee may select in its sole discretion. An Other Award may or may not be evidenced by an Award Agreement.

Section 9.2 Maximum Award to An Individual

9.2.1 *Awards Denominated or Payable with Reference to Common Stock.* No individual shall be granted or receive in any calendar year Other Awards denominated or payable in, valued in whole or in part by reference to, or otherwise based on or related to shares of Common Stock (including, without limitation, securities convertible into shares of Common Stock) representing more than 1,000,000 shares of Common Stock.

9.2.2 *Awards Denominated or Payable with Reference to Cash.* No individual shall be granted or receive in any calendar year Other Awards denominated by or payable in cash representing more than $6,000,000.

Section 9.3 Description of Other Awards

An Other Award may be a grant of a type of equity-based, equity-related, or cash based Award not otherwise described by the terms of the Plan in such amounts and subject to such terms and conditions as determined by the Grantor, from time to time, under the Plan, including but not limited to being subject to Performance Goals. Such Awards may provide for the payment of shares of Common Stock or cash or any combination thereof to a Grantee. The value of a cash-based Other Award shall be determined by the Grantor.

ARTICLE X
TERMINATION OF EMPLOYMENT OR CESSATION OF BOARD SERVICE

Section 10.1 Stock Options and SARs

If a Grantee who was an Employee or Director, as the case may be, when the Grantee received the Options or SARs ceases to be an Employee or Director of the Company and all Subsidiaries for any reason, then the Grantee's Options and SARs that are exercisable as of the termination or cessation date shall be cancelled and forfeited at the end of the 120th day after such date and all Options and SARs that are not exercisable as of the termination or cessation date shall be forfeited and cancelled as of such date except in cases of where such termination of employment or cessation of service is a result of (i) the Grantee's death or Disability, in which case the Grantee's Options or SARs that are not then exercisable shall thereupon become exercisable and all Options and SARs shall remain exercisable for the balance of their respective terms, (ii) resignation (other than for Retirement) by the Employee or Director, in which

case the Grantee's Options or SARs that are exercisable as of such termination or cessation date shall be cancelled and forfeited at the end of the 30th day after such date and (iii) termination for Cause by the Company, a Subsidiary, or the Board, in which case all of the Grantee's Options and SARs, whether or not then exercisable, shall be cancelled and forfeited as of such termination date.

Section 10.2 Restricted Stock and Phantom Stock Units

If a Grantee who was an Employee or Director, as the case may be, when the Grantee received the Restricted Stock or Phantom Stock Units ceases to (i) be employed by the Company and all Subsidiaries or (ii) serve as a Director, then all of the Grantee's Restricted Stock and Phantom Stock Units that remain subject to restriction or vesting at such time shall be cancelled and forfeited except in cases of such Grantee's death or Disability, in which case any remaining restriction or vesting shall thereupon lapse.

Section 10.3 Date of Termination of Employment

Termination of employment of a Grantee for any of the reasons enumerated in this Article X shall, for purposes of the Plan, be deemed to have occurred as of the date which is recorded in the ordinary course in the Company's or a Subsidiary's books and records in accordance with the then-prevailing procedures and practices of the Company or the Subsidiary or, if earlier with respect to Awards that are "deferred compensation" under Section 409A of the Code, when a Grantee has a "separation from service" as defined in the regulations promulgated under Section 409A of the Code.

Section 10.4 Specified Employee Restriction

Notwithstanding anything in this Plan to the contrary, with respect to any Award that constitutes "nonqualified deferred compensation" subject to Section 409A of the Code, any payments (whether in cash, shares of Common Stock or other property) to be made with respect to such Award upon the Holder's termination of employment or service shall be delayed until the first day of the seventh month following his "separation from service" as defined under Section 409A of the Code, if the Holder is a "specified employee" within the meaning of Section 409A of the Code (as determined in accordance with the uniform policy adopted by the Committee with respect to all of the arrangements subject to Section 409A of the Code maintained by the Company and its Subsidiaries).

Section 10.5 Immediate Forfeiture; Acceleration

Except as otherwise provided in this Article X or in an Award Agreement or as otherwise determined by the Grantor, once a Grantee's employment terminates or Board service ceases, as the case may be, any Award that is not then exercisable or vested or as to which any restrictions have not lapsed shall be cancelled and forfeited to the Company; provided, however, that the Grantor may, subject to the provisions of Sections 5.3 and 6.2, extend the periods during which Awards may be exercised or provide for acceleration or continuation of the exercise or vesting date or the lapse of restrictions of such Awards to such extent and under such terms and conditions as such Grantor deems appropriate.

Section 10.6 Terms of Award Agreement

The terms of any Award Agreement may address any of the issues provided for in this Article. In the event of a discrepancy between such terms and the terms of this Article, the terms of the Award Agreement shall apply.

ARTICLE XI
CERTAIN TERMS APPLICABLE TO ALL AWARDS

Section 11.1 Withholding Taxes

The Company and any Subsidiary shall be authorized to withhold from any Award granted or any payment due or transfer made under any Award or under the Plan the amount (in cash, shares of Common Stock, other securities, or other Awards) of withholding taxes due in respect of an Award, its exercise, or any payment or transfer under such Award or under the Plan and to take such other action as may be necessary in the opinion of the Company or a Subsidiary to satisfy statutory withholding obligations for the payment of such taxes.

Section 11.2 Adjustments to Reflect Capital Changes

11.2.1 *Recapitalization, etc.* In the event that the Committee shall determine that any dividend or other distribution (whether in the form of cash, shares of Common Stock or other securities), recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares of Common Stock, other securities of the Company, issuance of warrants or other rights to purchase shares of Common Stock or other securities of the Company, or other similar corporate transaction or event constitutes an equity restructuring transaction, as that term is defined in Statement of Financial Accounting Standards No. 123 (revised), or otherwise affects the shares of Common Stock, then the Committee shall adjust the following in a manner that is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under the Plan:

11.2.1.1 the number and type of shares of Common Stock or other securities which thereafter may be made the subject of Awards, including the aggregate and individual limits specified in the Plan (other than the individual limits set forth in Sections 5.1.3, 6.1.2, 7.2, 8.2 and 9.2.1, which shall not be subject to adjustment unless such adjustment can be made in a manner that satisfies the requirements of Section 162(m) of the Code);

11.2.1.2 the number and type of shares of Common Stock or other securities subject to outstanding Awards;

11.2.1.3 the grant, purchase, SAR Base Amount or Option Price with respect to any Award, or, if deemed appropriate, make provision for a cash payment to the holder of an outstanding Award; and

11.2.1.4 other value determinations applicable to outstanding Awards.

11.2.2 *Sale or Reorganization.* After any reorganization, merger or consolidation whether or not the Company is the surviving corporation and unless there is a provision in the sale or reorganization agreement to the contrary, each Grantee shall, at no additional cost, be entitled upon any exercise of an Option or receipt of other Award to receive (subject to any required action by shareholders), in lieu of the number of shares of Common Stock receivable or exercisable pursuant to such Award, the number and class of shares of stock or other securities to which such Grantee would have been entitled pursuant to the terms of the reorganization, merger or consolidation if, at the time of such reorganization, merger or consolidation, such Grantee had been the holder of record of a number of shares of stock equal to the number of shares receivable

or exercisable pursuant to such Award. Comparable rights shall accrue to each Grantee in the event of successive reorganizations, mergers or consolidations of the character described above.

11.2.3 *Options to Purchase Stock of Acquired Companies.* After any reorganization, merger or consolidation in which the Company or a Subsidiary shall be a surviving corporation, the Committee may grant substituted options under the provisions of the Plan, pursuant to Section 424 of the Code, replacing old options granted under a plan of another party to the reorganization, merger or consolidation whose stock subject to the old options may no longer be issued following such merger or consolidation. The foregoing adjustments and manner of application of the foregoing provisions shall be determined by the Committee in its sole discretion. Any such adjustments may provide for the elimination of any fractional shares which might otherwise become subject to any Options.

Section 11.3 Failure to Comply with Terms and Conditions

Notwithstanding any other provision of the Plan, any outstanding Awards, including, without limit, any rights of payment or delivery or any other rights of a Holder with respect to any Award shall, unless otherwise determined by the Grantor, be immediately forfeited and cancelled if the Holder:

(i) breaches any term, restriction and/or condition of the Plan, any Award Agreement or any employment, separation or other agreement between the Holder and the Company or its Subsidiaries; or

(ii) while serving as a Director or an Employee, is employed by or serves as a director of a competitor of the Company or its Subsidiaries, or shall be engaged in any activity in competition with the Company or its Subsidiaries; or

(iii) within one (1) year of the Grantee's termination of employment or cessation of Board service with the Company and its Subsidiaries, solicits or assists in soliciting, directly or in any manner, any person employed by the Company or a Subsidiary to leave such employment or recruit, make an offer of employment to, or hire any such person; or

(iv) divulges at any time any confidential information belonging to the Company or any Subsidiary.

The determination of the Grantor as to the occurrence of any of the events specified in this Section 11.3 shall be conclusive and binding upon all persons for all purposes.

Section 11.4 Regulatory Approvals and Listing

The Company shall not be required to issue any certificate or certificates for shares of Common Stock under the Plan prior to (i) obtaining any approval from any governmental agency which the Company shall, in its discretion, determine to be necessary or advisable, (ii) the admission of such shares to listing on any national securities exchange on which the Company's Common Stock may be listed, and (iii) the completion of any registration or other qualification of such shares of Common Stock under any state or Federal law or ruling or regulations of any

governmental body which the Company shall, in its discretion, determine to be necessary or advisable.

Section 11.5 Restrictions Upon Resale of Stock

If the shares of Common Stock that have been issued to a Holder pursuant to the terms of the Plan are not registered under the Securities Act of 1933, as amended ("Securities Act"), pursuant to an effective registration statement, such Holder, if the Committee shall deem it advisable, may be required to represent and agree in writing (i) that any such shares acquired by such Holder pursuant to the Plan will not be sold except pursuant to an effective registration statement under the Securities Act, or pursuant to an exemption from registration under the Securities Act and, (ii) that such Holder is acquiring such shares for his own account and not with a view to the distribution thereof.

Section 11.6 Reporting Person Limitation

Notwithstanding any other provision of the Plan, to the extent required to qualify for the exemption provided by Rule 16b-3 under the Act and any successor provision, any Common Stock or other equity security offered under the Plan to a Reporting Person may not be sold for at least six (6) months after the earlier of acquisition of the security or the date of grant of the derivative security, if any, pursuant to which the Common Stock or other equity security was acquired.

ARTICLE XII
ADMINISTRATION OF THE PLAN

Section 12.1 Committee

The Plan shall be administered by or under the direction of the Committee.

Section 12.2 Committee Actions

Except for matters required by the terms of the Plan to be decided by the Board or the Chairman, the Committee shall have full power and authority to interpret and construe the Plan, to prescribe, amend and rescind rules, regulations, policies and practices, to impose such conditions and restrictions on Awards as it deems appropriate and to make all other determinations necessary or desirable in connection with the administration of, or the performance of its responsibilities under, the Plan.

Section 12.3 Designation of Beneficiary

Each Holder may file with the Company a written designation of one or more persons as the Beneficiary who shall be entitled to receive the Award, if any, payable under the Plan upon his death. A Holder may from time to time revoke or change his Beneficiary designation without the consent of any prior Beneficiary by filing a new designation with the Company. The last such designation received by the Company shall be controlling; *provided, however,* that no designation, or change or revocation thereof, shall be effective unless received by the Company prior to the Holder's death, and in no event shall it be effective as of a date prior to such receipt.

If no such Beneficiary designation is in effect at the time of a Holder's death, or if no designated Beneficiary survives the Holder or if such designation conflicts with law, the Holder's estate shall be entitled to receive the Award, if any, payable under the Plan upon his death. If the Committee is in doubt as to the right of any person to receive such Award, the Company may retain such Award, without liability for any interest thereon, until the Committee determines the rights thereto, or the Company may pay such Award into any court of appropriate jurisdiction and such payment shall be a complete discharge of the liability of the Company therefore.

Section 12.4 No Right to an Award or to Continued Employment

No Grantee or other person shall have any claim or right to be granted an Award under the Plan. Neither the action of the Company in establishing the Plan, nor any provisions hereof, nor any action taken by the Company, any Subsidiary, the Board, the Committee or the Chairman pursuant to such provisions shall be construed as creating in any employee or class of employees any right with respect to continuation of employment by the Company or any of its Subsidiaries, and they shall not be deemed to interfere in any way with the Company's or any Subsidiary's right to employ, discipline, discharge, terminate, lay off or retire any Grantee, with or without cause, to discipline any employee, or to otherwise affect the Company's or a Subsidiary's right to make employment decisions with respect to any Grantee.

Section 12.5 Discretion of the Grantor

Whenever the terms of the Plan provide for or permit a decision to be made or an action to be taken by a Grantor, such decision may be made or such action taken in the sole and absolute discretion of such Grantor and shall be final, conclusive and binding on all persons for all purposes; provided, however, that the Board may review any decision or action of the Grantor and it may reverse or modify such Award, decision or act as it deems appropriate. The Grantor's determinations under the Plan, including, without limitation the determination of any person to receive awards and the amount of such awards, need not be uniform.

Section 12.6 Indemnification and Exculpation

12.6.1 *Indemnification.* Each person who is or shall have been a member of the Board or the Committee and each director, officer or employee of the Company or any Subsidiary to whom any duty or power related to the administration or interpretation of the Plan may be delegated (each, an "Indemnified Person"), shall be indemnified and held harmless by the Company against and from any and all loss, cost, liability or expense that may be imposed upon or reasonably incurred by him in connection with or resulting from any claim, action, suit or proceeding to which he may be or become a party or in which he may be or become involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him in settlement thereof (with the Company's written approval) or paid by him in satisfaction of a judgment in any such action, suit or proceeding, except a judgment in favor of the Company based upon a finding of his bad faith; subject, however, to the condition that upon the institution of any claim, action, suit or proceeding against him, he shall in writing give the Company an opportunity, at its own expense, to handle and defend the same before he undertakes to handle and defend it on his own behalf. The foregoing right of indemnification shall not be exclusive of, and shall be in addition to, any other right to which such person may be

entitled under the Company's charter or bylaws, as a matter of law or otherwise, or any power that the Company may have to indemnify him or hold him harmless.

12.6.2 *Exculpation.* No Indemnified Person shall be personally liable by reason of any contract or other instrument executed by him or on his behalf in his capacity as an Indemnified Person hereunder, nor for any mistake of judgment made in good faith, unless otherwise provided by law. Each Indemnified Person shall be fully justified in relying or acting upon in good faith any information furnished in connection with the administration of the Plan by any appropriate person or persons other than himself. In no event shall any Indemnified Person be liable for any determination made or other action taken or any omission to act in reliance upon such report or information, for any action (including the furnishing of information) taken or any failure to act, if in good faith.

Section 12.7 Unfunded Plan

The Plan is intended to constitute an unfunded, long-term incentive compensation plan for certain selected employees. No special or separate fund shall be established and no segregation of assets shall be made to assure payment of such amounts. The Company may, but shall not be obligated to, acquire

shares of its Common Stock from time to time in anticipation of its obligations under the Plan, but no Grantee shall have any right in or against any shares of stock so acquired. All such stock shall constitute general assets of the Company and may be disposed of by the Company at such time and for such purposes as it may deem appropriate. No obligation or liability of the Company to any Grantee with respect to any right to receive a distribution or payment under the Plan shall be deemed to be secured by any pledge or other encumbrance on any property of the Company.

Section 12.8 Inalienability of Rights and Interests

The rights and interests of a Holder under the Plan are personal to the Holder and to any person or persons who may become entitled to distribution or payments under the Plan by reason of death of the Holder, and the rights and interests of the Holder or any such person (including, without limitation, any Award distributable or payable under the Plan) shall not be subject in any manner to alienation, sale, transfer, assignment, pledge, encumbrance or charge, and any such attempted action shall be void and no such benefit or interest shall be in any manner liable for or subject to debts, contracts, liabilities, engagements or torts of any Holder, provided that transfers pursuant to a qualified domestic relations order shall be allowable. If any Holder shall attempt to alienate, sell, transfer, assign, pledge, encumber or charge any of his rights or interests under the Plan, (including without limitation, any Award payable under the Plan) then the Committee may hold or apply such benefit or any part thereof to or for the benefit of such Holder in such manner and in such proportions as the Committee may consider proper. Notwithstanding the foregoing, the Holder, subject to the approval of the Company may elect to irrevocably transfer some or all of an Award to a family member. For this purpose, a family member shall refer to one or more of the Holder's spouse, children or grandchildren, or to a trust established solely for the benefit of, or to a partnership whose partners are, the Holder's spouse, children and grandchildren; provided, however, that:

(i) the Award, once transferred, may not again be transferred except by will or by the laws of descent and distribution;

(ii) the Award, once transferred, shall remain subject to the same terms and conditions of the Award in effect before the transfer and the transferee of the Award (the "Transferee") must comply with all other provisions of the Award; and

(iii) the Holder receives no consideration for such transfer. No transferred Award shall be exercisable following a transfer, as provided for herein, unless the Committee receives written notice from the Holder in a form and manner satisfactory to the Committee, in its sole discretion, to the effect that a transfer of the Award has occurred and the notice identifies the Award transferred, the identity of the Transferee and his relationship to the Holder.

Section 12.9 Awards Not Includable for Benefit Purposes

Except as otherwise set forth in any applicable 401(k) plan, payments received by a Grantee pursuant to the provisions of the Plan shall not be included in the determination of benefits under any pension, group insurance or other benefit plan applicable to the Grantee which are maintained by the Company or any of its Subsidiaries, except as may be determined by the Committee.

Section 12.10 No Issuance of Fractional Shares

The Company shall not be required to deliver any fractional share of Common Stock but, as determined by the Committee, may pay a cash amount to the Holder in lieu thereof, except as otherwise provided in the Plan, equal to the Fair Market Value (determined as of an appropriate date determined by the Committee) of such fractional share.

Section 12.11 Modification for International Grantees

Notwithstanding any provision to the contrary, the Committee may incorporate such provisions, or make such modifications or amendments in Award Agreements of Grantees who reside or are employed outside of the United States of America, or who are citizens of a country other than the United States of America, as the Committee deems necessary or appropriate to accomplish the purposes of the Plan with respect to such Grantee in light of differences in applicable law, tax policies or customs, and to ascertain compliance with all applicable laws.

Section 12.12 Leaves of Absence

The Committee shall be entitled to make such rules, regulations and determinations as it deems appropriate under the Plan in respect of any leave of absence taken by the recipient of any Award. Without limiting the generality of the foregoing, the Grantor shall be entitled to determine (a) whether or not any such leave of absence shall constitute a termination of employment within the meaning of the Plan and, (b) the impact, if any, of any such leave of absence on awards under the Plan theretofore made to any recipient who takes such leave of absence. Notwithstanding the foregoing, with respect to Awards that are "deferred compensation" under Section 409A of the Code, any leave of absence taken by the recipient shall

constitute a termination of employment within the meaning of the Plan when the recipient has a "separation from service" as defined in the regulations promulgated under Section 409A of the Code.

Section 12.13 Communications

12.13.1 *Communications by the Grantor.* All notices, statements, reports and other communications made, delivered or transmitted to a Holder or other person under the Plan shall be deemed to have been duly given, made or transmitted, when sent electronically to a Company or Subsidiary e-mail address, when delivered to, or when mailed by first-class mail, postage prepaid and addressed to, such Holder or other person at his address last appearing on the records of the Company.

12.13.2 *Communications by the Directors, Employees, and Others.* All elections, designations, requests, notices, instructions and other communications made, delivered or transmitted by the Company, a Subsidiary, Grantee, Beneficiary or other person to the Committee required or permitted under the Plan shall be transmitted by any means authorized by the Committee or shall be mailed by first-class mail or delivered to the Company's principal

office to the attention of the Company's Secretary or such other location as may be specified by the Committee, and shall be deemed to have been given and delivered only upon actual receipt thereof by the Committee at such location.

Section 12.14 Parties in Interest

The provisions of the Plan and the terms and conditions of any Award shall, in accordance with their terms, be binding upon, and inure to the benefit of, all successors of each Grantee, including, without limitation, such Grantee's estate and the executors, administrators, or trustees thereof, heirs and legatees, and any receiver, trustee in bankruptcy or representative of creditors of such Grantee. The obligations of the Company under the Plan shall be binding upon the Company and its successors and assigns.

Section 12.15 Severability

Whenever possible, each provision in the Plan and every Award at any time granted under the Plan shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of the Plan or any Award at any time granted under the Plan shall be held to be prohibited by or invalid under applicable law, then (a) such provision shall be deemed amended to accomplish the objectives of the provision as originally written to the fullest extent permitted by law, and (b) all other provisions of the Plan and every other Award at any time granted under the Plan shall remain in full force and effect.

Section 12.16 Compliance with Laws

The Plan and the grant of Awards shall be subject to all applicable Federal and state laws, rules and regulations and to such approvals by any government or regulatory agency as may be required. It is intended that the Plan be applied and administered in compliance with Rule 16b-3. If any provision of the Plan would be in violation of Rule 16b-3 if applied as written, such provision shall not have effect as written and shall be given effect so as to comply with

Rule 16b-3, as determined by the Committee. The Board is authorized to amend the Plan and to make any such modifications to Award Agreements to comply with Rule 16b-3, and to make any such other amendments or modifications as it deems necessary or appropriate to better accomplish the purposes of the Plan in light of any amendments made to Rule 16b-3.

Section 12.17 No Strict Construction

No rule of strict construction shall be implied against the Company, the Committee, the Chairman or any other person in the interpretation of any of the terms of the Plan, any Award granted under the Plan or any rule or procedure established by the Committee or the Board.

Section 12.18 Modification

This document contains all of the provisions of the Plan and no provisions may be waived, modified or otherwise altered except in a writing adopted by the Board.

Section 12.19 Governing Law

All questions pertaining to validity, construction and administration of the Plan and the rights of all persons hereunder shall be determined with reference to, and the provisions of the Plan shall be governed by and shall be construed in conformity with, the internal laws of the Commonwealth of Pennsylvania without regard to any of its conflict of laws principles.

ARTICLE XIII
CHANGE OF CONTROL

Section 13.1 Options and SARS

In the event of a Change of Control, all Options and SARs outstanding on the date of such Change of Control shall become immediately and fully exercisable, provided that in the case of any outstanding Options or SARs subject to a performance-based vesting schedule, performance shall be deemed to have been achieved at the target level or, if greater, the actual level of achievement as of the date of the Change of Control, annualized for the entire performance period, if appropriate, and, in the case of SARs, if payable in cash, shall be paid within thirty (30) days after a Change of Control to all Grantees who have been granted such Award. In all other respects not inconsistent with such acceleration, the Options and SARs shall continue to be governed by the terms of their Award Agreements and the Plan.

Section 13.2 Restricted Stock Awards and Phantom Stock Unit Awards

In the event of a Change of Control, all restrictions with respect to Restricted Stock Awards and Phantom Stock Unit Awards shall immediately lapse, provided that in the case of any outstanding Restricted Stock Awards or Phantom Stock Unit Awards with restrictions subject to the achievement of certain performance-based goals, performance shall be deemed to have been achieved at the target level or, if greater, the actual level of achievement as of the date of the Change of Control, annualized for the entire performance period, if appropriate, and, if payable in cash, shall be paid within thirty (30) days after a Change of Control to all Grantees who have been granted such Award.

ARTICLE XIV
AMENDMENT AND TERMINATION

Section 14.1 Amendment; No Repricing

The Board with respect to the Plan, and the Grantor with respect to any Award Agreement, reserve the right at any time or times to modify, alter or amend, in whole or in part, any or all of the provisions of the Plan or any Award Agreement to any extent and in any manner that it or he, as the case may be, may deem advisable, and no consent or approval by the shareholders of the Company, by any Grantee or Beneficiary, or by any other person, committee or entity of any kind shall be required to make any modification, alteration or amendment; *provided*, *however*, that the Board shall not, without the requisite affirmative approval of the shareholders of the Company, make any modification, alteration or amendment that requires shareholders' approval under any applicable law, the Code or stock exchange requirements. No modification, alteration or amendment of the Plan or any Award Agreement may, without the consent of the Grantee (or the Grantee's Beneficiaries in case of the Grantee's death) to whom any Award shall theretofore have been granted under the Plan, adversely affect any right of such Grantee under such Award, except in accordance with the provisions of the Plan and/or any Award Agreement applicable to any such Award. Subject to the provisions of this Section 14.1, any modification, alteration or amendment of any provisions of the Plan may be made retroactively. Except as otherwise provided in Section 11.2 hereof, neither the Committee nor the Board shall reduce the SAR Base Amount or Option Price, as applicable, of Stock Options or SARS previously awarded to any Grantee, whether through amendment, cancellation or replacement grant, or any other means, without the requisite prior affirmative approval of the shareholders of the Company.

Section 14.2 Suspension or Termination

The Board reserves the right at any time to suspend or terminate, in whole or in part, any or all of the provisions of the Plan for any reason and without the consent of or approval by the shareholders of the Company, any Holder or any other person, committee or entity of any kind; *provided*, *however*, that no such suspension or termination shall adversely affect any right or obligation with respect to any Award theretofore made except as herein otherwise provided.

ARTICLE XV
SECTION 409A

It is the intention of the Company that no Award shall constitute a "nonqualified deferred compensation plan" subject to Section 409A of the Code, unless and to the extent that the Grantor specifically determines otherwise as provided in the immediately following sentence, and the Plan and the terms and conditions of all Awards shall be interpreted accordingly. The terms and conditions governing any Awards that the Grantor determines will be subject to Section 409A of the Code, including any rules for elective or mandatory deferral of the delivery of cash or shares pursuant thereto and any rules regarding treatment of such Awards in the event of a Change of Control, shall be set forth in the applicable Award Agreement, and shall comply in all respects with Section 409A of the Code.

ARTICLE XVI
EFFECTIVE DATE AND TERM OF THE PLAN

The Plan shall become effective on the Effective Date if it is approved by the shareholders of the Company. No Award shall be granted under the Plan after the date specified in Section 4.1.4. The Plan will continue in effect for existing Awards as long as any such Awards are outstanding.

Exhibit 10.33

PENN NATIONAL GAMING, INC.

NON-QUALIFIED STOCK OPTION CERTIFICATE

This certifies that an option to purchase shares of Common Stock of Penn National Gaming, Inc. has been granted pursuant to the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, as follows:

Name and Address of Optionee:

Date of Grant: , 20

Type of Option: Non-Qualified Stock Option

Number of shares subject to Option:

Option Price: $

Vesting Date(s): shares on , 20
shares on , 20
shares on , 20
shares on , 20

Expiration Date: , 20

The option is subject to all the terms and conditions of the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, a copy of which is available upon request.

Date: _____

PENN NATIONAL GAMING, INC.

_____
By: Robert S. Ippolito
Title: Vice President, Secretary and Treasurer

PENN NATIONAL GAMING, INC.
STOCK OPTION TERMS

All Stock Options are subject to the provisions of the 2008 Long Term Incentive Compensation Plan (the "Plan") and any rules and regulations established by the Compensation Committee of the Board of Directors of Penn National Gaming, Inc. ("PNG"). A copy of the Plan is available upon request. Words used herein with initial capitalized letters are defined in the attached Non-Qualified Stock Option Certificate or the Plan.

The terms provided here are applicable to the Stock Option specified in the attached certificate. Different terms may apply to any prior or future stock option grants.

I. OPTION PERIOD

You may exercise your Stock Options during the Option Period, which begins on the Vesting Dates and ends on the Expiration Date. The Stock Options vest in 25% installments on each Vesting Date. The Vesting Dates are the first, second, third and fourth anniversaries of the Date of Grant. Thus, you may exercise up to 25% of your Stock Options on the first Vesting Date, up to another 25% of your Stock Options on the second Vesting Date, and so on. The Expiration Date is seven (7) years from the Date of Grant. However, the Option Period may end sooner if your employment is terminated under certain circumstances.

II. TERMINATION OF EMPLOYMENT

If you cease to be an Employee or Director of the Company and all Subsidiaries, as the case may be, for any reason (other than as specified in clauses (i), (ii) or (iii) below), then your Stock Options that are exercisable as of the termination or cessation date shall be cancelled and forfeited at the end of the 120th day after such date and all Stock Options that are not exercisable as of the termination or cessation date shall be forfeited and cancelled as of such date; except that, in cases of where such termination of employment or cessation of service is a result of (i) death or Disability, in which case the Stock Options that are not then exercisable shall thereupon become exercisable and all Stock Options shall remain exercisable for the balance of their respective terms, (ii) resignation (other than for Retirement), in which case the Stock Options that are exercisable as of such termination or cessation date shall be cancelled and forfeited at the end of the 30th day after such date, and (iii) termination for Cause by the Company, a Subsidiary, or the Board, in which case all of the Stock Options, whether or not then exercisable, shall be cancelled and forfeited as of such termination date.

III. TRANSFERABILITY

In general, Stock Options may be exercised during your lifetime only by you and may not be assigned or otherwise transferred to anyone else; provided, however, that Options are transferable to family members, subject to certain restrictions and with certain tax implications. Options are transferable upon your death by will or the laws of distribution and descent.

IV. PAYMENT

When you exercise your Stock Options, you may pay the Option Price in cash, by check, with previously issued shares of PNG Common Stock (under certain circumstances), in accordance with a "cashless exercise program" or with a combination of the foregoing.

Penn National Gaming, Inc.
Understanding How Non-Qualified Stock Options Work

Congratulations on receiving a Penn National Gaming, Inc. ("PNG") Non-Qualified Stock Option. These Stock Options are designed so that you may share in the Company's success.

How Do Stock Options Work?

A stock option is the right, subject to certain conditions, to purchase shares of PNG Common Stock at a fixed price. The per share price at which Shares of Common Stock may be purchased when the Stock Option is exercised is referred to as the Option Price. The Option Price is fixed on the Date of Grant and does not change for the life of the Stock Option. However, the market price of PNG stock changes and will ultimately determine the gain, if any, from your Stock Option. If the value of PNG stock increases, you will be able to buy PNG stock below the market price at the time of exercise. For example, if you have been granted Stock Options to purchase 100 shares, at an Option Price of $25 and the price of PNG stock has grown to $40 on the date you choose to exercise, you would be able to purchase shares that are worth $4,000 for only $2,500, a pre-tax gain of $15 per share. You will be subject to Federal income tax with respect to the Stock Option when you exercise your Stock Option. **THE TAX RULES APPLICABLE TO NON-QUALIFIED STOCK OPTIONS ARE COMPLEX. YOU SHOULD CONSULT WITH YOUR FINANCIAL ADVISOR FOR MORE INFORMATION.**

Stock Option Basics

The ***Option Price*** is set at the closing sales price of a share of Common Stock of PNG stock on the immediately preceding business day of the date the Stock Option is awarded.

The ***vesting period*** is the waiting period from the ***Date of Grant*** to the ***Vesting Date*** during which you cannot exercise your Stock Option.

The ***Option Period*** is the time from the ***Vesting Date*** until the ***Expiration Date***, during which you can exercise your Stock Options, which means you can purchase shares of PNG stock at the Option Price.

Your Stock Option can no longer be exercised after the Expiration Date, which is seven (7) years after the Date of Grant. The Stock Option will expire sooner if you leave PNG under certain circumstances. For example, if you were granted a Stock Option to purchase 100 shares of PNG Common Stock, and you remain employed by PNG for ten years, the Stock Option is exercisable as follows:

Number of Shares	Vesting Period	Option Period
25 shares	Date of Grant - First Anniversary of Date of Grant	First Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Second Anniversary of Date of Grant	Second Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Third Anniversary of Date of Grant	Third Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Fourth Anniversary of Date of Grant	Fourth Anniversary of Date of Grant - Seventh Anniversary of Date of Grant

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Exhibit 10.34

PENN NATIONAL GAMING, INC.

NOTICE OF GRANT OF RESTRICTED STOCK

This is to notify you that an award of restricted shares of Common Stock of Penn National Gaming, Inc. (the "Company") has been granted pursuant to the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, as follows:

Name and Address
of Grantee:

Date of Grant: , 20

Type of Grant: Restricted Stock Award

Number of shares:

Fair market value per share: $ *(as of the close of business on)*

Total fair market value of award: $ *(as of the close of business on)*

Vesting Date(s)/Lapse of Restrictions:

shares on [1st anniversary of Date of Grant]
shares on [2nd anniversary of Date of Grant]
shares on [3rd anniversary of Date of Grant]
shares on [4th anniversary of Date of Grant]

OR

shares on [4th anniversary of Date of Grant]
shares on [5th anniversary of Date of Grant]

The grant is subject to all the terms and conditions of the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, a copy of which is available upon request.

GRANTEE

Date: _____ _____

PENN NATIONAL GAMING, INC.

Date: _____ _____

By: Robert S. Ippolito
Title: Vice President, Secretary and Treasurer

PENN NATIONAL GAMING, INC.
RESTRICTED STOCK AWARD AGREEMENT

All Restricted Stock is subject to the provisions of the 2008 Long Term Incentive Compensation Plan (the "Plan") and any rules and regulations established by the Compensation Committee of the Board of Directors of Penn National Gaming, Inc. A copy of the Plan is available upon request. Unless specifically defined herein, words used herein with initial capitalized letters are defined in the attached Notice or the Plan.

The terms provided herein are applicable to the Restricted Stock specified in the attached Notice. Different terms may apply to any prior or future awards under the Plan.

I. PAYMENT FOR SHARES

No payment is required for the Restricted Stock you receive.

II. VESTING/LAPSE OF RESTRICTIONS

Vesting of Restricted Stock means that the Restricted Stock may no longer be forfeited in the event you have a termination of employment (see the discussion of Forfeiture below). The lapse of restrictions means that the stock is fully transferable by you. Any stock for which the lapse of restrictions has not occurred may not be sold, transferred, pledged or otherwise disposed of by you.

The Restricted Stock vests and the restrictions on transfer lapse in [25% installments on each of the first, second, third and fourth anniversaries of the Date of Grant] OR[50% installments on each of the fourth and fifth anniversaries of the Date of Grant], if you continuously provide service as an Employee or Director, as the case may be, through such date. In addition, the Restricted Stock vests and the restrictions on transfer lapse as of the occurrence of any of the following events:

A. Your service as an Employee or Director of the Company, as the case may be, terminates because of death, Disability or Retirement; or

B. The Company is subject to a Change of Control (as defined in the Plan).

No additional shares of Restricted Stock vest after your service as an Employee or a Director of the Company, as the case may be, has terminated for any other reason.

III. FORFEITURE

If your service as an Employee or Director of the Company, as the case may be, terminates for any reason (other than death, Disability, or Retirement), then your shares of Restricted Stock will be forfeited to the extent that they have not vested before the termination date and do not vest as a result of the termination. This means that the Restricted Stock will immediately revert to the Company. You will receive no payment for shares of Restricted Stock that are forfeited.

IV. LEAVES OF ABSENCE

For purposes of this grant, your service does not terminate when you go on a leave of absence recognized under the Plan. Your service will terminate when the leave of absence ends, however, unless you immediately return to active work.

V. STOCK CERTIFICATES

The certificate(s) representing your Restricted Stock award will be held for you by the Company. After those shares have vested, a stock certificate for those shares will be released to you.

VI. VOTING AND DIVIDEND RIGHTS

You may vote your Restricted Stock and you will receive any dividends paid with respect to your Restricted Stock even before they vest. Dividends with respect to your Restricted Stock will be paid in a lump sum on the dates that dividends are payable on Common Stock of the Company to Company shareholders generally.

VII. WITHHOLDING TAXES

No stock certificates will be released or issued to you unless you have made acceptable arrangements to pay any withholding taxes that may be due as a result of this grant or the vesting of the shares. Those arrangements may include withholding shares of Company Common Stock that otherwise would be released to you when they vest. These arrangements may also include surrendering shares of Company Common Stock that you already own. The fair market value of the shares you surrender, determined as of the date when taxes otherwise would have been withheld in cash, will be applied as a credit against the withholding taxes.

VIII. RESTRICTIONS ON RESALE

By signing this Agreement, you agree not to sell any shares at a time when applicable laws or Company policies prohibit a sale. This restriction will apply as long as you are an Employee or Director of the Company, as the case may be.

IX. NO RIGHT TO CONTINUED SERVICE

A grant of Restricted Stock does not give you the right to continue in service with the Company in any capacity. The Company reserves the right to terminate your services at any time, with or without cause, subject to any employment agreement or other contract.

X. ADJUSTMENTS

In the event of a stock split, a stock dividend or a similar change in Company Common Stock, the number of Restricted Shares that remain subject to forfeiture will be adjusted accordingly.

XI. APPLICABLE LAW

This Agreement will be interpreted and enforced under the laws of the Commonwealth of Pennsylvania, without regard to its choice of law provisions.

XII. THE PLAN AND OTHER AGREEMENTS

The text of the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan is incorporated in this Agreement by reference.

This Agreement and the Plan constitute the entire understanding between you and the Company regarding this grant. Any prior agreements, commitments or negotiations concerning this grant are superseded. This Agreement may be amended only by another written agreement, signed by both parties.

BY SIGNING THE ATTACHED NOTICE,
YOU AGREE TO ALL OF THE TERMS AND CONDITIONS
DESCRIBED ABOVE AND IN THE PLAN.

EMPLOYMENT AGREEMENT

This EMPLOYMENT AGREEMENT (the "Agreement") is entered into on this 31st day of December, 2008 (the "Commencement Date") by and between Penn National Gaming, Inc., a Pennsylvania corporation (the "Company"), and John Finamore, an individual residing in Maryland ("Executive").

WHEREAS, Executive and Company are party to that certain Employment Agreement dated July 1, 2007 (the "Existing Agreement").

WHEREAS, the parties wish to replace the Existing Agreement with the terms set forth below in this Agreement, which are intended to be in compliance with the requirements of Section 409A of the Internal Revenue Code of 1986, as amended ("Section 409A", see also Section 21 hereof).

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

1. Employment. The Company hereby agrees to employ Executive and Executive hereby accepts such employment, in accordance with the terms, conditions and provisions hereinafter set forth.

1.1. Duties and Responsibilities. Executive shall serve as Senior Vice President, Regional Operations of the Company. Executive shall perform all duties and accept all responsibilities incident to such position as may be reasonably assigned to him by the President and Chief Operating Officer and the Board of Directors of the Company (the "Board"). Executive's principal place of employment shall be in Wyomissing, Pennsylvania.

1.2. Term. The term of this Agreement shall begin on the date hereof and shall terminate at the close of business on July 1, 2010 (the "Initial Term"), unless earlier terminated in accordance with Section 3 hereof. The term of this Agreement may be renewed for additional periods (each, a "Renewal Term" and, together with the Initial Term, the "Employment Term") only upon the execution of a written renewal by the parties hereto. Notwithstanding the foregoing to the contrary, Sections 5 through 21 shall survive any termination of the Employment Term until the expiration of any applicable time periods set forth in Sections 5, 6 and 7.

1.3. Extent of Service. Executive agrees to use Executive's best efforts to carry out Executive's duties and responsibilities and, consistent with the other provisions of this Agreement, to devote substantially all of Executive's business time, attention and energy thereto. The foregoing shall not be construed as preventing Executive from serving on the board of philanthropic organizations, or providing oversight with respect to his personal investments, so long as such service does not materially interfere with Executive's duties hereunder.

2. Compensation. For all services rendered by Executive to the Company, the Company shall compensate Executive as set forth below.

2.1. Base Salary. The Company shall pay Executive a base salary ("Base Salary"), commencing on the Commencement Date, at the annual rate of at least Five Hundred Thousand Dollars ($500,000), payable in installments at such times as the Company customarily pays its other senior executives ("Peer Executives"). Executive's performance and Base Salary shall be reviewed annually. Any increase in Base Salary or other compensation shall be made at the discretion of the Board or the compensation committee of the Board (the "Compensation Committee").

2.2. Cash Bonuses. Executive shall participate in the Company's annual incentive compensation plan applicable to Peer Executives. Each annual bonus award earned in a fiscal year shall be paid pursuant to the terms of the annual incentive plan document (if any) by March 15 of the immediately following fiscal year, unless the written bonus plan provides for a different payment date or unless Executive shall elect to defer the receipt of such bonus award pursuant to an arrangement that meets the requirements of Section 409A.

2.3. Equity Compensation. The Company may grant to Executive options or other equity compensation pursuant to, and subject to the terms and conditions of, the then current equity compensation plan of Penn National Gaming, Inc. The Compensation Committee shall set the amount and terms of such options or other equity compensation.

2.4. Other Benefits. Executive shall be entitled to participate in all other employee benefit plans and programs, including, without limitation, health, vacation, retirement, deferred compensation or SERP, made available to other Peer Executives, as such plans and programs may be in effect from time to time and subject to the eligibility requirements of the each plan. Nothing in this Agreement shall prevent the Company from amending or terminating any retirement, welfare or other employee benefit plans or programs from time to time, as the Company deems appropriate.

2.5. Vacation, Sick Leave and Holidays. Executive shall be entitled in each calendar year to four (4) weeks of paid vacation time. Each vacation shall be taken by Executive at such time or times as agreed upon by the Company and Executive, and any portion of Executive's allowable vacation time not used during the calendar year shall be subject to the Company's payroll policies regarding carryover vacation. Executive shall be entitled to holiday and sick leave in accordance with the Company's holiday and other pay for time not worked policies.

2.6. Reimbursement of Expenses. Executive shall be provided with reimbursement of reasonable expenses related to Executive's employment by the Company on a basis no less favorable than that authorized from time to time for Peer Executives. Such reimbursements shall be made in such manner and at such times as provided in the reimbursement policies applicable to Peer Executives.

2.7. Life Insurance. Company shall maintain life insurance on the Executive in the amount of $1,000,000, subject to insurability, and Executive may name the beneficiary of such policy. Some or all of such coverage may be maintained pursuant to the Company's group-term life insurance policy.

3. Termination. Executive's employment may be terminated prior to the end of the Employment Term in accordance with, and subject to the terms and conditions, set forth below.

3.1. Termination by the Company.

(a) Without Cause. The Company may terminate Executive's employment at any time without Cause (as such term is defined in subsection (b) below) upon delivery of written notice to Executive, which notice shall set forth the effective date of such termination.

(b) With Cause. The Company may terminate Executive's employment at any time for Cause effective immediately upon delivery of written notice to Executive. As used herein, the term "Cause" shall mean:

(i) Executive shall have been convicted of a felony or any misdemeanor involving allegations of fraud, theft, perjury or conspiracy;

(ii) Executive is found disqualified or not suitable to hold a casino or other gaming license by a governmental gaming authority in any jurisdiction where Executive is required to be found qualified, suitable or licensed;

(iii) Executive materially breaches any material Company policy or any material term hereof, including, without limitation, Sections 4 through 7 and, in each case, fails to cure such breach within 15 days after receipt of written notice thereof; or

(iv) Executive misappropriates corporate funds as determined in good faith by the Board.

3.2. Termination by the Executive. Executive may voluntarily terminate employment for any reason effective upon 60 days' prior written notice to the Company, unless the Company waives such notice requirement (in which case the Company shall notify Executive in writing as to the effective date of termination).

3.3. Termination for Death or Disability. In the event of the death or total disability of Executive, Executive's employment shall terminate effective as of the date of Executive's death or disability. The term "disability" shall have the definition set forth in the Company's Long Term Disability Insurance Policy in effect at the time of such determination.

3.4. Payments Due Upon Termination.

(a) Already Accrued Base Salary and Expense. Upon any termination of employment during the Employment Term, Executive shall be entitled to receive any amounts due for Base Salary accrued but unpaid through the effective date of termination, and such amounts shall be paid in accordance with the Company's then current payroll system for Peer

Executives. Any expenses incurred but not reimbursed through the effective date of termination shall be paid at such time and in such manner as provided under the Company's expense reimbursement policy applicable to Peer Executives.

(b) Severance Pay and Benefits. Subject to the conditions in subsection (c) hereof, if Executive's employment is terminated under Section 3.1(a) or Section 3.3 or if Executive delivers a written notice of resignation within 30 days after the expiration of the Employment Term, the Company does not offer to renew the Employment Term during such 30-day period on terms no less favorable in the aggregate to the Executive than those contained herein and Executive thereupon terminates his employment at the end of such 30-day period, then Executive will be entitled to receive, and the Company will provide Executive with, the following severance pay and benefits (in addition to any amounts payable under subsection (a) hereof); provided, for purposes of Section 409A, each payment (whether an installment or lump sum) of severance pay under this subsection (b) shall be considered a separate payment:

(i) Amount of Post-Employment Base Salary and Bonus. The Company shall pay to Executive an amount equal to the product of (A) the sum of (1) Executive's monthly Base Salary at the highest rate in effect during the 24-month period immediately preceding the date of Executive's termination of employment (the "Termination Date"), and (2) Executive's monthly bonus value (determined by dividing by 12 the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Termination Date; and (B) the greater of (1) the number of full and partial months remaining in the Employment Term as of the Termination Date, and (2) 18 (with the period described in clause (B) hereof being referred to as the "Severance Period").

(ii) Payment of Post-Employment Base Salary and Bonus. The amount described in subsection (b)(i) shall be paid to Executive in cash in two lump-sum payments as follows: (A) 75% of such amount shall be paid within 15 days after the Termination Date but no later than March 15 of the calendar year following the year in which this payment vests; and (B) the remaining 25% of such amount shall be paid in a lump sum by March 15 of the calendar year following the calendar year in which this payment vests.

(iii) Continued Medical Benefits Coverage. During the Severance Period, the Company shall provide Executive, and, if any, Executive's spouse and dependents with medical benefits coverage substantially similar to the coverage in effect on the effective date of termination. After the Severance Period, Executive and his dependents will have the opportunity under the provisions of the Consolidated Omnibus Budget Reconciliation Act of 1986 ("COBRA") to elect COBRA continuation coverage. If elected in a timely manner, COBRA coverage generally will commence as of the first day of the next calendar month after the end of the Severance Period and will end on the last day of the 18th month thereafter (unless an earlier end date or an extension is required under COBRA).

(iv) Vesting of Stock Options. All options granted to Executive that would have vested during the Severance Period shall vest as of the Termination Date, provided,

however, that any such options may not be exercised during the Severance Period until the same time(s) as such options would have vested had Executive continued to be employed through the Severance Period. Any options that would not have vested during the Severance Period shall terminate on the Termination Date.

(c) Release Agreement. Executive's entitlement to any severance pay and benefit subsidies under Section 3(b) is conditioned upon Executive's first entering into a release agreement in substantially the form attached hereto as Exhibit "A"; provided, such release agreement shall be delivered to Executive within 7 days after the Termination Date. Any payment of severance pay or benefit subsidies due under subsection (b) hereof shall be delayed until after the expiration of the 7-day revocation period required for an effective age-based release, and any amount otherwise due under said subsection (b) before the end of such revocation period shall be paid upon the day after the end of such period in a single lump-sum payment, but not later than March 15 of the calendar year following the calendar year in which the Termination Date occurs.

(b) No Other Payments or Benefits. Except as otherwise provided in this Section 3.4, Section 8 or Section 9, no other payments or benefits shall be due under this Agreement to Executive

3.5. Notice of Termination. Any termination of Executive's employment shall be communicated by a written notice of termination delivered within the time period specified in this Section 3. The notice of termination shall (i) indicate the specific termination provision in this Agreement relied upon, (ii) briefly summarize the facts and circumstances deemed to provide a basis for a termination of employment and the applicable provision hereof, and (iii) specify the termination date in accordance with the requirements of this Agreement.

4. No Conflicts of Interest. Executive agrees that throughout the period of Executive's employment hereunder or otherwise, Executive will not perform any activities or services, or accept other employment that would materially interfere with or present a conflict of interest concerning Executive's employment with the Company. Executive agrees and acknowledges that Executive's employment by the Company is conditioned upon Executive adhering to and complying with the business practices and requirements of ethical conduct set forth in writing from time to time by the Company in its employee manual or similar publication. Executive represents and warrants that no other contract, agreement or understanding to which Executive is a party or may be subject will be violated by the execution of this Agreement by Executive.

5. Confidentiality. Executive recognizes and acknowledges that Executive will have access to certain confidential information of the Company and that such information constitutes valuable, special and unique property of the Company (including, but not limited to, information such as business strategies, identity of acquisition or growth targets, marketing plans, customer lists, and other business related information for the Company's customers). Executive agrees that Executive will not, for any reason or purpose whatsoever, during or after the term of employment, disclose any of such confidential information to any party, and that Executive will keep inviolate and secret all confidential information or knowledge which Executive has access to by virtue of Executive's employment with the Company, except as otherwise may be necessary in the ordinary course of performing Executive's duties with the Company.

6. Non-Competition.

(a) As used herein, the term "Restriction Period" shall mean a period equal to: (i) the remainder of the Employment Term in effect on the effective date of termination if Executive resigns other than for Good Reason, or (ii) the Severance Period if Executive's employment is terminated for one of the events specified in Section 3.4(b). In the event the Executive is terminated by the Company for one of the events specified in Section 3.4(b), during the Severance Period Executive may elect to terminate the Restriction Period at any time by delivering written notice to the Company that Executive has made such election and that, in consideration therefore, is forfeiting the right to receive any payment or the right to receive any future payments under Section 3.4(b) or an equivalent amount under Section 8; provided however, if Executive elects to reduce the geographic limitation of this non-competition provision, and Executive has already received payment pursuant to Section 3.4(b) or an equivalent amount under Section 8, Executive shall reimburse the Company for that portion of the severance payments already received by Executive which relates to the number of days left in the Severance Period. For clarity, regardless of whether Executive shall receive payments pursuant to Section 3.4(b) or Section 8 of this Agreement in order to reduce the Restriction Period, Executive shall only be required to forfeit or re-pay the amounts that Executive would have received pursuant to Section 3.4(b). In that case, Executive may nevertheless receive payments and/or need not reimburse the Company for any amounts paid to Executive pursuant to Section 8 which are in excess of the payments and benefits that Executive would have been entitled to receive under Section 3.4(b). If Executive terminates his employment for good Reason, then Executive shall not be subject to the provisions of this Section 6.

(b) During Executive's employment by the Company and for the duration of the Restriction Period thereafter, Executive shall not, except with the prior written consent of the Company, directly or indirectly, own, manage, operate, join, control, finance or participate in the ownership, management, operation, control or financing of, or be connected as an officer, director, employee, partner, principal, agent, representative, consultant or otherwise with, or use or permit Executive's name to be used in connection with, any business or enterprise which owns or operates, or is actively seeking to own or operate, a gaming or pari-mutuel located within North America.

(c) The foregoing restrictions shall not be construed to prohibit Executive's ownership of less than 5% of any class of securities of any corporation which is engaged in any of the foregoing businesses and has a class of securities registered pursuant to the Securities Exchange Act of 1934, provided that such ownership represents a passive investment and that neither Executive nor any group of persons including Executive in any way, either directly or indirectly, manages or exercises control of any such corporation, guarantees any of its financial obligations, otherwise takes any part in its business, other than exercising Executive's rights as a shareholder, or seeks to do any of the foregoing.

(d) Executive acknowledges that the covenants contained in Sections 5 through 7 hereof are reasonable and necessary to protect the legitimate interests of the Company and its affiliates and, in particular, that the duration and geographic scope of such covenants are reasonable given the nature of this Agreement and the position that Executive will hold within

the Company. Executive further agrees to disclose the existence and terms of such covenants to any employer that Executive works for during the Restriction Period.

7. Non-Solicitation. During Executive's employment by the Company and for a period equal to the greater of the Restriction Period or one year after the effective date of termination, Executive will not, except with the prior written consent of the Company, (i) directly or indirectly, solicit or hire, or encourage the solicitation or hiring of, any person who is, or was within a six month period prior to such solicitation or hiring, an executive or management employee of the Company or any of its affiliates for any position as an employee, independent contractor, consultant or otherwise or (ii) divert or attempt to divert any existing business of the Company or any of its affiliates.

8. Change of Control.

8.1. Consideration

(a) Change of Control. In the event of a Change of Control (as defined below), Executive shall be entitled to receive a cash payment in an amount equal to the product of three times the sum of (i) the highest annual rate of Base Salary in effect for Executive during the 24-month period immediately preceding the effective date of the Change in Control (the "Trigger Date") and (ii) the highest amount of annual cash bonus compensation paid to Executive in respect of either the first or second full calendar year immediately preceding the Trigger Date.

(b) Restrictive Provisions. As consideration for the foregoing payments, Executive agrees not to challenge the enforceability of any of the restrictions contained in Sections 5, 6 or 7 of this Agreement upon or after the occurrence of a Change of Control.

8.2. Payment Terms. This change of control payment shall be made in two lump sum payments as follows: (i) 75% of such amount shall be paid to Executive in a lump-sum cash payment upon the Trigger Date; and (ii) 25% of such amount shall be paid to Executive in a lump-sum cash payment upon the 75th day following the Trigger Date, but not later than March 15 of the calendar year following the calendar year in which the Trigger Date occurs. Notwithstanding any of the foregoing to the contrary, the payment contemplated by clause (ii) shall be paid immediately upon the earlier occurrence of any of the following: (a) Executive's employment is terminated by the Company; or (b) Executive terminates employment for Good Reason (as defined below).

8.3. Certain Other Terms. In the event payments are being made to Executive under this Section 8, no payments shall be due under Section 3.4(b)(i) with respect to any termination of Executive's employment following a Change of Control. At the option of the Company, the Company may require Executive to execute the release attached hereto as Exhibit A; provided, however, that this requirement shall not in any way alter the timing of the payments to be made under Section 8.2. In the event that the Company announces that it has signed a definitive agreement with respect to a Change of Control, the provisions of this Section 8 shall continue to apply to Executive if, during the period after the public announcement and immediately preceding the date such transaction is consummated or terminated, the Company terminates

Executive's employment without Cause or due to a disability; provided, however, that, in such event, any amount payable under this Section 8 shall be reduced by any payments received pursuant to Section 3.4(b)(i).

8.4. Defined Terms.

(a) The term Change of Control shall have the meaning given to such term in the Company's 2008 Long Term Incentive Compensation Plan, as such may be amended or modified.

(b) Good Reason. The occurrence of any of the following events that the Company fails to cure within 10 days after receiving written notice thereof from Executive: (i) assignment to Executive of any duties inconsistent in any material respect with Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities or inconsistent with Executive's legal or fiduciary obligations; (ii) any reduction in Executive's compensation or substantial reduction in Executive's benefits taken as a whole; (iii) any travel requirements materially greater than Executive's travel requirements prior to the Change of Control; or (iv) breach of any material term of this Agreement by the Company.

9. Certain Tax Matters.

9.1. Generally. In the event Executive becomes entitled to receive the payments (the "Severance Payments") provided under Section 3 or Section 8 hereof or under any other plan or arrangement providing for payments under circumstances similar to those contemplated by such sections, and if any of the Severance Payments will be subject to the tax (the "Excise Tax") imposed by Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code"), the Company shall pay to Executive at the time specified for such payments, an additional amount (the "Gross-Up Payment") such that the net amount retained by Executive shall be equal to the amount of the Severance Payments after deducting normal and ordinary taxes but not deducting (a) the Excise Tax and (b) any federal, state and local income tax and Excise Tax payable on the payment provided for by this Section 9.

9.2. Illustration. For example, if the Severance Payments are $1,000,000 and if Executive is subject to the Excise Tax, then the Gross-Up Payment will be such that Executive will retain an amount of $1,000,000 less only any normal and ordinary taxes on such amount. The Excise Tax and

federal, state and local taxes and any Excise Tax on the payment provided by this Section 9 will not be deemed normal and ordinary taxes.

9.3. Certain Terms. For purposes of determining whether any of the Severance Payments will be subject to the Excise Tax and the amount of such Excise Tax, the following will apply:

(a) Any other payments or benefits received or to be received by Executive in connection with a Change in Control of the Company or Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the Company shall be treated as "parachute payments" within the meaning of Section 280G(b)(2) of the Code, and all "excess parachute payments" within the meaning of Section 280G(b)(1) shall be treated as subject to the Excise Tax, unless in the opinion of tax

counsel selected by the Company's Compensation Committee and acceptable to Executive, such other payments or benefits (in whole or in part) do not constitute parachute payments, or such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered within the meaning of Section 280G(b)(4) of the Code in excess of the base amount within the meaning of Section 280G(b)(3) of the Code, or are otherwise not subject to the Excise Tax;

(b) The amount of the Severance Payments which shall be treated as subject to the Excise Tax shall be equal to the lesser of (y) the total amount of the Severance Payments or (z) the amount of excess parachute payments within the meaning of Section 280G(b)(1) (after applying subsection (a), above); and

(c) The value of any non-cash benefits or any deferred payment or benefit shall be determined by the Company's independent auditors in accordance with proposed, temporary or final regulations under Sections 280G(d)(3) and (4) of the Code or, in the absence of such regulations, in accordance with the principles of Section 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, Executive shall be deemed to pay federal income taxes at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of Executive on the Trigger Date, net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes; and

(d) In the event that the amount of Excise Tax attributable to Severance Payments is subsequently determined to be less than the amount taken into account hereunder at the time of determination then, subject to applicable law, appropriate adjustments will be made with respect to future payment(s) hereunder (if any). If Executive becomes entitled to a Gross-Up Payment in excess of the amount initially determined and paid under Section 9.1, the Company shall pay the additional Gross-Up Payment within five (5) business days of the date on which the Company is notified of the amount of the Gross-Up Payment, but only to the extent that the Gross-Up Payment would be made by the March 15 following the calendar year in which the Executive would be considered to have vested in the Gross-Up Payment for purposes of Section 409A. To the extent any Gross-Up Payment is greater than initially determined and paid under Section 9.1 and cannot be made by the March 15 following the end of the calendar year in which the Executive vests in such payment, then the Company shall instead make the payment promptly following the date on which the Executive remits the taxes to which the Gross-Up Payment relates to the applicable taxing authority, and in no event later than the last day of the calendar year following the calendar year in which such taxes are remitted; provided, however, that if the Executive is a key employee (within the meaning of Section 409A) and the Gross-Up Payment would be considered deferred compensation payable on account of Executive's separation from service (as defined in Section 409A), payment will in no event be made prior to 6 months after the date of Executive's separation from service.

9.4. Fees and Expenses. The Company shall reimburse Executive for all reasonable legal fees and expenses incurred by Executive in connection with any tax audit or proceeding to the extent attributable to the application of Section 4999 of the Code or any regulations pertaining thereto to any payment or benefit provided hereunder. Any expense reimbursements

made to satisfy the terms of this section shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to the Company (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any benefits under this paragraph shall not be subject to liquidation or exchange for another benefit.

10. Document Surrender. Upon the termination of Executive's employment for any reason, Executive shall immediately surrender and deliver to the Company all documents, correspondence and any other information, of any type whatsoever, from the Company or any of its agents, servants, employees, suppliers, and existing or potential customers, that came into Executive's possession by any means whatsoever, during the course of employment.

11. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws (and not the law of conflicts) of the Commonwealth of Pennsylvania.

12. Jurisdiction. The parties hereby irrevocably consent to the jurisdiction of the courts of the Commonwealth of Pennsylvania for all purposes in connection with any action or proceeding which arises out of or relates to this Agreement and agree that any action instituted under this Agreement shall be commenced, prosecuted and continued only in the state or federal courts having jurisdiction for matters arising in Wyomissing, Pennsylvania, which shall be the exclusive and only proper forum for adjudicating such a claim.

13. Notices. All notices and other communications required or permitted under this Agreement or necessary or convenient in connection herewith shall be in writing and shall be deemed to have been given when hand delivered, delivered by guaranteed next-day delivery or sent by facsimile (with confirmation of transmission) or shall be deemed given on the third business day when mailed by registered or certified mail, as follows (provided that notice of change of address shall be deemed given only when received):

If to the Company, to:

Penn National Gaming, Inc.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Fax: (610) 376-2842

Attention: Chairman

If to Executive, to:

His then current home address.

or to such other names or addresses as the Company or Executive, as the case may be, shall designate by notice to each other person entitled to receive notices in the manner specified in this Section.

14. Contents of Agreement; Amendment and Assignment.

14.1. This Agreement sets forth the entire understanding between the parties hereto with respect to the subject matter hereof and supersedes all prior or contemporaneous agreements or understandings with respect to thereto, including without limitation, the Initial Agreement which is hereby terminated. This Agreement cannot be changed, modified, extended, waived or terminated except upon a written instrument signed by the party against which it is to be enforced.

14.2. Executive may not assign any of his rights or obligations under this Agreement. The Company may assign its rights and obligations under this Agreement to any successor to all or substantially all of its assets or business by means of liquidation, dissolution, merger, consolidation, transfer of assets or otherwise.

15. Severability. If any provision of this Agreement or application thereof to anyone or under any circumstances is adjudicated to be invalid or unenforceable in any jurisdiction, such invalidity or unenforceability shall not affect any other provision or application of this Agreement which can be given effect without the invalid or unenforceable provision or application and shall not invalidate or render unenforceable such provision or application in any other jurisdiction. If any provision is held void, invalid or unenforceable with respect to particular circumstances, it shall nevertheless remain in full force and effect in all other circumstances. In addition, if any court determines that any part of Sections 5, 6 or 7 hereof is unenforceable because of its duration, geographical scope or otherwise, such court will have the power to modify such provision and, in its modified form, such provision will then be enforceable.

16. Remedies.

16.1. No remedy conferred upon a party by this Agreement is intended to be exclusive of any other remedy, and each and every such remedy shall be cumulative and shall be in addition to any other remedy given under this Agreement or now or hereafter existing at law or in equity.

16.2. No delay or omission by a party in exercising any right, remedy or power under this Agreement or existing at law or in equity shall be construed as a waiver thereof, and any such right, remedy or power may be exercised by such party from time to time and as often as may be deemed expedient or necessary by such party in its sole discretion.

16.3. Executive acknowledges that money damages would not be a sufficient remedy for any breach of this Agreement by Executive and that the Company shall be entitled to specific performance and injunctive relief as remedies for any such breach, in addition to all other remedies available at law or equity to the Company.

17. Construction. This Agreement is the result of thoughtful negotiations and reflects an arms' length bargain between two sophisticated parties, each represented by counsel. The parties agree that, if this Agreement requires interpretation, neither party should be considered "the drafter" nor be entitled to any presumption that ambiguities are to be resolved in his or her favor.

18. Beneficiaries/References. Executive shall be entitled, to the extent permitted under any applicable law, to select and change a beneficiary or beneficiaries to receive any compensation or benefit payable under this Agreement following Executive's death by giving the Company written notice thereof. In the event of Executive's death or a judicial determination of Executive's incompetence, reference in this Agreement to Executive shall be deemed, where appropriate, to refer to Executive's beneficiary, estate or other legal representative.

19. Withholding. All payments under this Agreement shall be made subject to applicable tax withholding, and the Company shall withhold from any payments under this Agreement all federal, state and local taxes, as the Company is required to withhold pursuant to any law or governmental rule or regulation. Except as specifically provided otherwise in this Agreement, Executive shall bear all expense of, and be solely responsible for, all federal, state and local taxes due with respect to any payment received under this Agreement.

20. Regulatory Compliance. The terms and provisions hereof shall be conditioned on and subject to compliance with all laws, rules, and regulations of all jurisdictions, or agencies, boards or commissions thereof, having regulatory jurisdiction over the employment or activities of Executive hereunder.

21. Section 409A. This Agreement is intended to comply with the requirements of Section 409A and shall be construed accordingly. Any payments or distributions to be made to Employee under this Agreement upon a separation from service (as defined in Section 409A) of amounts classified as "nonqualified deferred compensation" for purposes of Code Section 409A, shall in no event be made or commence until 6 months after such separation from service. Each payment of nonqualified deferred compensation under this Agreement shall be treated as a separate payment for purposes of Code Section 409A. Any reimbursements made pursuant to this Agreement shall be paid as soon as practicable but no later than 90 days after Employee submits evidence of such expenses to Corporation (which payment date shall in no event be later than the last day of the calendar year following the calendar year in which the expense was incurred). The amount of such reimbursements during any calendar year shall not affect the benefits provided in any other calendar year, and the right to any such benefits shall not be subject to liquidation or exchange for another benefit.

IN WITNESS WHEREOF, the undersigned, intending to be legally bound, have executed this Agreement as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/ Peter M. Carlino
Name: Peter M. Carlino
Title: Chairman and Chief Executive Officer

EXECUTIVE

/s/ John Finamore
John Finamore

Exhibit A

SEPARATION AGREEMENT AND GENERAL RELEASE

This is a Separation Agreement and General Release (hereinafter referred to as the "Agreement") between (hereinafter referred to as the "Employee") and Penn National Gaming, Inc. (hereinafter referred to as the "Employer"). In consideration of the mutual promises and commitments made in this Agreement, and intending to be legally bound, Employee, on the one hand, and the Employer on the other hand, agree to the terms set forth in this Agreement.

1. Employer and Employee hereby acknowledge that [the Company notified Employee/Employee notified the Company on that Executive's employment pursuant to that certain Employment Agreement executed on ("Employment Agreement") would be terminated as of [ ]. Upon the termination of the Employment Agreement, Employee will be subject to the obligations and be the beneficiary of the surviving benefits, all as described in the Employment Agreement. Employee's last day of work will be .

2. (a) When used in this Agreement, the word "Releasees" means the Employer and all or any of its past and present parent, subsidiary and affiliated corporations, companies, partnerships, joint ventures and other entities and their groups, divisions, departments and units, and their past and present directors, trustees, officers, managers, partners, supervisors, employees, attorneys, agents and consultants, and their predecessors, successors and assigns.

(b) When used in this Agreement, the word "Claims" means each and every claim, complaint, cause of action, and grievance, whether known or unknown and whether fixed or contingent, and each and every promise, assurance, contract, representation, guarantee, warranty, right and commitment of any kind, whether known or unknown and whether fixed or contingent.

3. In consideration of the promises of the Employer set forth in this Agreement and the Employment Agreement, and intending to be legally bound, Employee hereby irrevocably remises, releases and forever discharges all Releasees of and from any and all Claims that he (on behalf of either himself or any other person or persons) ever had or now has against any and all of the Releasees, or which he (or his heirs, executors, administrators or assigns or any of them) hereafter can, shall or may have against any and all of the Releasees, for or by reason of any cause, matter, thing, occurrence or event whatsoever through the effective date of this Agreement. Employee acknowledges and agrees that the Claims released in this paragraph include, but are not limited to, (a) any and all Claims based on any law, statute or constitution or based on contract or in tort on common law, and (b) any and all Claims based on or arising under any civil rights laws, such as any Pennsylvania employment laws, or Title VII of the Civil Rights Act of 1964 (42 U.S.C. § 2000e et seq.), or the Federal Age Discrimination in Employment Act (29 U.S.C. § 621 et seq.) (hereinafter referred to as the "ADEA"), and (c) any and all Claims under any grievance or complaint procedure of any kind, and (d) any and all Claims based on or arising out of or related to his recruitment by, employment with, the termination of his employment with, his performance of any services in any capacity for, or any business transaction with, each or any of the Releasees. Employee also understands, that by signing this Agreement, he is waiving all Claims against any and all of the Releasees released by this Agreement; provided, however, that as set forth in section 7 (f) (1) (c) of the ADEA, as added by the Older Workers Benefit Protection Act of 1990, nothing in this Agreement constitutes or shall (i) be construed to constitute a waiver by Employee of any rights or claims that may arise after this Agreement is executed by

Employee, or (ii) impair Employee's right to file a charge with the U.S. Equal Employment Opportunity Commission ("EEOC") or any state agency or to participate in an investigation or proceeding conducted by the EEOC or any state agency.

4. In consideration of the promises of the Employee set forth in this Agreement and the Employment Agreement and intending to be legally bound, Employer hereby irrevocably remises, releases and forever discharges Employee and his heirs, successors and assigns from any and all Claims that the Employer ever had or now has though the effective date of this Agreement.

5. Employee and Employer covenant and agree not to sue each other or any of the Releasees for any Claims released by this Agreement and to waive any recovery related to any Claims covered by this Agreement.

6. Employee agrees to provide reasonable transition assistance to Employer (including without limitation assistance on regulatory matters, operational matters and in connection with litigation) for a period of one year from the execution of this Agreement at no additional cost; provided, such assistance shall not unreasonably interfere with Employee's pursuit of gainful employment or result in Employee not having a separation from service (as defined in Section 409A of the Internal Revenue Code of 1986). Any assistance beyond this period will be provided at a mutually agreed cost. Employee further agrees that he will return to the Employer all property in his possession, including, but not limited to, keys, identification cards and credit cards, files, records, publications, address lists and documents that belong to each or any of the Releasees. Such documents also include, without limitation, any documents created or made by Employee during his employment with the Employer.

7. Employee agrees that, except as specifically provided in this Agreement and the Employment Agreement, there are no compensation, benefits, or other payments due or owed to him by each or any of the Releasees.

8. Except where disclosure has been made by the Company pursuant to applicable federal or state law, rule or regulation, Employee agrees that the terms of this Agreement are confidential and that he will not disclose or publicize the terms of this Agreement and the amounts paid or agreed to be paid pursuant to this Agreement to any person or entity, except to his spouse, his attorney, his accountant, and to a government agency for the purpose of payment or collection of taxes or application for unemployment compensation benefits. Employee agrees that his disclosure of the terms of this Agreement to his spouse, his attorney and his accountant shall be conditioned upon his obtaining agreement from them, for the benefit of the Employer, not to disclose or publicize to any person or entity the terms of this Agreement and the amounts paid or agreed to be paid under this Agreement. Further, Employer and Employee agree not to make any false, misleading, defamatory or disparaging communications about the other party (including without limitation Employer's products, services, partners, investors or personnel) and to refrain from taking any action designed to harm the public perception of the other party or the Releasees. Employee further agrees that he has disclosed to Employer all information, if any, in his possession, custody or control related to any legal, compliance or regulatory obligations of Employer and any failures to meet such obligations.

9. The terms of this Agreement are not to be considered as an admission on behalf of either party. Neither this Agreement nor its terms shall be admissible as evidence of any liability or wrongdoing by each or any of the Releasees in any judicial, administrative or other proceeding now pending or hereafter instituted by any person or entity. The Employer is entering into this Agreement solely for the purpose of effectuating a mutually satisfactory separation of Employee's employment.

10. All provisions of this Agreement are severable and if any of them is determined to be invalid or unenforceable for any reason, the remaining provisions and portions of this Agreement shall be unaffected thereby and shall remain in full force to the fullest extent permitted by law.

11. This Agreement shall be governed by and interpreted under and in accordance with the laws of Pennsylvania. Any suit, claim or cause of action arising under or related to this Agreement shall be submitted by the parties hereto to the exclusive jurisdiction of the courts of Pennsylvania or to the federal courts located therein if they otherwise have jurisdiction. The breach of any promise in this Agreement by any party shall not invalidate this Agreement or the release and shall not be a defense to the enforcement of the Agreement against any party.

12. This Agreement constitutes a complete and final agreement between the parties and supersedes and replaces all prior or contemporaneous agreements, offer letters, negotiations, or discussions relating to the subject matter of this Agreement. With the exception of the Employment Agreement, no other agreement shall be binding upon each or any of the Releasees, including, but not limited to, any agreement made hereafter, unless in writing and signed by an officer of the Employer, and only such agreement shall be binding against the Employer.

13. Employee is advised, and acknowledges that he has been advised, to consult with an attorney before signing this Agreement.

14. Employee acknowledges that he is signing this Agreement voluntarily, with full knowledge of the nature and consequences of its terms.

15. All executed copies of this Agreement and photocopies thereof shall have the same force and effect and shall be as legally binding and enforceable as the original.

16. Employee acknowledges that he has been given up to twenty-one (21) days within which to consider this Agreement before signing it. Subject to paragraph 17 below, this Agreement will become effective on the date of Employee's signature hereof.

17. For a period of seven (7) calendar days following his signature of this Agreement, Employee may revoke the Agreement, and the Agreement shall not become effective or enforceable until the seven (7) day revocation period has expired. Employee may revoke this Agreement at any time within that seven (7) day period, by sending a written notice of revocation to the . Such written notice must be actually received by the Employer within that seven (7) day period in order to be valid. If a valid revocation is received within that seven (7) day period, this

Agreement shall be null and void for all purposes. Payment of the severance pay amount set forth in the Employment Agreement will be paid in the manner and at the time(s) described in the Employment Agreement.

IN WITNESS WHEREOF, the Parties have read, understand and do voluntarily execute this Separation Agreement and General Release which consists of four pages.

EMPLOYER	EMPLOYEE
By: _____	_____
Date: _____	Date: _____

CONFIDENTIAL

Exhibit 21.1

Subsidiaries of Penn National Gaming, Inc.

Name of Subsidiary	State or Other Jurisdiction of Incorporation
Penn National Gaming, Inc.	Pennsylvania
Bangor Historic Track, Inc.	Maine
BSL, Inc.	Mississippi
BTN, Inc.	Mississippi
CHC Casinos Canada Limited	Nova Scotia
CHC Casinos Corp.	Florida
CHC (Ontario) Supplies Limited	Nova Scotia
CRC Holdings, Inc.	Florida
Casino Rama Services, Inc.	Ontario
Delvest Corp.	Delaware
Hollywood Casino Corporation	Delaware
HWCC—Tunica, Inc.	Texas
Hollywood Casino—Aurora, Inc.	Illinois
Kansa Penn Gaming LLC	Delaware
Louisiana Casino Cruises, Inc.	Louisiana
Mountainview Thoroughbred Racing Association	Pennsylvania
PNGI Charles Town Gaming Limited Liability Company	West Virginia
Penn Bullpen, Inc.	Colorado
Penn Bullwhackers, Inc.	Colorado
Penn National GSFR, LLC	Delaware
Penn National Holding Company	Delaware
Pennsylvania National Turf Club, Inc.	Pennsylvania
Pennwood Racing, Inc.	Delaware
Penn Bullwhackers Retail, LLC	Colorado
Penn Sanford, LLC	Delaware
SOKC, LLC	Delaware
Zia Park LLC	Delaware
Argosy Gaming Company	Delaware
Alton Gaming Company	Illinois
The Indiana Gaming Company	Indiana
Indiana Gaming Holding Company	Indiana
Iowa Gaming Company	Iowa
Argosy of Iowa, Inc.	Iowa
The Missouri Gaming Company	Missouri
Empress Casino Joliet Corporation	Illinois
Indiana Gaming II, L.P.	Indiana
Indiana Gaming Company, L.P.	Indiana
Belle of Sioux City, L.P.	Iowa
Ohio Racing Company	Ohio
Raceway Park, Inc.	Ohio
Crazy Horses, Inc.	Ohio

QuickLinks

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Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-3 No. 333-156487) of Penn National Gaming, Inc.,

(2) Registration Statement (Form S-8 No. 333-125928) pertaining to the Nonqualified Stock Option Agreement with Peter M. Carlino,

(3) Registration Statement (Form S-8 No. 333-108173) pertaining to the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan, and

(4) Registration Statement (Form S-8 No. 333-61684) pertaining to the Amended and Restated Penn National Gaming, Inc. 1994 Stock Option Plan;

of our reports dated February 27, 2009, with respect to the consolidated financial statements of Penn National Gaming, Inc. and the effectiveness of internal control over financial reporting of Penn National Gaming, Inc., included in the Annual Report (Form 10-K) for the year ended December 31, 2008

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 27, 2009

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Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, Peter M. Carlino, certify that:

1. I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: Date: March 2, 2009

/s/ PETER M. CARLINO

Name: Peter M. Carlino
Title: *Chief Executive Officer*

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Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, William J. Clifford, certify that:

1. I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: Date: March 2, 2009

/s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: *Chief Financial Officer*

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EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
18 U.S.C. SECTION 1350

In connection with the Annual Report of Penn National Gaming, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2008 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Peter M. Carlino, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ PETER M. CARLINO

Peter M. Carlino
Chief Executive Officer
March 2, 2009

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EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002,
18 U.S.C. SECTION 1350

In connection with the Annual Report of Penn National Gaming, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2008 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Clifford, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ WILLIAM J. CLIFFORD

William J. Clifford
Chief Financial Officer
March 2, 2009

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Exhibit 99.1

Description of Governmental Regulations

General

The ownership, operation, and management of our gaming and racing facilities are subject to pervasive regulation under the laws and regulations of each of the jurisdictions in which we operate. Gaming laws are generally based upon declarations of public policy designed to protect gaming consumers and the viability and integrity of the gaming industry. Gaming laws also may be designed to protect and maximize state and local revenues derived through taxes and licensing fees imposed on gaming industry participants as well as to enhance economic development and tourism. To accomplish these public policy goals, gaming laws establish procedures to ensure that participants in the gaming industry meet certain standards of character and fitness. In addition, gaming laws require gaming industry participants to:

- Ensure that unsuitable individuals and organizations have no role in gaming operations;
- Establish procedures designed to prevent cheating and fraudulent practices;
- Establish and maintain responsible accounting practices and procedures;
- Maintain effective controls over their financial practices, including establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues;
- Maintain systems for reliable record keeping;
- File periodic reports with gaming regulators;
- Ensure that contracts and financial transactions are commercially reasonable, reflect fair market value and are arms-length transactions; and
- Establish programs to promote responsible gaming.

Typically, a state regulatory environment is established by statute and is administered by a regulatory agency with broad discretion to regulate the affairs of owners, managers, and persons with financial interests in gaming operations. Among other things, gaming authorities in the various jurisdictions in which we operate:

- Adopt rules and regulations under the implementing statutes;
- Interpret and enforce gaming laws;
- Impose disciplinary sanctions for violations, including fines and penalties;
- Review the character and fitness of participants in gaming operations and make determinations regarding their suitability or qualification for licensure;

- Grant licenses for participation in gaming operations;
- Collect and review reports and information submitted by participants in gaming operations;
- Review and approve transactions, such as acquisitions or change-of-control transactions of gaming industry participants, securities offerings and debt transactions engaged in by such participants; and
- Establish and collect fees and taxes.

Any change in the laws or regulations of a gaming jurisdiction could have a material adverse effect on our gaming operations.

Licensing and Suitability Determinations

Gaming laws require us, each of our subsidiaries engaged in gaming operations, certain of our directors, officers and employees, and in some cases, certain of our shareholders and holders of our debt securities, to obtain licenses from gaming authorities. Licenses typically require a determination that the applicant qualifies or is suitable to hold the license. Gaming authorities have very broad discretion in determining whether an applicant qualifies for licensing or should be deemed suitable. Criteria used in determining whether to grant a license to conduct gaming operations, while varying between jurisdictions, generally include consideration of factors such as:

- The good character, honesty and integrity of the applicant;
- The financial stability, integrity and responsibility of the applicant, including whether the operation is adequately capitalized in the state and exhibits the ability to maintain adequate insurance levels;
- The quality of the applicant’s casino facilities;
- The amount of revenue to be derived by the applicable state from the operation of the applicant’s casino;
- The applicant’s practices with respect to minority hiring and training; and

· The effect on competition and general impact on the community.

In evaluating individual applicants, gaming authorities consider the individual's business experience and reputation for good character, the individual's criminal history and the character of those with whom the individual associates.

Many gaming jurisdictions limit the number of licenses granted to operate casinos within the state, and some states limit the number of licenses granted to any one gaming operator. Licenses under gaming laws are generally not transferable without approval. Licenses in most of the jurisdictions in which we conduct gaming operations are granted for limited durations and

require renewal from time to time. Our management agreement through which we operate Casino Rama extends until 2011, with the Province of Ontario possessing the option to extend the agreement for two successive periods of five years each. There can be no assurance that any of our licenses will be renewed or that our management agreement in Ontario will be extended beyond 2011. The failure to renew any of our licenses or to obtain an extension to our management agreement in Ontario could have a material adverse effect on our gaming operations. In addition, Iowa law requires that a qualified nonprofit organization hold the gaming license. At Argosy Casino Sioux City, we are the operator of the property. We own the assets (other than the land) and we manage the facility for Missouri River Historical Development, Inc. (the licensed nonprofit organization).

In addition to us and our direct and indirect subsidiaries engaged in gaming operations, gaming authorities may investigate any individual who has a material relationship to or material involvement with, any of these entities to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Our officers, directors and certain key employees must file applications with the gaming authorities and may be required to be licensed, qualify or be found suitable in many jurisdictions. Gaming authorities may deny an application for licensing for any cause which they deem reasonable. Qualification and suitability determinations require submission of detailed personal and financial information followed by a thorough investigation. The applicant must pay all the costs of the investigation. Changes in licensed positions must be reported to gaming authorities and in addition to their authority to deny an application for licensure, qualification or a finding of suitability, gaming authorities have jurisdiction to disapprove a change in a corporate position.

If one or more gaming authorities were to find that an officer, director or key employee fails to qualify or is unsuitable for licensing or unsuitable to continue having a relationship with us, we would be required to sever all relationships with such person. In addition, gaming authorities may require us to terminate the employment of any person who refuses to file appropriate applications.

Moreover, in many jurisdictions, certain of our stockholders or holders of our debt securities may be required to undergo a suitability investigation similar to that described above. Many jurisdictions require any person who acquires beneficial ownership of more than a certain percentage of our voting securities, typically 5%, to report the acquisition to gaming authorities, and gaming authorities may require such holders to apply for qualification or a finding of suitability. Most gaming authorities, however, allow an "institutional investor" to apply for a waiver. An "institutional investor" is generally defined as an investor acquiring and holding voting securities in the ordinary course of business as an institutional investor, and not for the purpose of causing, directly or indirectly, the election of a member of our board of directors, any change in our corporate charter, bylaws, management, policies or operations, or those of any of our gaming affiliates, or the taking of any other action which gaming authorities find to be inconsistent with holding our voting securities for investment purposes only. Even if a waiver is granted, an institutional investor generally may not take any action inconsistent with its status when the waiver was granted without once again becoming subject to the foregoing reporting and application obligations.

Generally, any person who fails or refuses to apply for a finding of suitability or a license within the prescribed period after being advised it is required by gaming authorities may be denied a license or found unsuitable, as applicable. Any stockholder found unsuitable or denied a license and who holds, directly or indirectly, any beneficial ownership of our voting securities beyond such period of time as may be prescribed by the applicable gaming authorities may be guilty of a criminal offense. Furthermore, we may be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or any of our subsidiaries, we: (i) pay that person any dividend or interest upon our voting securities; (ii) allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person; (iii) pay remuneration in any form to that person for services rendered or otherwise; or (iv) fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value.

The gaming jurisdictions in which we operate also require that suppliers of certain goods and services to gaming industry participants be licensed and require us to purchase and lease gaming equipment, and certain supplies and services only from licensed suppliers.

Violations of Gaming Laws

If we or our subsidiaries violate applicable gaming laws, our gaming licenses could be limited, conditioned, suspended or revoked by gaming authorities, and we and any other persons involved could be subject to substantial fines. Further, a supervisor or conservator can be appointed by gaming authorities to operate our gaming properties, or in some jurisdictions, take title to our gaming assets in the jurisdiction, and under certain circumstances, earnings generated during such appointment could be forfeited to the applicable state or states. Furthermore, violations of laws in one jurisdiction could result in disciplinary action in other jurisdictions. As a result, violations by us of applicable gaming laws could have a material adverse effect on our gaming operations.

Some gaming jurisdictions prohibit certain types of political activity by a gaming licensee, its officers, directors and key people. A violation of such a prohibition may subject the offender to criminal and/or disciplinary action.

Reporting and Record-keeping Requirements

We are required periodically to submit detailed financial and operating reports and furnish any other information about us and our subsidiaries which gaming authorities may require. Under federal law, we are required to record and submit detailed reports of currency transactions involving greater than

$10,000 at our casinos as well as any suspicious activity that may occur at such facilities. We are required to maintain a current stock ledger which may be examined by gaming authorities at any time. If any securities are held in trust by an agent or by a nominee, the record holder may be required to disclose the identity of the beneficial owner to gaming authorities. A failure to make such disclosure may be grounds for finding the record holder unsuitable. Gaming authorities may require certificates for our securities to bear a legend indicating that the securities are subject to specified gaming laws.

Review and Approval of Transactions

Substantially all material loans, leases, sales of securities and similar financing transactions by us and our subsidiaries must be reported to and in some cases approved by gaming authorities. Neither we nor any of our subsidiaries may make a public offering of securities without the prior approval of certain gaming authorities. Changes in control through merger, consolidation, stock or asset acquisitions, management or consulting agreements, or otherwise are subject to receipt of prior approval of gaming authorities. Entities seeking to acquire control of us or one of our subsidiaries must satisfy gaming authorities with respect to a variety of stringent standards prior to assuming control. Gaming authorities may also require controlling stockholders, officers, directors and other persons having a material relationship or involvement with the entity proposing to acquire control, to be investigated and licensed as part of the approval process relating to the transaction.

Because of regulatory restrictions, our ability to grant a security interest in any of our gaming assets is limited and subject to receipt of prior approval by gaming authorities.

License Fees and Gaming Taxes

We pay substantial license fees and taxes in many jurisdictions, including some of the counties and cities in which our operations are conducted, in connection with our casino gaming operations, computed in various ways depending on the type of gaming or activity involved. Depending upon the particular fee or tax involved, these fees and taxes are payable with varying frequency. License fees and taxes are based upon such factors as:

- a percentage of the gross gaming revenues received;
- the number of gaming devices and table games operated;
- admission fees for customers boarding our riverboat casinos; and
- one time fees payable upon the initial receipt of license and fees in connection with the renewal of license.

In many jurisdictions, gaming tax rates are graduated such that they increase as gross gaming revenues increase. Furthermore, tax rates are subject to change, sometimes with little notice, and such changes could have a material adverse effect on our gaming operations.

In addition to taxes specifically unique to gaming, we are required to pay all other applicable taxes.

Operational Requirements

In most jurisdictions, we are subject to certain requirements and restrictions on how we must conduct our gaming operations. In many states, we are required to give preference to local suppliers and include minority and women-owned businesses as well as organized labor in construction projects to the maximum extent practicable as well as in general vendor business

activity. Similarly, we may be required to give employment preference to minorities, women and in-state residents in certain jurisdictions.

Some gaming jurisdictions also prohibit a distribution, except to allow for the payment of taxes, if the distribution would impair the financial viability of the gaming operation. Moreover, many jurisdictions require a gaming operation to maintain insurance and post bonds in amounts determined by their gaming authority.

In addition, our ability to conduct certain types of games, introduce new games or move existing games within our facilities may be restricted or subject to regulatory review and approval. Some of our operations are subject to restrictions on the number of gaming positions we may have and the maximum wagers allowed to be placed by our customers.

In Maine, we are a party to a development agreement with the City of Bangor which requires that either we or an alternative developer construct a hotel when gaming revenues at the Bangor facility exceed $60 million in a calendar year. We constructed a hotel which opened in 2008.

In Mississippi, we are required to include a 500 car parking facility in close proximity to each casino complex and infrastructure facilities that will amount to at least twenty five percent of the casino cost. This requirement has recently been increased for any new casinos in Mississippi.

In Pennsylvania, the holder of a Category 1 license is required to create a fund to be used for the improvement and maintenance of the backside area of the racetrack. A Category 1 licensee must deposit into the fund $5,000,000 over the initial five year period of the license and an amount not less than $250,000 or more than $1,000,000 annually for the five years thereafter. We have reached an agreement with the Pennsylvania Horsemen’s Benevolent and Protective Association on the allocation of these funds.

Riverboat Casinos

In addition to all other regulations generally applicable to the gaming industry generally, our riverboat casinos are also subject to regulations applicable to vessels operating on navigable waterways, including regulations of the U.S. Coast Guard. These requirements set limits on the operation of the

vessel, mandate that it must be operated by a minimum complement of licensed personnel, establish periodic inspections, including the physical inspection of the outside hull, and establish other mechanical and operations rules. In addition, the riverboat casinos may be subject to future U.S. Coast Guard regulations, or alternative security procedures, designed to increase homeland security which could affect some of our properties and require significant expenditures to bring such properties into compliance.

Racetracks

We conduct horse racing operations at our thoroughbred racetracks in Charles Town, West Virginia, Grantville, Pennsylvania, Hobbs, New Mexico and at our harness racetracks in Bangor, Maine and Toledo, Ohio. We also have a 50% ownership interest in a harness racetrack in Freehold, New Jersey through a joint venture agreement. We conduct greyhound racing in

Seminole County, Florida, at our Sanford Orlando facility. In Pennsylvania, we operate four off track wagering facilities and conduct account wagering operations. We currently operate video lottery terminals at the Charles Town, West Virginia racetrack. Slot machine operations commenced at the Grantville, Pennsylvania racetrack in the first quarter of 2008. We also conduct slot operations in Bangor, Maine at a facility located near the racetrack. Generally, our slot operations at racetracks are regulated in the same manner as our gaming operations in other jurisdictions. In some jurisdictions, our ability to conduct gaming operations may be conditioned on the maintenance of agreements or certain arrangements with horsemen's or labor groups.

Regulations governing our horse racing operations are administered separately from the regulations governing gaming operations, with separate licenses and license fee structures. The racing authorities responsible for regulating our racing operations have broad oversight authority, which may include: annually reviewing and granting racing licenses and racing dates; approving the opening and operation of off track wagering facilities; approving simulcasting activities; licensing all officers, directors, racing officials and certain other employees of a racing licensee; and approving all contracts entered into by a racing licensee affecting racing, pari-mutuel wagering, account wagering and off track wagering operations.