

**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, 2018**
or
 TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____
Commission file number **0-24206**

Penn National Gaming, Inc.

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
(610) 373-2400
Securities registered pursuant to Section 12(b) of the Act:

| Title of each class | Name of each exchange on which registered |
|--|---|
| Common Stock, \$0.01 par value per share | The NASDAQ Stock Market LLC |

Securities registered pursuant to Section 12(g) of the Act: None

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

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 NO

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). YES NO

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

| | | | | |
|-------------------------------------|--|--|--|--|
| Large accelerated filer | Accelerated filer <input type="checkbox"/> | Non-accelerated filer <input type="checkbox"/> | Smaller reporting company <input type="checkbox"/> | Emerging growth company <input type="checkbox"/> |
| <input checked="" type="checkbox"/> | | | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). YES NO

As of June 30, 2018, the aggregate market value of the voting common stock held by non-affiliates of the registrant was \$2.9 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, 2018.

As of February 19, 2019, the number of shares of the registrant's common stock outstanding was 116,840,000.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive 2019 proxy statement, anticipated to be filed with the Securities and Exchange Commission within 120 days after the end of the registrant's fiscal year, are incorporated by reference into Part III of this Form 10-K.

PENN NATIONAL GAMING, INC.
TABLE OF CONTENTS

| | <u>Page</u> |
|---|----------------------------|
| <u>PART I</u> | |
| <u>Item 1. Business</u> | <u>1</u> |
| <u>Overview</u> | <u>1</u> |
| <u>Master Leases</u> | <u>2</u> |
| <u>Operating Properties</u> | <u>4</u> |
| <u>Trademarks</u> | <u>8</u> |
| <u>Competition</u> | <u>9</u> |
| <u>Government Regulation and Gaming Issues</u> | <u>11</u> |
| <u>Executive Officers of the Registrant</u> | <u>11</u> |
| <u>Employees and Labor Relations</u> | <u>12</u> |
| <u>Available Information</u> | <u>13</u> |
| <u>Item 1A. Risk Factors</u> | <u>14</u> |
| <u>Item 1B. Unresolved Staff Comments</u> | <u>29</u> |
| <u>Item 2. Properties</u> | <u>29</u> |
| <u>Item 3. Legal Proceedings</u> | <u>32</u> |
| <u>Item 4. Mine Safety Disclosures</u> | <u>32</u> |
| <u>PART II</u> | |
| <u>Item 5. Market for the Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u> | <u>33</u> |
| <u>Item 6. Selected Financial Data</u> | <u>34</u> |
| <u>Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | <u>36</u> |
| <u>Executive Overview</u> | <u>36</u> |
| <u>Results of Operations</u> | <u>40</u> |
| <u>Liquidity and Capital Resources</u> | <u>51</u> |
| <u>Contractual Obligations and Other Commitments</u> | <u>57</u> |
| <u>Critical Accounting Estimates</u> | <u>58</u> |
| <u>Recently Issued Accounting Pronouncements</u> | <u>62</u> |
| <u>Item 7A. Quantitative and Qualitative Disclosures About Market Risk</u> | <u>63</u> |
| <u>Item 8. Financial Statements and Supplementary Data</u> | <u>64</u> |
| <u>Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u> | <u>119</u> |
| <u>Item 9A. Controls and Procedures</u> | <u>119</u> |
| <u>Item 9B. Other Information</u> | <u>121</u> |
| <u>PART III</u> | |
| <u>Item 10. Directors, Executive Officers and Corporate Governance</u> | <u>121</u> |
| <u>Item 11. Executive Compensation</u> | <u>121</u> |
| <u>Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u> | <u>121</u> |
| <u>Item 13. Certain Relationships and Related Transactions, and Director Independence</u> | <u>121</u> |
| <u>Item 14. Principal Accountant Fees and Services</u> | <u>121</u> |
| <u>PART IV</u> | |
| <u>Item 15. Exhibits, Financial Statement Schedules</u> | <u>122</u> |
| <u>Item 16. Form 10-K Summary</u> | <u>122</u> |
| <u>Signatures</u> | |

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. 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 “expects,” “believes,” “estimates,” “projects,” “intends,” “plans,” “seeks,” “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 operating properties or our development projects;
- 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 the impact of competition;
- our expectations regarding economic and consumer conditions;
- information regarding our recent acquisitions of Pinnacle Entertainment, Inc. (“Pinnacle”) and Margaritaville Resort Casino (“Margaritaville Resort Casino”) in Bossier City, Louisiana, including the potential synergies of these acquisitions, and our pending acquisition of the gaming operations of Greektown Hotel-Casino (“Greektown”) in Detroit, Michigan;
- our expectations regarding the completion of our acquisition of Greektown;
- our expectations with regard to further acquisitions and development opportunities, as well as the integration and ultimate results 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 current businesses and new business lines and the impact of any such actions;
- our ability to integrate the businesses of Pinnacle, Margaritaville Resort Casino and Greektown into our business successfully or realize the anticipated benefits of these transactions;
- our expectations of the utilization of technology for social and real money iGaming;
- our substantial indebtedness could adversely affect our financial health and prevent us from fulfilling our obligations under our outstanding indebtedness; and
- our expectations for the continued availability and cost of capital.

Although the Company believes 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. There can be no assurance that actual results will not differ materially from our expectations, 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. Meaningful factors that could cause actual results to differ materially from the forward-looking statements include, without limitation, risks related to the following:

- the ability of our operating teams to drive revenue and profit growth at existing and recently acquired or soon-to-be opened properties;
- the impact of significant competition from other gaming and entertainment operations;
- our ability to obtain timely regulatory approvals required to own, develop and/or operate our facilities, or other delays, approvals or impediments to completing our planned acquisitions or projects, such as construction factors, including delays, unexpected costs, local opposition, and organized labor;

- the passage of state, federal or local legislation (including referenda) that would expand, restrict, further tax, prevent or negatively impact operations in or adjacent to the jurisdictions in which we do or seek to do business (such as smoking restrictions at our facilities);
- with respect to our sports betting and iGaming operations, risks relating to entering into a new line of business, including our ability to establish relationships with key partners or vendors and generate sufficient returns on investment, as well as risks relating to potential legislation in various jurisdictions;
- our ability to maintain agreements with our horsemen, pari-mutuel clerks and other organized labor groups;
- the effects of local and national economic, credit, capital market, housing, and energy conditions on the economy in general and on the gaming and lodging industries in particular;
- the activities of our competitors (for instance, in Massachusetts) and the continued increase of new competitors (traditional, internet, social, sweepstakes based and video gaming terminals (“VGTs”) in bars, truck stops and other retail establishments);
- increases in the effective rate of taxation at any of our properties or at the corporate level;
- our ability to identify attractive acquisition and development opportunities (especially in new business lines) and to agree to terms with, and maintain good relationships with partners/municipalities for such transactions;
- the costs and risks involved in the pursuit of such opportunities and our ability to complete the acquisition or development of, and achieve the expected returns from, such opportunities;
- our ability to successfully integrate the Pinnacle, Margaritaville Resort Casino and Greektown businesses in an efficient and effective manner and our ability to obtain the anticipated synergies resulting from cost savings and operating efficiencies;
- our ability to maintain market share at our facilities;
- our expectations for the continued availability and cost of capital;
- the impact of weather on our business;
- the outcome of pending legal proceedings;
- changes in accounting standards;
- the risk of failing to maintain the integrity of our information technology infrastructure and safeguard our business, employee and customer data;
- our ability to generate sufficient future taxable income to realize our deferred tax assets;
- with respect to our social and other interactive gaming endeavors, risks related to the iGaming industry, employee retention, cyber-security, data privacy, implementing technological advancements, intellectual property and legal and regulatory challenges, increasing competition as well as our ability to successfully develop innovative new games that attract and retain a significant number of players in order to grow our revenues and earnings;
- our ability to successfully compete in the VGT market, our ability to retain existing customers and secure new customers, risks relating to municipal authorization of VGT operations and the implementation and the ultimate success of the products and services being offered;
- with respect to recent gaming expansion in Pennsylvania, including our Category 4 licenses in York County and Berks County, risks related to the potential cannibalization of Hollywood Casino at Penn National Race Course, Hollywood Gaming at Mahoning Valley Race Course, Meadows Racetrack and Casino and Hollywood Casino at Charles Town Races, ongoing litigation surrounding Pennsylvania’s gaming expansion legislation and the ultimate location of other gaming facilities in the Commonwealth;
- with respect to our pending acquisition of the operations of Greektown, the possibility that the proposed transaction does not close when expected or at all because required regulatory or other approvals are not received or other conditions to the closing are not satisfied on a timely basis or at all; potential adverse reactions or changes to business

or employee relationships, including those resulting from the announcement or completion of the transaction; the possibility that the anticipated benefits of the transaction are not realized when expected or at all; and

- other factors included in [Part I, Item 1A. Risk Factors](#) of this Annual Report on Form 10-K or discussed in our filings with the 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**

Penn National Gaming, Inc., together with its subsidiaries, is a leading, diversified, multi-jurisdictional owner and manager of gaming and racing facilities and video gaming terminal (“VGT”) operations with a focus on slot machine entertainment. In the second half of 2018, we launched live sports wagering at our facilities in Mississippi, Pennsylvania and West Virginia. In addition, the Company operates an interactive gaming division through its subsidiary, Penn Interactive Ventures, LLC (“PIV”). As of December 31, 2018, we owned, managed, or had ownership interests in 40 facilities in 18 jurisdictions. The majority of the gaming facilities used in the Company’s operations are subject to triple net master leases; the most significant of which are the Penn Master Lease and the Pinnacle Master Lease (as such terms are defined in the [“Master Leases”](#) section below and collectively referred to as the “Master Leases”), with Gaming and Leisure Properties, Inc. (“GLPI”), a publicly-traded real estate investment trust (“REIT”), as the landlord under the Master Leases. GLPI was formed in November 2013 through a tax-free spin-off (the “Spin-Off”) in which the Company separated its gaming operating assets from its real estate assets. In this Annual Report on Form 10-K, the terms “we,” “us,” “our,” the “Company,” “Penn” and “Penn National” refer to Penn National Gaming, Inc. and its subsidiaries, unless the context indicates otherwise.

In October 2018, the Company completed the acquisition of Pinnacle Entertainment, Inc. (“Pinnacle”), a leading regional gaming operator (the “Pinnacle Acquisition”). In conjunction with the Pinnacle Acquisition, the Company divested the membership interests of certain Pinnacle subsidiaries which operated the casinos known as Ameristar Casino Resort St. Charles, Ameristar Casino Hotel Kansas City, Belterra Casino Resort and Belterra Park (referred to collectively as the “Divested Properties”), to Boyd Gaming Corporation (“Boyd”). Additionally, as a part of the transaction, (i) GLPI acquired the real estate associated with Plainridge Park Casino, and concurrently leased back the real estate assets to the Company (the “Plainridge Park Casino Sale-Leaseback”) and (ii) a subsidiary of Boyd acquired the real estate assets associated with Belterra Park from a subsidiary of GLPI. In connection with the sale of the Divested Properties to Boyd as well as the Plainridge Park Casino Sale-Leaseback, the Pinnacle Master Lease, which was assumed by the Company concurrent with the closing of the Pinnacle Acquisition, was amended. The Pinnacle Acquisition added twelve gaming properties to our holdings and provides us with greater operational scale and geographic diversity.

In November 2018, we announced that the Company entered into a definitive agreement to acquire the operations of Greektown Casino-Hotel in Detroit, Michigan, subject to a triple net lease with VICI Properties, Inc. (“VICI”), a publicly-traded REIT, which we expect to close in the second quarter 2019. In January 2019, we acquired Margaritaville Casino Resort subject to a triple net lease with VICI (the “Margaritaville Lease”). Further, we have planned two development projects in Pennsylvania: Hollywood Casino York and Hollywood Casino Morgantown (a greenfield project), which are both Category 4 satellite gaming facilities. We anticipate that both of these development projects will be complete within 12-18 months after obtaining the necessary local and regulatory approvals.

In May 2017, we completed the acquisitions of 1st Jackpot Casino Tunica (f/k/a Bally’s Casino Tunica) and Resorts Casino Tunica. In June 2015, we opened Plainridge Park Casino, an integrated racing and slots-only gaming facility in Plainville, Massachusetts, and in August 2015, we completed the acquisition of our first Las Vegas strip asset, Tropicana Las Vegas. In September 2015, we acquired Illinois Gaming Investors LLC (d/b/a Prairie State Gaming) (“Prairie State Gaming”), one of the largest VGT route operators in Illinois, which has since acquired four small VGT route-operators based in Illinois. In 2015, PIV launched our HollywoodCasino.com Play4Fun social gaming platform with Scientific Games Corporation, and in August 2016, we enhanced our social gaming offerings with the acquisition of Rocket Speed, Inc. (“Rocket Speed”), a leading developer of social casino games.

We believe that our portfolio of assets provides us the benefit of a geographically diversified cash flow from operations. We expect to continue to expand our gaming operations through the implementation and execution of a disciplined capital expenditure program at our existing properties, the pursuit of strategic acquisitions, and the development of new gaming properties. In addition, we expect to pursue opportunities within other distribution channels, such as retail gaming, social gaming, and real money iGaming.

Master Leases

As noted above, the majority of the gaming facilities used in the Company's operations are subject to either the Penn Master Lease or the Pinnacle Master Lease. Under triple net master leases, in addition to lease payments for the real estate assets (i.e., land and buildings), the Company is required to pay the following, among other things: (1) all facility maintenance; (2) all insurance required in connection with the leased properties and the business conducted on the leased properties; (3) taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor); and (4) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties.

The following summaries of the Master Leases are qualified in their entirety by reference to either the Penn Master Lease or the Pinnacle Master Lease, as applicable, and subsequent amendments, all of which are attached hereto as exhibits to this Annual Report on Form 10-K.

Penn Master Lease

Pursuant to a triple net master lease with GLPI (the "Penn Master Lease"), which became effective November 1, 2013, the Company leases real estate assets associated with 20 of the gaming facilities used in its operations. We determined that the Penn Master Lease did not meet the requirements of a normal leaseback under Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 840 "Leases" due to prohibited forms of continuing involvement; and is, therefore, accounted for as a financing obligation.

The Penn Master Lease has an initial term of 15 years with four subsequent, five-year renewal periods on the same terms and conditions, exercisable at the Company's option. If we elect to renew the term of the Penn Master Lease, the renewal will be effective as to all of the leased property then subject to the Penn Master Lease, provided that the final renewal option shall only be exercisable with respect to certain of the barge-based facilities (i.e., facilities where barges serve as foundations upon which buildings are constructed to serve as gaming or related facilities or serve ancillary purposes such as access platforms or shear barges to protect a gaming facility from floating debris) following an independent third party expert's review of the total useful life of the applicable barged-based facility measured from the beginning of the initial term. If the final five-year renewal term would not cause the aggregate term to exceed 80% of the useful life of such facility, the facility shall be included in the five-year renewal. In the event that a five-year renewal of such facility would cause it to exceed 80% of the estimated useful life, such facility shall be included in the renewal for the period of time equal to but not exceeding 80% of the estimated useful life.

The payment structure under the Penn Master Lease includes a fixed component, a portion of which is subject to an annual escalator of up to 2%, depending on the Adjusted Revenue to Rent Ratio (as defined in the Penn Master Lease) of 1.8:1, and a component that is based on the performance of the facilities, which is prospectively adjusted (i) every five years by an amount equal to 4% of the average change in net revenues of all facilities under the Penn Master Lease compared to a contractual baseline (other than Hollywood Casino Columbus and Hollywood Casino Toledo) during the preceding five years ("Penn Percentage Rent") and (ii) monthly by an amount equal to 20% of the net revenues of Hollywood Casino Columbus and Hollywood Casino Toledo in excess of a contractual baseline. Additionally, effective November 1, 2018, the percentage rent reset resulted in an annual rent reduction of \$11.3 million, which will be in effect until the Company's next percentage rent reset occurring on November 1, 2023.

In April 2014, we entered into an amendment to the Penn Master Lease in order to revise certain provisions relating to our Sioux City property. In accordance with that amendment, upon the cessation of gaming operations at Argosy Casino Sioux City on July 30, 2014, due to the termination of its gaming license, the annual payment to GLPI was reduced by \$6.2 million. In addition, with the openings of Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course in September 2014, our annual payment increased by \$19 million, which approximated 10% of the real estate construction costs paid for by GLPI related to these facilities.

In May 2017, following the acquisitions of 1st Jackpot Casino Tunica and Resorts Casino Tunica, we entered into an amendment to the Penn Master Lease in order to add the two additional facilities. The Company operates both 1st Jackpot Casino Tunica and Resorts Casino Tunica and leases the underlying real estate assets associated with these two properties from GLPI with a total initial annual payment of \$9.0 million subject to the provisions included in the terms of the Penn Master Lease.

We do not have the ability to terminate our obligations under the Penn Master Lease prior to its expiration without GLPI's consent. If the Penn Master Lease is terminated prior to its expiration other than with GLPI's consent, we may be liable for damages and incur charges such as continued lease payments through the end of the lease term and maintenance costs for the leased property.

Pinnacle Master Lease

In connection with the Pinnacle Acquisition, the Company assumed a triple net master lease with GLPI, originally effective April 28, 2016 (“Pinnacle Master Lease”). Concurrent with the closing of the Pinnacle Acquisition on October 15, 2018, the Company entered into an amendment to the Pinnacle Master Lease to, among other things, (i) remove Ameristar Casino Resort St. Charles, Ameristar Casino Hotel Kansas City and Belterra Casino Resort, which were sold to Boyd, and (ii) add Plainridge Park Casino, whose real estate assets were sold to GLPI for \$250.0 million and concurrently leased back to the Company for a fixed annual rent of \$25.0 million. Further, the rent payment under the Pinnacle Master Lease was increased by a fixed annual amount of \$13.9 million to adjust the rent to reflect current market conditions. Pursuant to the Pinnacle Master Lease, the Company leases real estate assets associated with twelve of the gaming facilities used in its operations from GLPI. Similar to the Penn Master Lease, the Pinnacle Master Lease is accounted for as a financing obligation.

Upon assumption of the Pinnacle Master Lease, as amended, there were 7.5 years remaining of the initial 10-year term, with five subsequent, five-year renewal periods exercisable at the Company’s option. The payment structure under the Pinnacle Master Lease includes a fixed component, which is subject to an annual escalator of up to 2%, depending on the Adjusted Revenue to Rent Ratio (as defined in the Pinnacle Master Lease) of 1.8:1, and a component that is based on the performance of the facilities, which is prospectively adjusted every two years by an amount equal to 4% of the average change in net revenues of all facilities under the Pinnacle Master Lease compared to a contractual baseline during the preceding two years (“Pinnacle Percentage Rent”). The next Pinnacle Percentage Rent reset will occur effective May 1, 2020.

We do not have the ability to terminate our obligations under the Pinnacle Master Lease prior to its expiration without GLPI’s consent. If the Pinnacle Master Lease is terminated prior to its expiration other than with GLPI’s consent, we may be liable for damages and incur charges such as continued lease payments through the end of the lease term and maintenance costs for the leased property.

Operating Properties

We view each of our gaming and racing facilities as an operating segment with the exception of our two facilities in Jackpot, Nevada, which we view as one operating segment, and our combined VGT operations as an operating segment. For financial reporting purposes, we aggregate our operating segments into four reportable segments. The table below summarizes certain features of the properties operated and/or managed by us as of December 31, 2018 as well as Margaritaville Resort Casino, which we acquired on January 1, 2019:

| | Location | Real Estate Assets Lease or Ownership Structure | Type of Facility | Gaming Square Footage | Gaming Machines | Table Games ⁽¹⁾ | Hotel Rooms |
|--|----------------------|---|--------------------------|-----------------------|-----------------|----------------------------|-------------|
| Northeast segment | | | | | | | |
| Ameristar East Chicago | East Chicago, IN | Pinnacle Master Lease | Dockside gaming | 56,000 | 1,720 | 72 | 288 |
| Hollywood Casino Bangor | Bangor, ME | Penn Master Lease | Land-based gaming/racing | 31,750 | 730 | 14 | 152 |
| Hollywood Casino at Charles Town Races | Charles Town, WV | Penn Master Lease | Land-based gaming/racing | 115,000 | 2,302 | 73 | 153 |
| Hollywood Casino Columbus | Columbus, OH | Penn Master Lease | Land-based gaming | 160,000 | 2,127 | 64 | — |
| Hollywood Casino Lawrenceburg ⁽²⁾ | Lawrenceburg, IN | Penn Master Lease | Dockside gaming | 146,500 | 1,522 | 78 | 463 |
| Hollywood Casino at Penn National Race Course | Grantville, PA | Penn Master Lease | Land-based gaming/racing | 99,500 | 2,002 | 69 | — |
| Hollywood Casino Toledo | Toledo, OH | Penn Master Lease | Land-based gaming | 125,000 | 2,042 | 69 | — |
| Hollywood Gaming at Dayton Raceway | Dayton, OH | Penn Master Lease | Land-based gaming/racing | 30,000 | 1,077 | — | — |
| Hollywood Gaming at Mahoning Valley Race Course | Youngstown, OH | Penn Master Lease | Land-based gaming/racing | 50,000 | 1,100 | — | — |
| Meadows Racetrack and Casino | Washington, PA | Meadows Lease | Land-based gaming/racing | 131,000 | 3,028 | 91 | — |
| Plainridge Park Casino | Plainville, MA | Pinnacle Master Lease | Land-based gaming/racing | 50,000 | 1,250 | — | — |
| South segment | | | | | | | |
| 1 st Jackpot Casino | Tunica, MS | Penn Master Lease | Dockside gaming | 40,000 | 883 | 14 | — |
| Ameristar Vicksburg | Vicksburg, MS | Pinnacle Master Lease | Dockside gaming | 70,000 | 1,285 | 33 | 148 |
| Boomtown Biloxi | Biloxi, MS | Penn Master Lease | Dockside gaming | 35,500 | 674 | 14 | — |
| Boomtown Bossier City | Bossier City, LA | Pinnacle Master Lease | Dockside gaming | 30,000 | 866 | 16 | 187 |
| Boomtown New Orleans | New Orleans, LA | Pinnacle Master Lease | Dockside gaming | 30,000 | 1,156 | 31 | 150 |
| Hollywood Casino Gulf Coast | Bay St. Louis, MS | Penn Master Lease | Land-based gaming | 51,000 | 948 | 20 | 291 |
| Hollywood Casino Tunica | Tunica, MS | Penn Master Lease | Dockside gaming | 54,000 | 962 | 16 | 494 |
| L'Auberge Baton Rouge | Baton Rouge, LA | Pinnacle Master Lease | Dockside gaming | 74,000 | 1,332 | 47 | 205 |
| L'Auberge Lake Charles | Lake Charles, LA | Pinnacle Master Lease | Dockside gaming | 70,000 | 1,529 | 72 | 995 |
| Margaritaville Resort Casino | Bossier City, LA | Margaritaville Lease | Dockside gaming | 30,000 | 1,200 | 50 | 395 |
| Resorts Casino Tunica | Tunica, MS | Penn Master Lease | Dockside gaming | 35,000 | 765 | — | 201 |
| West segment | | | | | | | |
| Ameristar Black Hawk | Black Hawk, CO | Pinnacle Master Lease | Land-based gaming | 56,000 | 1,200 | 40 | 536 |
| Cactus Petes and Horseshu | Jackpot, NV | Pinnacle Master Lease | Land-based gaming | 29,000 | 740 | 24 | 416 |
| M Resort | Henderson, NV | Penn Master Lease | Land-based gaming | 96,000 | 1,138 | 40 | 390 |
| Tropicana Las Vegas | Las Vegas, NV | Owned | Land-based gaming | 72,000 | 621 | 32 | 1,470 |
| Zia Park Casino | Hobbs, NM | Penn Master Lease | Land-based gaming/racing | 18,000 | 732 | — | 154 |
| Midwest segment | | | | | | | |
| Ameristar Council Bluffs ⁽³⁾ | Council Bluffs, IA | Pinnacle Master Lease | Dockside gaming | 38,500 | 1,525 | 25 | 444 |
| Argosy Casino Alton ⁽⁴⁾ | Alton, IL | Penn Master Lease | Dockside gaming | 23,000 | 746 | 12 | — |
| Argosy Casino Riverside | Riverside, MO | Penn Master Lease | Dockside gaming | 56,000 | 1,500 | 41 | 248 |
| Hollywood Casino Aurora | Aurora, IL | Penn Master Lease | Dockside gaming | 53,000 | 1,000 | 27 | — |
| Hollywood Casino Joliet | Joliet, IL | Penn Master Lease | Dockside gaming | 50,000 | 1,100 | 26 | 100 |
| Hollywood Casino at Kansas Speedway ⁽⁵⁾ | Kansas City, KS | Owned - JV | Land-based gaming | 95,000 | 2,000 | 41 | — |
| Hollywood Casino St. Louis | Maryland Heights, MO | Penn Master Lease | Dockside gaming | 120,000 | 2,003 | 63 | 502 |
| Prairie State Gaming ⁽⁶⁾ | Illinois | N/A | Land-based gaming | N/A | 1,876 | — | — |
| River City Casino | St. Louis, MO | Pinnacle Master Lease | Dockside gaming | 90,000 | 1,925 | 52 | 200 |
| Other | | | | | | | |
| Freehold Raceway ⁽⁷⁾ | Freehold, NJ | Owned - JV | Standardbred racing | — | — | — | — |
| Retama Park Racetrack ⁽⁸⁾ | Selma, TX | None - Managed | Thoroughbred racing | — | — | — | — |
| Sam Houston Race Park ⁽⁹⁾ | Houston, TX | Owned - JV | Thoroughbred racing | — | — | — | — |
| Sanford-Orlando Kennel Club | Longwood, FL | Owned | Greyhound racing | — | — | — | — |
| Valley Race Park ⁽⁹⁾ | Harlingen, TX | Owned - JV | Greyhound racing | — | — | — | — |
| | | | | 2,310,750 | 48,606 | 1,266 | 8,582 |

(1) Excludes poker tables

- (2) Includes 168 rooms at our hotel and event center located less than a mile from the gaming facility.
- (3) Includes 284 rooms operated by a third party and located on land leased by us and subleased to such third party.
- (4) The riverboat is owned by us and not subject to the Penn Master Lease.
- (5) Pursuant to a joint venture with International Speedway Corporation ("International Speedway")
- (6) VGT route operator with 403 retail locations
- (7) Pursuant to a joint venture with Greenwood Limited Jersey, Inc., a subsidiary of Greenwood Racing, Inc.
- (8) Pursuant to a management contract with Retama Development Corporation.
- (9) Pursuant to a joint venture with MAXXAM, Inc. ("MAXXAM")

Northeast Segment

Ameristar East Chicago is located less than 25 miles from downtown Chicago, Illinois and offers guests a gaming and entertainment experience in the Chicago metropolitan area. In addition to gaming amenities, the property features a full-service hotel, a fitness center, five dining venues, two lounges and approximately 5,400 square feet of meeting and event space.

Hollywood Casino Bangor features gaming facilities, including slot machines, table games and poker tables. Hollywood Casino Bangor's amenities include a hotel with 5,119 square feet of meeting and multipurpose space, a buffet, a snack bar and a casual dining restaurant, a small entertainment stage, and a four-story parking garage with 1,500 spaces. Bangor Raceway, which is adjacent to the property, is located at historic Bass Park and includes a one-half mile standardbred racetrack and grandstand to seat 3,500 patrons.

Hollywood Casino at Charles Town Races is located within approximately an hour drive of the Baltimore, Maryland and Washington, D.C. markets. In addition to slot machines, table games and poker tables, Hollywood Casino at Charles Town Races includes a sportsbook for live sports betting. The complex also features live thoroughbred racing at a 3/4-mile all-weather lighted thoroughbred racetrack with a 3,000-seat grandstand, parking for approximately 5,800 vehicles and simulcast wagering. Hollywood Casino at Charles Town Races dining options include a high-end steakhouse, a sports bar and entertainment lounge and an Asian-themed restaurant.

Hollywood Casino Columbus is a Hollywood-themed casino featuring slot machines, table games and 36 poker tables. Hollywood Casino Columbus also includes multiple food and beverage outlets, an entertainment lounge, and structured and surface parking for approximately 4,600 spaces.

Hollywood Casino Lawrenceburg is located along the Ohio River in Lawrenceburg, Indiana, approximately 15 miles west of Cincinnati, Ohio. In addition to slot machines, table games, and poker tables, the Hollywood-themed casino riverboat includes a hotel; dining options; including a restaurant, bar, nightclub, sports bar, and two cafes; and meeting space. The City of Lawrenceburg Department of Redevelopment constructed a hotel and event center located less than a mile away from our Hollywood Casino Lawrenceburg property. Effective in January 2015, by contractual agreement, the hotel and event center is owned and operated by a subsidiary of the Company. The hotel and event center includes approximately 18,000 square feet of multipurpose space and 19,500 square feet of ballroom and meeting space.

Hollywood Casino at Penn National Race Course is located 15 miles northeast of Harrisburg, Pennsylvania. This gaming facility also includes an entertainment bar and lounge, a sports bar, a buffet, a high-end steakhouse and various casual dining options, as well as a simulcast facility and viewing area for live racing. In addition, Hollywood Casino at Penn National Race Course opened a sportsbook in November 2018. The facility has ample parking, including a 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.

Hollywood Casino Toledo is a Hollywood-themed casino whose gaming facilities include 19 poker tables. Hollywood Casino Toledo also includes multiple food and beverage outlets, an entertainment lounge, and structured and surface parking for approximately 3,300 spaces.

Hollywood Gaming at Dayton Raceway is a Hollywood-themed facility featuring video lottery terminals ("VLTs") and a 5/8-mile standardbred racetrack. Hollywood Gaming at Dayton Raceway also includes various restaurants, bars, surface parking for 1,806 spaces and other amenities.

Hollywood Gaming at Mahoning Valley Race Course is a Hollywood-themed facility featuring VLTs and a one-mile thoroughbred racetrack. Hollywood Gaming at Mahoning Valley Race Course also includes various restaurants, bars, surface parking with approximately 1,250 spaces and other amenities.

Meadows Racetrack and Casino is located in Washington, Pennsylvania, approximately 25 miles south of Pittsburgh, Pennsylvania. In addition to gaming amenities, Meadows Racetrack and Casino offers several dining options, including a steakhouse, food court and a bar. In addition, the facility features an events and banquet center, a simulcast betting parlor, a harness racetrack and a bowling alley. The property also offers off-track wagering at a separate facility in Pittsburgh.

Plainridge Park Casino is located 20 miles southwest of the Boston beltway just off interstate 95 in Plainville, Massachusetts. In addition to gaming offerings, Plainridge Park Casino features various restaurants, bars, approximately 1,600 structured and surface parking spaces, and other amenities. Plainridge Park Casino also includes a 5/8-mile live harness racing facility with a two-story clubhouse for simulcast operations, special events, and live racing viewing, which is approximately 55,000 square feet.

South Segment

1st Jackpot Casino, the closest Tunica-area casino to downtown Memphis, Tennessee, features slot machines, table games, a steakhouse, a buffet, a café, a sportsbook and a live entertainment venue.

Ameristar Vicksburg, which is the largest dockside casino in central Mississippi, is located along the Mississippi River approximately 45 miles west of Mississippi's largest city, Jackson. In addition to gaming amenities, the property features a hotel, multiple dining facilities, a club lounge, a sportsbook, a live entertainment venue, and 1,792 square feet of meeting and event space.

Boomtown Biloxi offers slot machines and table games as well as a buffet, a steakhouse, a sports bar, a Fat Tuesday, a noodle bar, a sportsbook and a recreational vehicle park. Boomtown Biloxi also features a 3,600 square foot event center and board room and has approximately 1,450 surface parking spaces.

Boomtown Bossier City features a hotel adjoining a dockside riverboat casino located less than one mile from the Louisiana Boardwalk. It also offers several dining options, ranging from a high-end steakhouse to casual dining restaurants, including a buffet, and 1,500 square feet of meeting and conference space.

Boomtown New Orleans is located in the West Bank area across the Mississippi River and approximately 15 minutes from the French Quarter of New Orleans, Louisiana. In addition to gaming amenities, it also features a five-story hotel, a fitness center, four restaurants, a 500-seat entertainment venue, and over 14,000 square feet of meeting and conference space.

Hollywood Casino Gulf Coast (formerly Hollywood Casino Bay St. Louis) features slot machines, table games, and poker tables. The waterfront Hollywood Hotel features 291 rooms, a 10,000 square foot ballroom, and nine separate meeting rooms offering more than 14,000 square feet of meeting space. Hollywood Casino Gulf Coast offers live concerts and various entertainment on weekends. The property also features The Bridges golf course, a sportsbook, and various dining facilities, including a steakhouse, a buffet, a grill and a clubhouse lounge as well as an entertainment bar. Other amenities include a recreational vehicle park and gift shop, lazy river, spa, and pool cabanas.

Hollywood Casino Tunica features gaming facilities, a hotel and a 123-space recreational vehicle park. Entertainment amenities include a steakhouse, a buffet, a grill, an entertainment lounge, a premium players' club, a themed bar facility, a sportsbook, an indoor pool and showroom as well as banquet and meeting facilities. In addition, Hollywood Casino Tunica offers surface parking with approximately 1,635 spaces.

L'Auberge Baton Rouge is located approximately 10 miles southeast of downtown Baton Rouge, Louisiana. L'Auberge Baton Rouge offers a fully-integrated casino entertainment experience. It also features a 12-story hotel, a fitness center, four dining outlets, a music bar, and approximately 13,000 square feet of meeting and event space.

L'Auberge Lake Charles offers one of the closest full-scale casino hotel facilities to Houston, Texas, as well as to the Austin, Texas and San Antonio, Texas metropolitan areas. The location is approximately 140 miles from Houston and approximately 300 miles and 335 miles from Austin and San Antonio, respectively. L'Auberge Lake Charles features six dining outlets, a golf course, a full-service spa, retail shopping, two bars, and more than 26,000 square feet of meeting and event space.

Margaritaville Resort Casino, located in Bossier City, Louisiana, is one of the premier gaming, lodging, dining and entertainment experiences in Northern Louisiana. The property provides an island-style theme and includes a 15,000 square foot 1,000-seat theater, 9,500 square feet of meeting space, and approximately 1,500 parking spaces.

Resorts Casino Tunica, which is located adjacent to Hollywood Casino Tunica, features slot machines, a steakhouse, a buffet restaurant and a café. Resorts Casino Tunica also features 18,000 square feet of meeting and event space and a hotel.

West Segment

Ameristar Black Hawk is located in the center of the Black Hawk gaming district, approximately 40 miles west of Denver, Colorado. In addition to gaming amenities, the resort features a hotel, a full-service day spa, a fitness center, several dining outlets, a live entertainment bar, a 1,500 space parking structure, and 15,000 square feet of meeting and event space.

Cactus Petes and Horseshu (collectively, “the Jackpot Properties”) are located in Jackpot, Nevada, just south of the Idaho border. The Jackpot Properties collectively feature two hotels, four dining options, a golf course, a 4,000 seat amphitheater, a showroom, a live entertainment lounge, and meeting and event facilities.

M Resort, located approximately ten miles from the Las Vegas strip in Henderson, Nevada, is situated on approximately 90 acres on the southeast corner of Las Vegas Boulevard and St. Rose Parkway. The resort features slot machines, table games and a sportsbook. M Resort also offers a hotel, seven restaurants and six destination bars, more than 60,000 square feet of meeting and conference space, a 4,700 space parking structure, a spa and fitness center, a Topgolf Swing Suite, and a 100,000 square foot event center.

Tropicana Las Vegas, located on the strip in Las Vegas, Nevada, is situated on approximately 35 acres of land at the corner of Tropicana Boulevard and Las Vegas Boulevard. In addition to gaming, the resort features a hotel, a sportsbook kiosk, four full-service restaurants, a brunch buffet, a food court, a 1,100-seat performance theater, a 300-seat comedy club, over 100,000 square feet of exhibition and meeting space, a five-acre tropical beach event area and spa, and approximately 2,100 parking spaces.

Zia Park Casino is located in Hobbs, New Mexico and includes a casino, as well as an adjoining racetrack. The property includes slot machines, two restaurants, and a one-mile quarter/thoroughbred racetrack, with live racing from September to December, and a year-round simulcast parlor. In August 2014, we opened a hotel, which includes six suites, a business center, exercise/fitness facility and a breakfast venue.

Midwest Segment

Ameristar Council Bluffs is located across the Missouri River from Omaha, Nebraska and includes the largest riverboat in Iowa. In addition to gaming amenities, it also features a hotel, a fitness center, four dining facilities, a sports bar, and a 5,000 square feet of convention and meeting space.

Argosy Casino Alton is located on the Mississippi River in Alton, Illinois, approximately 20 miles northeast of downtown St. Louis. Argosy Casino Alton is a three-deck gaming facility featuring slot machines and table games. Argosy Casino Alton includes an entertainment pavilion and features a large buffet venue, a restaurant, a deli and a 475-seat main showroom. The facility also includes surface parking areas with approximately 1,350 spaces.

Argosy Casino Riverside is located on the Missouri River, approximately five miles from downtown Kansas City in Riverside, Missouri. The property features slot machines and table games. This Mediterranean-themed property features a nine-story hotel, a spa, an entertainment facility featuring various food and beverage areas, including a buffet, a steakhouse, a deli, a coffee bar, a Mexican restaurant, a VIP lounge and a sports/entertainment lounge and 19,000 square feet of banquet/conference facilities. Argosy Casino Riverside also has parking for approximately 3,000 vehicles, including a 1,250 space parking garage.

Hollywood Casino Aurora, is located in Aurora, Illinois, the second largest city in Illinois, approximately 35 miles west of Chicago. This single-level dockside casino offers guests with gaming amenities, including a poker room. The facility features a steakhouse with a private dining room, a VIP lounge for premium players, a casino bar with video poker, a buffet, and a deli. Hollywood Casino Aurora also has a surface parking lot, two parking garages with approximately 1,500 parking spaces, and a gift shop.

Hollywood Casino Joliet, is located on the Des Plaines River in Joliet, Illinois, approximately 40 miles southwest of Chicago. This barge-based casino provides guests with two levels of gaming experience as well as a deli and a VIP lounge. The land-based pavilion includes a steakhouse, a buffet and a sports bar. The complex also includes a hotel, approximately 4,600 square feet of meeting space, a 1,100 space parking garage, surface parking areas with approximately 1,500 spaces and an 80-space recreational vehicle park.

Hollywood Casino at Kansas Speedway, our 50% joint venture with International Speedway, opened in February 2012, and features slot machines, table games and poker tables. Hollywood Casino at Kansas Speedway offers a variety of dining and entertainment facilities, a meeting room, and has a 1,253 space parking structure.

Hollywood Casino St. Louis is located adjacent to the Missouri River in Maryland Heights, Missouri, directly off I-70 and approximately 22 miles northwest of downtown St. Louis, Missouri. The facility is situated along the Missouri River and features slot machines, table games, poker tables, a hotel, nine dining and entertainment venues and structured and surface parking with approximately 4,600 spaces.

Prairie State Gaming is our licensed VGT route operator in Illinois across a network of 403 bar and retail gaming establishments in seven distinct geographic areas throughout Illinois.

River City Casino is located in the St. Louis, Missouri metropolitan area, just south of the confluence of the Mississippi River and the River des Peres in the south St. Louis community of Lemay, Missouri. River City Casino features a hotel, multiple dining outlets, an entertainment lounge, and over 10,000 square feet of conference space.

Other

Freehold Raceway. Through our joint venture in Pennwood Racing, Inc. (“Pennwood”), we own 50% of Freehold Raceway, located in Freehold, New Jersey. The property features a half-mile standardbred race track and a 117,715 square foot grandstand.

Retama Park Racetrack. We have a management contract with Retama Development Corporation (“RDC”), a local government corporation of the City of Selma, Texas, to manage the day-to-day operations of Retama Park Racetrack. In addition, we own 1.0% of the equity of Retama Nominal Holder, LLC, which holds a nominal interest in the racing license used to operate Retama Park Racetrack. Additionally, we own a 75.5% interest in Pinnacle Retama Partners, LLC (“PRP”), which owns the contingent gaming rights that may arise if gaming under the existing racing license becomes legal in Texas in the future.

Sam Houston Race Park and Valley Race Park. Our joint venture with MAXXAM owns and operates the Sam Houston Race Park in Houston, Texas and the Valley Race Park in Harlingen, Texas, and holds a license for a racetrack in Manor, Texas, just outside of Austin. Sam Houston Race Park is located 15 miles northwest from downtown Houston along Beltway 8. Sam Houston Race Park hosts thoroughbred and quarter horse racing and offers daily simulcast operations, as well as hosts various special events, private parties and meetings, concerts and national touring festivals throughout the year. Valley Race Park features 91,000 of property square footage as a dog racing and simulcasting facility located in Harlingen, Texas.

Sanford-Orlando Kennel Club. Sanford-Orlando Kennel Club is a 1/4-mile greyhound facility located in Longwood, Florida. The facility has capacity for 6,500 patrons, with seating for 4,000 and surface parking for 2,500 vehicles. The facility conducts year-round greyhound racing and greyhound, thoroughbred, and harness racing simulcasts.

Heartland Poker Tour. We own and operate the Heartland Poker Tour, which is a live and televised poker tournament series.

Off-track Wagering Facilities. Our off-track wagering facilities (“OTWs”) and racetracks provide areas for viewing import simulcast races of thoroughbred and standardbred horse racing, televised sporting events, placing pari-mutuel wagers and dining. We operate two OTWs in Pennsylvania, and through our joint venture in Pennwood, we own 50% of a leased OTW in Toms River, New Jersey. In addition, in accordance with an operating agreement with Pennwood, the Company constructed an OTW in Gloucester Township, New Jersey, which opened in July 2014. Per the operating agreement, this OTW is operated by us; however, Pennwood has the option to purchase the OTW once the Company has received its total investment as defined in the operating agreement.

Penn Interactive Ventures. PIV is our interactive gaming division, which includes Rocket Speed, a leading developer of social casino games, and our HollywoodCasino.com Play4Fun social gaming platform with Scientific Games Corporation.

Trademarks

We own a number of trademarks and service marks registered with the U.S. Patent and Trademark Office (“USPTO”), including but not limited to, “Hollywood Casino®,” “Hollywood Gaming®,” “Argosy®,” “M Resort®,” “Hollywood Poker®,” and “Marquee Rewards.®” With the acquisition of Pinnacle, we acquired Pinnacle’s trademark portfolio and now also own “Ameristar®,” “Boomtown®,” “L’Auberge®,” and “MYCHOICE®,” among other trademarks. We believe that our rights to our marks are well established and have competitive value to our properties. We also have a number of trademark applications pending with the USPTO.

As part of our acquisition of Tropicana Las Vegas in August 2015, we assumed a trademark settlement agreement with Tropicana Entertainment, LLC, an affiliate of Tropicana Entertainment, Inc. that is not related to the Company, which, subject

to other terms, conditions, and advertising limitations set forth in the agreement, confirms, among other things, that (i) Tropicana Las Vegas owns and has the exclusive right to use the “Tropicana Las Vegas” and the “Tropicana LV” marks within 50 miles of the “Las Vegas Property” for the purpose of providing goods and services in the field of entertainment and hospitality and in the natural scope of expansion thereof (the “Services”), and for “Internet Uses” (as defined in the Agreement) without geographic limitation, (ii) Tropicana Las Vegas may advertise the Services identified by the “Tropicana Las Vegas” and the “Tropicana LV” marks worldwide provided that the advertisements explicitly reference the location of the Tropicana Las Vegas Property, and (iii) Tropicana Entertainment, LLC owns and has the exclusive right to use the “Tropicana” and “Trop” marks, in connection with a modifier indicating the type of service being provided or a modifier designating an accurate geographic location of a property, outside of the Las Vegas area, and may advertise the Services worldwide provided that the advertisements explicitly reference the location of the properties.

We have licenses with third parties to use the Resorts® and Margaritaville® trademarks, among others, in connection with the operation of Resorts Casino Tunica, in Tunica, Mississippi and Margaritaville Resort Casino in Bossier City, Louisiana, respectively.

Competition

The gaming industry is characterized by an increasingly high degree of competition among a large number of participants, including riverboat casinos; dockside casinos; land-based casinos; video lottery; internet gaming; sports betting; gaming at taverns in certain states, such as Illinois; gaming at truck stop establishments in certain states, such as Pennsylvania and Louisiana; sweepstakes and poker machines not located in casinos; the potential for increased fantasy sports; real money iGaming; Native American gaming; and other forms of gaming in the U.S. In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including: shopping; athletic events; television and movies; concerts and travel. Legalized gaming is currently permitted in various forms throughout the U.S. and on various lands taken into trust for the benefit of certain Native Americans in the U.S. Other jurisdictions, including states adjacent to states in which we currently have facilities, have legalized, implemented and expanded gaming. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion or relocation of existing gaming operations (including VGTs, sports betting and iGaming). New, relocated or expanded operations by other companies will increase competition for our gaming operations and could have a material adverse impact on us. Finally, the imposition of smoking restrictions and/or higher gaming tax rates have a significant impact on our properties’ ability to compete with facilities in nearby jurisdictions.

Northeast. Hollywood Casino at Charles Town Races has been and will continue to be negatively impacted by competition in the Baltimore, Maryland market, which includes Maryland Live! and Horseshoe Casino Baltimore. Maryland Live!, a casino complex at the Arundel Mills mall in Anne Arundel, Maryland, opened in June 2012 and Horseshoe Casino Baltimore opened at the end of August 2014. Both of these facilities are substantial in nature, as Maryland Live! has approximately 4,000 slot machines, over 200 table games, various food and beverage offerings and as of July 2018, a 300-room hotel, whereas Horseshoe Baltimore has 2,200 slot machines and 180 table games. In December 2013, the sixth casino license for Maryland in Prince George’s County was granted to MGM. In December 2016, MGM National Harbor casino and resort opened featuring 3,300 slot machines and 124 table games and has had an adverse impact our financial results, as it has created additional competition for Hollywood Casino at Charles Town Races.

In November 2011, the Expanded Gaming Act was signed into law in Massachusetts, which allows up to three destination resort casinos located in three geographically diverse regions across the state and a single slots facility for one location statewide. In February 2014, the Massachusetts Gaming Commission awarded us the slots-only gaming license and in June 2015, we opened Plainridge Park Casino in Plainville. The licenses for two of three casino resorts have been awarded, with the remaining license in Southeastern Massachusetts still open. MGM Springfield in Western Massachusetts opened in August 2018 and Encore Boston Harbor in Eastern Massachusetts is scheduled to open in June 2019. Construction of a tribal casino in Taunton, Massachusetts, which was expected to open in 2017, is currently on hold following a judicial opinion issued during the third quarter 2016 regarding the validity of the Tribe’s land in trust. In addition, the relocation of the Newport Casino license to Tiverton, Rhode Island, near the Massachusetts border, which was approved by local and statewide voters in November 2016, opened in September 2018. Twin River Casino Hotel in Lincoln, Rhode Island, completed its new hotel tower during the fourth quarter 2018. The increased competition in Massachusetts will have a negative impact on the operations of Plainridge Park Casino.

In Ohio, a racino at Scioto Downs in Columbus, Ohio, opened in June 2012, which had a negative impact on Hollywood Casino Lawrenceburg’s financial results and competes aggressively in the same market as Hollywood Casino Columbus. In addition, a racino at Miami Valley Gaming opened in December 2013, and a racino at Belterra Park opened in May 2014. Both of these racinos compete with Hollywood Casino Lawrenceburg. We have opened our own racinos in Ohio, with Hollywood Gaming at Dayton Raceway in August 2014 and Hollywood Gaming at Mahoning Valley Race Course in September 2014. As a

result, in a relatively short period of time, Ohio has gone from having no gaming facilities to having four casinos and seven VLT facilities. In addition, we continue to fight illegal gaming operations, such as internet sweepstakes, in the state.

In addition, legislators in Kentucky regularly consider new gaming legislation. The commencement of gaming in Kentucky would negatively impact certain of our existing properties in the Northeast segment. In October 2017, Pennsylvania enacted gaming expansion legislation that authorized licenses for up to ten new Category 4 satellite casinos, VGTs at truck stops, online gaming, and other gaming offerings. The new casinos will have the ability to operate between 300 and 750 slot machines and up to 40 table games. Only Pennsylvania's existing gaming operators were permitted to initially participate in the auctions for these new casinos, with a preference given to the Category 1 and Category 2 license holders in the first and second rounds. On January 10, 2018, Penn was awarded the first Category 4 satellite casino license to be located in York County for a \$50.1 million license fee, which will compete with our Hollywood Casino at Penn National Race Course facility. On January 24, 2018, the second Category 4 satellite casino license was awarded in Derry Township in Westmoreland County and is expected to compete with and may have an adverse impact on Meadows. On February 8, 2018, the third Category 4 satellite casino license was awarded in Lawrence County which is expected to compete with and have an adverse impact on our existing Hollywood Gaming at Mahoning Valley Race Course facility in Youngstown, Ohio. On February 22, 2018 and April 4, 2018, the fourth and fifth, Category 4 satellite casino licenses, respectively, were awarded in Cumberland County and West Cocalico Township in Lancaster County (this was awarded to Penn for a \$7.5 million license fee) which are expected to compete with and have an adverse impact on our Hollywood Casino at Penn National Race Course facility in Grantville, Pennsylvania. Penn also applied for a license to operate online real money gaming in Pennsylvania. Depending on our ability to successfully operate online gaming in Pennsylvania and on how many of the ten satellite casino licenses are ultimately issued, and the final locations and scope of these satellite casinos, as well as the impact of VGTs at truck stops and online gaming offerings, there may be additional negative impacts on our existing facilities in the Northeast segment.

South. In the Mississippi Gulf Coast market, the Island View Beach Casino opened in June 2018, which has had an adverse effect on the financial results of our Boomtown Biloxi property. In the West Memphis and Tunica market, in January 2019, a planned expansion and renovation of Southland Park with a 55,000 square foot gaming floor, including over 2,000 gaming machines, gaming tables and high-limit room, will have an adverse impact on our casinos in the Tunica market. In addition, in the Lake Charles market, the opening of a full-service competitor in December 2014, Golden Nugget Lake Charles, has provided increased competition to L'Auberge Lake Charles and continues to have an adverse impact on financial results of our casino.

West. M Resort and Tropicana Las Vegas compete directly with other Las Vegas hotels, resorts, and casinos, including those located on the Las Vegas Strip, on the basis of overall atmosphere, range of amenities, level of service, price, location, entertainment offered, convention and meeting facilities, shopping and restaurant facilities, theme, and size. In addition, a substantial number of customers are drawn from geographic areas outside of Las Vegas, particularly California and Arizona. Ameristar Blackhawk's largest competitor, Monarch Casino, is expected to complete a large renovation and expansion by July 2019, including a parking garage and 500-room hotel.

Midwest. In Illinois, there have been perennial gaming expansion proposals introduced in the legislature, which we expect to continue. In October 2012, video gambling in Illinois was officially launched with the first locations being allowed to operate VGTs. Currently, there are over 22,000 terminals at numerous locations throughout the state, which has had a negative impact on our casinos near or in Illinois. In September 2015, we purchased Prairie State Gaming, which is a licensed VGT operator in Illinois, whose operations now include more than 1,850 video gaming terminals across a network of 403 bars and retail gaming establishments throughout Illinois. Illinois also continues to discuss the viability of gaming expansion in the state through a potential combination of additional riverboat operations, land-based casinos and slots at racetracks. In addition, legislators in Indiana and Missouri are currently considering VGT legislation. The commencement of gaming in Indiana and Missouri or the expansion of gaming in Illinois would negatively impact certain of our existing properties in the Midwest segment. In November 2018, a tribal casino opened in Omaha, Nebraska, which competes with Ameristar Council Bluffs. In addition, there is a proposal to reopen a race track with slot machines at the Woodlands in Wyandotte County, which could have an adverse effect on the financial results of Hollywood Casino at Kansas Speedway. On November 6, 2018, voters in St. Louis County approved a ballot referendum that requires Hollywood Casino St. Louis and River City Casino to make at least 50% of their gaming floors smoke free. This smoking restriction could have an adverse impact on our business operations at our casinos in St. Louis County.

In February 2019, there was new proposed legislation in Indiana to relocate two existing licenses in Buffington Harbor in Gary, Indiana, moving one license to another location in Gary or another municipality in Northwest Indiana, and a second license to Terre Haute outside of Indianapolis. In the event this legislation passes and a casino is developed in Gary or a nearby municipality in Northwest Indiana, this would have a material adverse impact on the results of operations of Ameristar East Chicago, which is located in East Chicago, Indiana.

In addition, the proposed legislation in Indiana includes the acceleration of live dealer table games at existing racinos in Shelbyville and Anderson, Indiana to the summer of 2019, whereas existing law has live dealer table games at the existing racinos starting in the summer of 2021. In the event this legislation passes and live dealer table games at the existing racinos are available in the summer of 2019, this would have a material adverse impact on the results of operations at Hollywood Casino Lawrenceburg, which is located in Lawrenceburg, Indiana.

Government Regulation and Gaming Issues

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. For a more detailed description of the statutes and regulations to which we are subject, please see [Exhibit 99.1, "Government Regulation and Gaming Issues,"](#) 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, health care, 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.

Compliance with federal, state and local provisions which have been enacted or adopted regulating the discharge of materials into the environment or otherwise relating to the protection of the environment have not had a material effect upon our capital expenditures, earnings or the competitive positions of our properties. From time to time, certain development projects may require substantial costs for environmental remediation due to prior use of our development sites. Our project budgets for such a site typically include amounts expected to cover the remediation work required.

Executive Officers of the Registrant

The persons serving as our executive officers and their positions with us are as follows:

| NAME | AGE | POSITION WITH THE COMPANY |
|--------------------|------------|--|
| Timothy J. Wilmott | 60 | Chief Executive Officer |
| Jay Snowden | 42 | President and Chief Operating Officer |
| William J. Fair | 56 | Executive Vice President and Chief Financial Officer |
| Carl Sottosanti | 54 | Executive Vice President, General Counsel, and Secretary |

Timothy J. Wilmott. Mr. Wilmott joined us in February 2008 as President and Chief Operating Officer and was named Chief Executive Officer on November 1, 2013. In addition, in September 2014, Mr. Wilmott was appointed to the Board of Directors. Previously, Mr. Wilmott 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.

Jay Snowden. Mr. Snowden is currently our President and Chief Operating Officer. Mr. Snowden joined us in October 2011 as Senior Vice President-Regional Operations, became our Chief Operating Officer in January 2014, and became our President and Chief Operating Officer in March 2017. Mr. Snowden is responsible for overseeing all of our operating businesses, as well as human resources, marketing, and information technology. Prior to joining us, Mr. Snowden was the Senior Vice President and General Manager of Caesars and Harrah's in Atlantic City, and prior to that, held various leadership positions with them in St. Louis, San Diego and Las Vegas.

William J. Fair. Mr. Fair joined us in January 2014 as Senior Vice President and Chief Development Officer and became our Executive Vice President and Chief Financial Officer in January 2017. Previously, Mr. Fair worked in development leadership positions for Universal Studios and Disney Development. Most recently, Mr. Fair was the President and Chief Executive Officer of the American Skiing Company, where he had oversight of ten ski mountain resorts which included ski

operations, nine hotels, condominium operations, food and beverage operations, retail and rental operations, real estate brokerage and development.

Carl Sottosanti. Mr. Sottosanti is currently our Executive Vice President, General Counsel and Secretary. In February 2014, Mr. Sottosanti was appointed to the position of Senior Vice President and General Counsel and became Secretary in November 2014. Prior to this appointment, Mr. Sottosanti served as Vice President, Deputy General Counsel since 2003. Before joining the Company, Mr. Sottosanti served for five years as General Counsel at publicly traded, Sanchez Computer Associates, Inc. and had oversight of all legal, compliance and intellectual property matters. From 1994 to 1998, Mr. Sottosanti was the Assistant General Counsel for Salient 3 Communications, Inc., a publicly traded telecommunications company. Mr. Sottosanti began his legal career in 1989 with the Philadelphia law firm Schnader, Harrison, Segal & Lewis LLP.

Employees and Labor Relations

As of December 31, 2018, we had approximately 25,750 full- and part-time employees.

The Company is required to have agreements with the horsemen at the majority of its racetracks to conduct its live racing and/or simulcasting activities. In addition, in order to operate gaming machines and table games in West Virginia, the Company must maintain agreements with each of the Charles Town horsemen, pari-mutuel clerks and breeders.

At Hollywood Casino at Charles Town Races, the Company has an agreement with the Charles Town Horsemen's Benevolent and Protective Association, which expired on June 18, 2018, but has been extended until April 18, 2019. Hollywood Casino at Charles Town Races also has an agreement with the breeders that expires on June 30, 2019. Additionally, the pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Union of Mutuel Clerks, which expired on December 31, 2010, but has been extended on a month-to-month basis.

The Company's agreement with the Pennsylvania Horsemen's Benevolent and Protective Association at Hollywood Casino at Penn National Race Course was renewed through January 31, 2020. The Company has an agreement with Laborers' International Union of North America Local 108, regarding both on-track and off-track pari-mutuel clerks and admission staff, which expires on December 1, 2021. The Company has an agreement, which runs through August 2021, with the International Chapter of Horseshoers and Allied Equine Trades Local 947 regarding starting gate and jockey valet staff.

The Company's agreement with the Meadows Standardbred Owners Clubs Association was renewed through December 31, 2018. Meadows Racetrack and Casino has existing collective bargaining agreements with (1) The International Union, Security, Police and Fire Professionals of America and Local #508, which expires August 16, 2020, (2) UNITE/Hotel Employees and Restaurant Employees ("HERE") Local 57, which expires on September 11, 2020, and (3) Laborers Local Union #108 On-Track and Off-Track, which expires on March 31, 2022.

We are in the process of extending the Company's agreement with the Maine Harness Horsemen Association at Bangor Raceway through the conclusion of the 2020 racing season.

In March 2014, Hollywood Gaming at Mahoning Valley Race Course entered into an agreement with the Ohio Horsemen's Benevolent and Protective Association. The term is for a period of ten years from the September 2014 commencement of video lottery terminal operations at that facility. Hollywood Gaming at Dayton Raceway entered into a ten-year agreement with the Ohio Harness Horsemen's Association for racing at the property in September of 2015. In January 2014, Plainridge Park Casino entered into an agreement with the Harness Horsemen's Association of New England, which expired December 31, 2018 and is currently under negotiation.

Across certain of the Company's properties, Seafarers Entertainment and Allied Trade Union ("SEATU") represents approximately 1,628 of the Company's employees under a National Agreement that expires on January 24, 2032 and Local Addenda that expire at various times between June 2021 and October 2024.

SEATU agreements are in place at Hollywood Casino Joliet, Hollywood Casino Lawrenceburg, Argosy Casino Riverside, Argosy Casino Alton, Hollywood Casino at Kansas Speedway, Hollywood Gaming Dayton, Hollywood Gaming at Mahoning Valley, Plainridge Park Casino, and Ameristar East Chicago. Argosy Alton has a wage reopener in 2019; Plainridge Park Casino wage reopener from October 2018 is still outstanding. The remainder of the SEATU agreements have expiration dates in 2020 and beyond.

At Hollywood Casino Joliet, the Hotel Employees and Restaurant Employees Union Local 1 represents approximately 172 employees under a collective bargaining agreement which expires on March 31, 2019. At Hollywood Casino Columbus and Hollywood Casino Toledo, a council comprised of the United Auto Workers and the United Steel Workers represents approximately 1,254 employees under a collective bargaining agreement which ends on November 15, 2019.

Ameristar East Chicago has existing collective bargaining agreements with (1) SEATU, which expires on July 30, 2023 and (2) UNITE/HERE Best and Final, which expired April 30, 2018 and has been extended on a year-to-year basis.

Tropicana Las Vegas has seven existing collective bargaining agreements with the following unions: (1) Culinary & Bartenders, which expired on May 31, 2018 and has been extended on a year-to-year basis, (2) United Brotherhood of Carpenters, which expires on July 31, 2019, (3) International Brotherhood of Electrical Workers, which expires on February 28, 2021, (4) International Alliance of Theatrical Stage Employees, which expired on December 31, 2018 and has been extended on a year-to-year basis, (5) International Union of Painters and Allied Trades, which expired on June 30, 2018 and has been extended on a year-to-year basis, and (6)/(7) Teamsters, regarding front and back of the house; both agreements expired on March 31, 2018 and have been extended on a year-to-year basis.

Available Information

We were incorporated in Pennsylvania in 1982 as PNR Corp. and adopted our current name in 1994, when we became a publicly traded company. For more information about us, visit our website at www.pngaming.com. The contents of our website are not part of this Annual Report on Form 10-K. Our electronic filings with the U.S. Securities and Exchange Commission (“SEC”) (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 website as soon as reasonably practicable after we electronically file them with, or furnish them to, the SEC. Our filings are also available through a database maintained by the SEC at www.sec.gov.

ITEM 1A. RISK FACTORS

Risks Related to Our Business

We face significant competition from other gaming and entertainment operations.

The gaming industry is characterized by an increasingly high degree of competition among a large number of participants, including riverboat casinos; dockside casinos; land-based casinos; video lottery; internet gaming; sports betting; gaming at taverns in certain states, such as Illinois; gaming at truck stop establishments in certain states, such as Pennsylvania and Louisiana; sweepstakes and poker machines not located in casinos; the potential for increased fantasy sports; real money iGaming; Native American gaming; and other forms of gaming in the U.S. Furthermore, competition from internet lotteries, sweepstakes, fantasy sports, and internet or mobile-based gaming platforms, which allow their customers to wager on a wide variety of sporting events and/or play Las Vegas-style casino games from home or in non-casino settings, could divert customers from our properties and thus adversely affect our business. Even internet wagering services that are illegal under federal and state law but operate from overseas locations, may nevertheless sometimes be accessible to domestic gamblers and divert customers from our properties. Currently, there are proposals that would legalize internet poker and other varieties of internet gaming in a number of states and at the federal level. Several states, such as Nevada, New Jersey and Delaware, have enacted legislation authorizing intrastate internet gaming and internet gaming operations have begun in these states. In addition, Pennsylvania enacted legislation allowing regulated online poker and casino-style games within the state. Further, there has been recent expansion of sports betting in various states (such as New Jersey, Mississippi, Pennsylvania, and West Virginia) as states have passed legislation legalizing sports betting in casinos. Expansion of internet gaming in other jurisdictions (both legal and illegal) could further compete with our traditional operations, which could have an adverse impact on our business and result of operations.

In a broader sense, our gaming operations face competition from all manner of leisure and entertainment activities, including: shopping; athletic events; television and movies; concerts; and travel. Legalized gaming is currently permitted in various forms throughout the U.S., 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, have recently legalized, implemented and expanded gaming. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion or relocation of existing gaming operations (including VGTs, sports betting and iGaming). Voters and state legislatures may seek to supplement traditional tax revenue sources of state governments by authorizing or expanding gaming in the states that we operate in or the states that are adjacent to or near our existing properties. New, relocated or expanded operations by other persons could increase competition for our gaming operations and could have a material adverse impact on us.

We face intense competition in the markets in which we operate.

Gaming competition is intense in most of the markets where we operate. Recently, there has been additional significant 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. As competing properties and new markets are opened, our operating results may be negatively impacted. For example, new casinos and racinos have opened that compete in the same market as our Lawrenceburg property, namely the opening of Belterra Park in May 2014, our own Dayton facility in August 2014, and Horseshoe Casino in Cincinnati in March 2013; there is significantly increased competition to our Hollywood Casino at Charles Town Races property from the casino complex at the Arundel Mills mall in Anne Arundel, Maryland, the opening of Maryland Live! and Horseshoe Casino Baltimore in Baltimore, Maryland in 2014 and the opening of MGM National Harbor casino in Prince George's County, Maryland in December 2016, which also competes to a lesser extent with Hollywood Casino at Penn National Race Course; the opening of our joint venture casino project in Kansas in February 2012, which impacted Argosy Casino Riverside; and the potential opening of a tribal casino in Taunton, Massachusetts (the construction is currently on hold following a judicial ruling in favor of the Taunton property owners who contended that the federal government erred in placing reservation land in trust for the Mashpee Wampanoag tribe); the recent opening of a tribal casino in Nebraska in November 2018, which competes with Ameristar Council Bluffs; the recent openings of MGM Springfield in Western Massachusetts in August 2018 and Tiverton Casino Hotel in Tiverton, Rhode Island, in September 2018, the expected opening of Wynn Everett in Eastern Massachusetts in mid-2019, and the new hotel tower at Twin River Casino Hotel in Lincoln, Rhode Island, which opened in the fourth quarter 2018; are anticipated to negatively impact our Plainridge Park Casino. Hollywood Casino Aurora, Hollywood Casino Joliet, and Ameristar East Chicago have also been negatively impacted by the proliferation of VGTs at numerous locations throughout the state of Illinois, which are in the vicinity of our operations. In addition, some of our direct competitors in certain markets may have superior facilities and/or operating conditions. Pennsylvania enacted legislation that will expand gaming in the state which will cause additional competition for Hollywood Casino at Penn National Race Course, Hollywood Gaming at Mahoning Valley Race Course, and Meadows Racetrack and Casino. 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 [Item 1. Business, “Competition,”](#) of this Annual Report on Form 10-K.

We may face disruption and other difficulties in integrating and managing facilities we have recently acquired, may develop or acquire in the future.

We expect to continue pursuing expansion opportunities, and we regularly evaluate opportunities for acquisition and development of new 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 develop or acquire, particularly in new competitive markets, such as the entry into the Michigan market with the pending acquisition of Greektown. The integration of more significant properties that we may develop or acquire (such as those acquired in the Pinnacle transaction as well as the Margaritaville Resort Casino and anticipated Greektown transactions) will require the dedication of management resources that may temporarily divert attention from our day-to-day business. In addition, development and integration of new information technology systems that may be required is costly and time-consuming. 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. In addition, the development of new properties may involve construction, local opposition, regulatory, legal and competitive risks as well as the risks attendant to partnership deals on these development opportunities. In particular, in projects where we team up with a joint venture partner, if we cannot reach agreement with such partners, or our relationships otherwise deteriorate, we could face significant increased costs and delays. Local opposition can delay or increase the anticipated cost of a project. Finally, given the competitive nature of these types of limited license opportunities, litigation is possible.

Management of new properties, especially in new geographic areas and business lines may require that we increase our management 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 or development projects. We also cannot assure you that if acquisitions are completed, that the acquired businesses will generate returns consistent with our expectations.

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, financial condition and results of operations.

We may face risks related to our ability to receive regulatory approvals required to complete, or other delays or impediments to completing certain of our acquisitions.

Our growth is fueled, in part, by the acquisition of existing gaming, racing, and development properties. In addition to standard closing conditions, our acquisitions are often conditioned on the receipt of regulatory approvals and other hurdles that create uncertainty and could increase costs. Such delays could significantly reduce the benefits to us of such acquisitions and 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, construction, the licensing process, legislative action and litigation. Delays in opening new or upgraded facilities could lead to increased costs and delays in receiving anticipated revenues with respect to such facilities and could have a material adverse effect on our business, financial condition and results of operations.

We are required to pay a significant portion of our cash flows as financing payments under the Leases, which could adversely affect our ability to fund our operations and growth and limit our ability to react to competitive and economic changes.

We are required to pay a significant portion of our cash flow from operations as rent pursuant to and subject to the terms and conditions of leases, including our three leases with GLPI and our lease for Margaritaville Resort Casino with VICI (collectively, the leases are referred to as the “Leases”). As a result of these commitments, our ability to fund our own

operations or development projects, raise capital, make acquisitions and otherwise respond to competitive and economic changes may be adversely affected. For example, our obligations under the Leases may:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness and to obtain additional indebtedness;
- increase our vulnerability to general or regional adverse economic and industry conditions or a downturn in our business;
- require us to dedicate a substantial portion of our cash flow from operations to making lease payments, thereby reducing the availability of our cash flow to fund working capital, capital expenditures 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; and
- restrict our ability to raise capital, make acquisitions, divestitures and engage in other significant transactions.

Any of the above listed factors could have a material adverse effect on our business, financial condition and results of operations.

Most of our facilities are leased and could experience risks associated with leased property, including risks relating to lease termination, lease extensions, charges and our relationship with our landlords, GLPI and VICI, which could have a material adverse effect on our business, financial position or results of operations.

We lease 34 of the facilities we operate pursuant to the Leases. The Leases provide that our landlords, GLPI and VICI, may terminate each such Lease for a number of reasons, including, subject to applicable cure periods, the default in any payment of rent, taxes or other payment obligations or the breach of any other covenant or agreement in the lease. Termination of any of our Leases could result in a default under our debt agreements and could have a material adverse effect on our business, financial position or results of operations. Moreover, as a lessee we do not completely control the land and improvements underlying our operations and our landlords under the Leases could take certain actions to disrupt our rights in the facilities leased under the Leases which are beyond our control. If one of our landlords chose to disrupt our use either permanently or for a significant period of time, then the value of our assets could be impaired and our business and operations would be adversely affected. There can also be no assurance that we will be able to comply with our obligations under the Leases in the future. In addition, if one of our landlords has financial, operational, regulatory or other challenges there can be no assurance that the landlord will be able to comply with its obligations under its agreements with us.

Each of our Leases is commonly known as a triple net lease. Accordingly, in addition to rent, we are required to pay among other things the following: (1) all facility maintenance, (2) all insurance required in connection with the leased properties and the business conducted on the leased properties, (3) taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor) and (4) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties. We are responsible for incurring the costs described in the preceding sentence notwithstanding the fact that many of the benefits received in exchange for such costs shall in part accrue to the landlords as owners of the associated facilities. In addition, if some of our leased facilities should prove to be unprofitable, we could remain obligated for lease payments and other obligations under the Leases even if we decided to withdraw from those locations. We could incur special charges relating to the closing of such facilities including lease termination costs, impairment charges and other special charges that would reduce our net income and could have a material adverse effect on our business, financial condition and results of operations.

We may face reductions in discretionary consumer spending as a result of an economic downturn.

Our net revenues are highly dependent upon the volume and spending levels of customers at properties we manage and as such our business has been adversely impacted by economic downturns. Decreases in discretionary consumer spending brought about by weakened general economic conditions such as, but not limited to, lackluster recoveries from recessions, high unemployment levels, higher income taxes, low levels of consumer confidence, weakness in the housing market, cultural and demographic changes, high fuel or other transportation costs and increased stock market volatility may negatively impact our revenues and operating cash flow.

We face extensive regulation from gaming authorities.

As owners and managers of casino gaming, video lottery, and pari-mutuel wagering operations, we are subject to extensive state and local regulation. These regulatory authorities 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, and numbers and types of machines. 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 can give no assurance to you that we will be able to retain those existing licenses 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.

Changes in legislation and regulation of our operations could have an adverse effect on our business.

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, competitive or other burdens on the way we conduct our business.

In particular, certain areas of law governing new gaming activities, such as the federal and state law applicable to internet gaming and sports betting, are new or developing in light of emerging technologies. New and developing areas of law may be subject to the interpretation of the government agencies tasked with enforcing them. In some circumstances, a government agency may interpret a statute or regulation in one manner and then reconsider its interpretation at a later date. No assurance can be provided that government agencies will interpret or enforce new or developing areas of law consistently, predictably, or favorably. Moreover, legislation to prohibit, limit or add burdens to our business 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 January 2019, legal counsel for the U.S. Department of Justice ("DOJ") issued a legal opinion on the Interstate Wire Act of 1961 ("Wire Act"), which stated that the Wire Act bans any form of online gambling if it crosses state lines and reversed a 2011 DOJ legal opinion that stated that it only applied to interstate sports betting.

State and local smoking restrictions have negatively affected our business and may continue to negatively affect our business.

Legislation in various forms to ban indoor tobacco smoking in public places has been enacted or introduced in many states and local jurisdictions, including several of the jurisdictions in which we operate. We believe the smoking restrictions have significantly impacted business volumes.

In August 2017, the East Baton Rouge Metropolitan Council approved a smoking ban in casinos and bars that took effect in June 2018. This smoking ban has had and is expected to continue to have an adverse effect on our business at L'Auberge Baton Rouge, which we acquired as part of the Pinnacle transaction. We also face a partial smoking ban in St. Louis, Missouri, which could impact both our Hollywood Casino St. Louis and River City Casino properties. In January 2015, the New Orleans City Council unanimously approved an ordinance in the City of New Orleans that prohibits smoking in casinos, bars and restaurants. The Boomtown New Orleans facility is located in the City of Harvey and not in the City of New Orleans, so the smoking ban does not apply to that facility. However, if a smoking ban was approved in the City of Harvey, we believe that this will have an adverse effect on our business.

The passage of the Smoke Free Illinois Act which banned smoking in casinos, adversely affected revenues and operating results at our Illinois properties at the time it was implemented in January 2008. In Pennsylvania, we are currently permitted to allow smoking on only up to 50% of the gaming floor of our Grantville facility and smoking is banned in all other indoor areas. Additionally, in July 2012, a state statute in Indiana became effective that imposes a state wide smoking ban in specified businesses, buildings, public places and other specified locations. The statute specifically exempts riverboat casinos, and all other gaming facilities in Indiana, from the smoking ban. However, the statute allows local government to enact a more restrictive smoking ban than the state statute and also leaves in place any more restrictive local legislation that exists as of the effective date of the statute. To date, our facility in Lawrenceburg, Indiana is not subject to any such local legislation.

On November 6, 2018, voters in St. Louis County approved a ballot referendum that requires Hollywood Casino St. Louis and River City Casino to make at least 50% of their gaming floor smoke free. This smoking restriction could have an adverse impact on our business operations at our casinos in St. Louis County.

If additional smoking restrictions are enacted within jurisdictions where we operate or seek to do business, our business could be adversely affected.

Material increases to our taxes or the adoption of new taxes could have a material adverse effect on our future financial results.

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 revenue based 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, property taxes, and/or authorizing additional gaming facilities each subject to payment of a new license fee. It is not possible to determine with certainty the likelihood of changes in such 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/or property 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.

We are required to comply with extensive non-gaming laws and regulations.

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 also deal with significant amounts of cash in our operations and are subject to various reporting and anti-money laundering regulations. Any violation of anti-money laundering laws or regulations, or any accusations of money laundering or regulatory investigations into possible money laundering activities, by any of our properties, employees or customers could have a material adverse effect on our financial condition, results of operations and cash flows.

We have certain properties that generate a significant percentage of our net revenues.

For the year ended December 31, 2018, we generated approximately 10.2% of our net revenues from our facility in Charles Town, West Virginia. Furthermore, with the acquisitions of Pinnacle and Margaritaville Resort Casino, for the year ending December 31, 2019, we anticipate a significant portion of our net revenues will be generated from our facilities in Louisiana, principally L'Auberge Lake Charles. Our ability to meet our operating and debt service requirements is dependent, in part, upon the continued success of our facilities in Louisiana and in West Virginia. The operations at the facilities in Louisiana and West Virginia and any of our other facilities could be adversely affected by numerous factors, including those described in these "Risk Factors" as well as more specifically those described below:

- 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;
- changes in local and state governmental laws and regulations (including smoking restrictions and 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;
- work stoppages, organizing drives and other labor problems as well as issues arising in connection with agreements with horsemen and pari-mutuel clerks; and
- the occurrence of natural disasters or other adverse regional weather trends.

In addition, although to a lesser extent than our facilities in Louisiana and West Virginia, we anticipate meaningful contributions from Ameristar Black Hawk, Hollywood Casino at Penn National Race Course, and our properties in Missouri and Ohio. Therefore, our results will be dependent on the regional economies and competitive landscapes at these locations as well.

We may experience an impairment of our goodwill, other intangible assets, or long-lived assets, which could adversely affect our financial condition and results of operations.

We have recognized a substantial amount of goodwill in connection with consummation of the merger with Pinnacle and the allocation of the purchase price thereto. We test goodwill and other indefinite-lived intangible assets for impairment annually during the fourth quarter, or more frequently if events or circumstances indicate that the carrying amount may not be recoverable. A significant amount of judgment is involved in performing fair value estimates for goodwill since the results are based on estimated future cash flows and assumptions related thereto. Significant assumptions include estimates of future sales and expense trends, construction costs, discount rates, liquidity and capitalization, among other factors. We base our fair value estimates on projected financial information, which we believe to be reasonable. However, actual results may differ from those projections. Further, we may need to recognize an impairment of some of the goodwill recognized in the merger with Pinnacle or any other indefinite-lived intangible assets, it could adversely affect our financial condition and results of operations.

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 (particularly in the case of class actions). 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, and, especially with increasing class action claims in our industry, could result in costs, settlements or damages that could significantly impact our business, financial condition and results of operations.

Our operations are largely dependent on the skill and experience of our management and key personnel. The loss of management and other key personnel could significantly harm our business, and we may not be able to effectively replace members of management who have left our company.

Our success and our competitive position are largely dependent upon, among other things, the efforts and skills of our senior executives and management team. Although we enter into employment agreements with certain of our senior executives and key personnel, we cannot guarantee that these individuals will remain employed by us. If we lose the services of any members of our management team or other key personnel, our business may be significantly impaired. We cannot assure you that we will be able to retain our existing senior executive and management personnel or attract additional qualified senior executive and management personnel.

We expect to experience strong competition in hiring and retaining qualified property and corporate management personnel, including competition from numerous Native American gaming facilities that are not subject to the same taxation regimes as we are and therefore may be willing and able to pay higher rates of compensation. From time to time, we expect to have a number of vacancies in key corporate and property management positions. If we are unable to successfully recruit and retain qualified management personnel at our facilities or at our corporate level, our results of operations could be adversely affected.

Inclement weather and other casualty events 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 casualty events. 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. 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. For instance, Hollywood Casino Toledo was closed for brief periods in 2014, 2015 and 2016 due to harsh winter conditions and Argosy Casino Alton was closed for several days in December 2015, January 2016 and May 2017 due to flooding. In 2015, Boomtown Bossier City experienced flooding which resulted in temporary closure, repair and clean-up costs and lost business volume. In 2016, L'Auberge Lake Charles and L'Auberge Baton Rouge were both negatively impacted by lost business volume due to severe rain and flooding. In 2017, visitation to Boomtown New Orleans, L'Auberge Lake Charles and L'Auberge Baton Rouge was negatively impacted by Hurricanes Harvey and Nate.

Even if adverse weather conditions do not require the closure of our facilities, those conditions make it more difficult for our customers to reach our properties for an extended period of time, which can have an adverse impact on our operations. Casualty events such as, the tragic shootings that occurred on the Las Vegas Strip on October 1, 2017 that affect tourism also impact our business. Following the October 2017 tragedy, operations at Tropicana Las Vegas were adversely effected.

The extent to which we can recover under our insurance policies for damages sustained at our properties in the event of future inclement weather and other casualty events could adversely affect our business.

We maintain significant property insurance, including business interruption coverage, for these and other properties. However, there can be no assurances that we will be fully or promptly compensated for losses at any of our facilities in the event of future inclement weather or casualty events. In addition, our property insurance coverage is in an amount that may be significantly less than the expected and actual replacement cost of rebuilding certain facilities "as was" if there was a total loss. The Leases require us, in the event of a casualty event, to rebuild a leased property to substantially the same condition as existed immediately before such casualty event. We renew our insurance policies (other than our builder's risk insurance) on an annual basis. The cost of coverage may become so material that we may need to further reduce our policy limits, further increase our deductibles, or agree to certain exclusions from our coverage.

Our gaming operations rely heavily on technology services and an uninterrupted supply of electrical power. Our security systems and all of our slot machines are controlled by computers and reliant on electrical power to operate.

Any unscheduled disruption in our technology services or interruption in the supply of electrical power could result in an immediate, and possibly substantial, loss of revenues due to a shutdown of our gaming operations. Such interruptions may occur as a result of, for example, a failure of our information technology or related systems, catastrophic events or rolling blackouts. Our systems are also vulnerable to damage or interruption from earthquakes, floods, fires, telecommunication failures, terrorist attacks, computer viruses, computer denial-of-service attacks and similar events. In the event one of these third parties experiences a disruption in its ability to provide such services to us (whether due to technological difficulties or power problems), this may result in a material disruption at the casinos that we operate and have a material effect on our business, operating results and financial condition.

Our information technology and other systems are subject to cyber security risk including misappropriation of employee information, customer information or other breaches of information security.

We rely on information technology and other systems, including our own systems and those of service providers and third parties, to manage our business and employee data and maintain and transmit customers' personal and financial information, credit card settlements, credit card funds transmissions, mailing lists and reservations information. Our collection of such data is subject to extensive regulation by private groups, such as the payment card industry, as well as governmental authorities, including gaming authorities. Privacy regulations continue to evolve and we have taken, and will continue to take, steps to comply by implementing processes designed to safeguard our business, employee and customers' confidential and personal information. In addition, our security measures are reviewed and evaluated regularly. However, our information and processes and those of our service providers and other third parties, are subject to the ever-changing threat of compromised security, in the form of a risk of potential breach, system failure, computer virus, or unauthorized or fraudulent use by customers, company employees, or employees of third party vendors. The steps we take to deter and mitigate the risks of breaches may not be successful, and any resulting compromise or loss of data or systems could adversely impact operations or regulatory compliance and could result in remedial expenses, fines, litigation, disclosures, and loss of reputation, potentially impacting our financial results.

Further, as cyber-attacks continue to evolve, we may incur significant costs in our attempts to modify or enhance our protective measures or investigate or remediate any vulnerability. Increased instances of cyber-attacks may also have a negative reputational impact on us and our properties that may result in a loss of customer confidence and, as a result, may have a material adverse effect on our business and results of operations.

Our operations in certain jurisdictions depend on management agreements and/or leases with third parties and local governments.

Our operations in several jurisdictions depend on land leases and/or management and development agreements with third parties and local governments. If we, or if GLPI or VICI in the case of leases pursuant to which we are the sub-lessee, are unable to renew these leases and agreements on satisfactory terms as they expire or disputes arise regarding the terms of these agreements, our business may be disrupted and, in the event of disruptions in multiple jurisdictions, could have a material adverse effect on our financial condition and results of operations.

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

The Federal Interstate Horseracing Act of 1978, as amended, the West Virginia Race Horse Industry Reform Act and the Pennsylvania Racing Act require that, in order to simulcast races, we have certain agreements with the horse owners and trainers at our West Virginia and Pennsylvania racetracks. In addition, West Virginia requires applicants seeking to renew their gaming license to demonstrate they have an agreement 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.

At Hollywood Casino at Charles Town Races, the Company has an agreement with the Charles Town Horsemen's Benevolent and Protective Association, which expired on June 18, 2018, but has been extended until April 18, 2019. Hollywood Casino at Charles Town Races also has an agreement with the breeders that expires on June 30, 2019. Additionally, the pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Union of Mutuel Clerks, which expired on December 31, 2010, but has been extended on a month-to-month basis.

The Company's agreement with the Pennsylvania Horsemen's Benevolent and Protective Association at Hollywood Casino at Penn National Race Course was renewed through January 31, 2020. The Company has an agreement with Laborers' International Union of North America Local 108, regarding both on-track and off-track pari-mutuel clerks and admission staff, which expires on December 1, 2021. The Company has an agreement, which runs through August 2021, with the International Chapter of Horseshoers and Allied Equine Trades Local 947 regarding starting gate and jockey valet staff.

In certain jurisdictions where we operate pari-mutuel wagering, if we fail to present evidence of an agreement with the horsemen at a track, we may not be permitted to conduct live racing and export and import simulcasting at that track and OTWs and, in West Virginia, our video lottery license may not be renewed. In addition, our annual simulcast export agreements are subject to the horsemen's approval under the Federal Interstate Horseracing Act of 1978, as amended. Some simulcast import agreements require horsemen approval depending on state law. 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.

Our planned capital expenditures may not result in our expected improvements in our business.

We regularly expend capital to construct, maintain and renovate our properties to remain competitive, maintain the value and brand standards of our properties and comply with applicable laws and regulations. Our ability to realize the expected returns on our capital investments is dependent on a number of factors, including, general economic conditions; changes to construction plans and specifications; delays in obtaining or inability to obtain necessary permits, licenses and approvals; disputes with contractors; disruptions to our business caused by construction; and other unanticipated circumstances or cost increases.

While we believe that the overall budgets for our planned capital expenditures are reasonable, these costs are estimates and the actual costs may be higher than expected. In addition, we can provide no assurance that these investments will be sufficient or that we will realize our expected returns on our capital investments, or any returns at all. A failure to realize our expected returns on capital investments could materially adversely affect our business, financial condition and results of operations or an outright sale of the loan to a third party.

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 and related systems 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.

A substantial majority of the slot machines sold in the U.S. in recent years were manufactured by a few select companies, and there has been extensive consolidation activity within the gaming equipment sector in recent years, including the

acquisitions of Multimedia Games, Inc. by Global Cash Access, Bally Technologies, Inc. (which had acquired SHFL Entertainment, Inc.) and WMS Industries Inc. by Scientific Games Corporation and International Gaming Technologies by GTECH Holdings.

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 have announced several initiatives in the social gaming space, which is a new line of business for us in a rapidly evolving and highly competitive market. There can be no assurance that we will be able to compete effectively or that our new initiatives will be successful.

We have announced several initiatives in the social gaming space, including the 2016 acquisition of Rocket Speed, and expect to continue to invest in and market social gaming and other mobile gaming platforms to our customers in casinos and beyond and to explore other acquisitions in the space. Social gaming is a new line of business for us, which makes it difficult to assess its future prospects. Our products will compete in a rapidly evolving and highly competitive market against an increasing number of competitors, including Playtika, Zynga and slot manufacturers. Given the open nature of the development and distribution of games for electronic devices, our business will also compete with developers and distributors who are able to create and launch games and other content for these devices using relatively limited resources and with relatively limited start-up time or expertise. We have limited experience operating in this rapidly evolving marketplace and may not be able to compete effectively.

In addition, our ability to be successful with our social gaming platform is dependent on numerous factors beyond our control that affect the social and mobile gaming industry and the online gaming industry in the United States, including the occurrence and manner of legalization of online real money gaming in the United States beyond Nevada, Delaware and New Jersey; changes to the policies of social gaming distribution channels, including Apple and Google; changes in consumer demographics and public tastes and preferences; changing laws and regulations affecting social and mobile games; the reaction of regulatory bodies to social gaming initiatives by holders of gaming licenses; the availability and popularity of other forms of entertainment; any challenges to the intellectual property rights underlying our games; any advances in technology that we are unable to implement timely; and outages and disruptions of our online services that may harm our business.

Our social gaming initiatives will result in increased operating expense and increased time and attention from our management. In addition, we may be particularly dependent on key personnel in our interactive business unit. We believe our social games are complementary to our current operations and offer additional avenues of access and interaction for our customers, and, the social gaming business depends on developing and publishing games that consumers will download and spend time and money on consistently. We continue to invest in research and development, analytics and marketing to attract and retain customers for our social games. Our success depends, in part, on unpredictable factors beyond our control, including consumer preferences, competing games and other forms of entertainment, and the emergence of new platforms. Our inability to ultimately monetize our investment in social gaming initiatives could have a material adverse effect on our business and results of operations.

We have recently expanded our sports betting operations. There can be no assurance that we will be able to compete effectively or that we will be successful and generate sufficient returns on our investment.

During the second quarter 2018, the U.S. Supreme Court struck down the Professional and Amateur Sports Protection Act of 1992 (“PASPA”) as unconstitutional. Prior to the Court’s ruling, PASPA banned sports betting in most U.S. States. In light of the Court’s ruling, certain of the jurisdictions in which we operate legalized intra-state sports wagering and established extensive state licensing and regulatory requirements governing any such intra-state sports wagering, including the payment of license fees and additional taxes by operators. We began accepting wagers on sporting events during the third quarter 2018 at our casinos located in Mississippi, West Virginia, and during the fourth quarter at one of our casinos in Pennsylvania while we were already accepting wagers on sporting events in our casinos in Nevada. We continue to engage with state lawmakers in other jurisdictions in which we already operate to advocate for the passage of laws legalizing sports betting within the

jurisdiction with reasonable tax rates and license fees, similar to legislation enacted in West Virginia, Mississippi and Nevada. Any further expansion of our sports betting operations is dependent on potential legislation in these other jurisdictions.

Our sports betting operations will compete in a rapidly evolving and highly competitive market against an increasing number of competitors. In order to compete successfully, we may need to enter into agreements with strategic partners and other third party vendors and we may not be able to do so on terms that are favorable to us. The success of our proposed sports betting operations is dependent on a number of additional factors that are beyond our control, including the ultimate tax rates and license fees charged by jurisdictions across the United States; our ability to gain market share in a newly developing market; our ability to compete with new entrants in the market; changes in consumer demographics and public tastes and preferences; and the availability and popularity of other forms of entertainment. There can be no assurance that we will be able to compete effectively or that our expansion will be successful and generate sufficient returns on our investment.

Our internet gaming initiatives may result in increased risk of cyber-attack, hacking, or other security breaches, which could harm our reputation and competitive position and which could result in regulatory actions against us or in other penalties.

As our social gaming and real money iGaming business grows, we will face increased cyber risks and threats that seek to damage, disrupt or gain access to our networks, our products and services, and supporting infrastructure. Such cyber risks and threats, including to virtual currencies that may be used in the games, may be difficult to detect. Any failure to prevent or mitigate security breaches or cyber risk could result in interruptions to the services we provide, degrade the user experience, and cause our users to lose confidence in our products. The unauthorized access, acquisition or disclosure of consumer information could compel us to comply with disparate breach notification laws and otherwise subject us to proceedings by governmental entities or others and substantial legal and financial liability. Our key business partners also face these same risks with respect to consumer information they collect, and data security breaches with respect to such information could cause reputational harm to them and negatively impact our ability to offer our products and services through their platforms. This could harm our business and reputation, disrupt our relationships with partners and diminish our competitive position.

The success of our VGT operations in Illinois is dependent on our ability to renew our contracts and expand the business.

On September 1, 2015, we completed our acquisition of Prairie State Gaming, one of the largest VGT operators in Illinois and subsequently have completed several smaller acquisitions of VGT operators in the state. We face competition from other VGT operators, as well as from casinos, hotels, taverns and other entertainment venues. Our ability to compete successfully in this new line of business depends on our ability to retain existing customers and secure new establishments, both of which are dependent on the level of service and variety of products that we are able to offer to our customers. VGT contracts are renewable at the option of the owner of the applicable bar and retail gaming establishments and, as our contracts expire, we will be subject to competition for renewals. In addition, VGT operations in Illinois are subject to approval by local municipalities, and therefore our ability to retain and expand our VGT business depends, in part, on such approvals. In addition, there is a risk that the market for VGTs in Illinois could become oversaturated. If we are unable to retain our existing customers or their results suffer as a result of competition or because the market becomes oversaturated or if certain municipalities in Illinois elect to prohibit VGTs, our business and operations could be adversely impacted.

We operate in a highly taxed industry and it may be subject to higher taxes in the future. If the jurisdictions in which we operate increase gaming taxes and fees, our operating results could be adversely affected.

In gaming jurisdictions in which we operate, state and local governments raise considerable revenues from taxes based on casino revenues and operations. We also pay property taxes, admission taxes, occupancy taxes, sales and use taxes, payroll taxes, franchise taxes and income taxes. Our profitability depends on generating enough revenues to pay gaming taxes and other largely variable expenses, such as payroll and marketing, as well as largely fixed expenses, such as rental payments to our landlords, property taxes and interest expense. From time to time, state and local governments have increased gaming taxes and such increases can significantly impact the profitability of gaming operations. For example, on October 30, 2017, Pennsylvania increased gaming taxes, which adversely impacted our casinos in Pennsylvania.

We cannot assure you that governments in jurisdictions in which we operate, or the federal government, will not enact legislation that increases gaming tax rates. Global economic pressures have reduced the revenues of state governments from traditional tax sources, which may cause state legislatures or the federal government to be more inclined to increase gaming tax rates.

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. Given the large number of employees, labor unions are making a concerted effort to recruit more employees in the gaming industry. We cannot provide any assurance that we will not experience additional and more successful union organization activity in the future.

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 non-hazardous 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. The extent of such potential conditions cannot be determined definitively. 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 use, sell or rent property. Under our contractual arrangements under the Leases, we will generally be responsible for both past and future environmental liabilities associated with our gaming operations, notwithstanding ownership of the underlying real property having been transferred. Furthermore, we are aware that there is or may have been soil or groundwater contamination at certain of our properties resulting from current or former operations. By way of further example, portions of Tropicana Las Vegas are known to contain asbestos as well as other environmental conditions, which may include the presence of mold. The environmental conditions may require remediation in isolated areas. The extent of such potential conditions cannot be determined definitively, and may result in additional expense in the event that additional or currently unknown conditions are detected.

Additionally, certain of the gaming chips used at many gaming properties, including some of 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 have disposed of a majority of these gaming chips. 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.

We are subject to certain federal, state and other regulations.

We are subject to certain federal, state and local environmental laws, regulations and ordinances that apply to businesses generally, The Bank Secrecy Act, enforced by the Financial Crimes Enforcement Network (“FinCEN”) of the U.S. Treasury Department, requires us to report currency transactions in excess of \$10,000 occurring within a gaming day, including identification of the guest by name and social security number, to the IRS. This regulation also requires us to report certain suspicious activity, including any transaction that exceeds \$5,000 that we know, suspect or have reason to believe involves funds from illegal activity or is designed to evade federal regulations or reporting requirements and to verify sources of funds, in response to which we have implemented Know Your Customer processes. Periodic audits by the IRS and our internal audit department assess compliance with the Bank Secrecy Act, and substantial penalties can be imposed against us if we fail to comply with this regulation. In recent years the U.S. Treasury Department has increased its focus on Bank Secrecy Act compliance throughout the gaming industry, and public comments by FinCEN suggest that casinos should obtain information on each customer’s sources of income. This could impact our ability to attract and retain casino guests.

The riverboats on which we operate must comply with certain federal and state laws and regulations with respect to boat design, on-board facilities, equipment, personnel and safety. In addition, we are required to have third parties periodically inspect and certify all of our casino barges for stability and single compartment flooding integrity. The casino barges on which we operate also must meet local fire safety standards. We would incur additional costs if any of the gaming facilities on which we operate were not in compliance with one or more of these regulations.

We are also subject to a variety of other federal, state and local laws and regulations, including those relating to zoning, construction, land use, employment, marketing and advertising and the production, sale and service of alcoholic beverages. If

we are not in compliance with these laws and regulations, it could have a material adverse effect on our business, financial condition and results of operations.

The imposition of a substantial penalty could have a material adverse effect on our business.

Climate change, climate change regulations and greenhouse effects may adversely impact our operations and markets.

There is a growing political and scientific consensus that greenhouse gas emissions, also referred to herein as “GHG” continue to alter the composition of the global atmosphere in ways that are affecting and are expected to continue affecting the global climate.

We may become subject to legislation and regulation regarding climate change, and compliance with any new rules could be difficult and costly. Concerned parties, such as legislators and regulators, stockholders and nongovernmental organizations, as well as companies in many business sectors, are considering ways to reduce GHG emissions. Many states have announced or adopted programs to stabilize and reduce GHG emissions and in the past federal legislation have been proposed in Congress. If such legislation is enacted, we could incur increased energy, environmental and other costs and capital expenditures to comply with the limitations. Unless and until legislation is enacted and its terms are known, we cannot reasonably or reliably estimate its impact on our financial condition, operating performance or ability to compete. Further, regulation of GHG emissions may limit our guests’ ability to travel to our facilities as a result of increased fuel costs or restrictions on transport related emissions. Climate change could have a material adverse effect on our results of operations, financial condition, and liquidity. We have described the risks to us associated with extreme weather events in the risk factors above.

Risks Related to the Spin-Off

If the Spin-Off, together with certain related transactions, does not qualify as a transaction that is generally tax-free for U.S. federal income tax purposes, we could be subject to significant tax liabilities.

We received a private letter ruling (the “IRS Ruling”) from the IRS substantially to the effect that, among other things, the Spin-Off, together with certain related transactions, will qualify as a transaction that is generally tax-free for U.S. federal income tax purposes under Sections 355 and/or 368(a)(1)(D) of the Internal Revenue Code of 1986, as amended (the “Code”). The IRS Ruling does not address certain requirements for tax-free treatment of the Spin-Off under Section 355, and we received from our tax advisors a tax opinion substantially to the effect that, with respect to such requirements on which the IRS will not rule, such requirements will be satisfied. The IRS Ruling, and the tax opinions that we received from our tax advisors, relied on and will rely on, among other things, certain representations, assumptions and undertakings, including those relating to the past and future conduct of GLPI’s business, and the IRS Ruling and the opinions would not be valid if such representations, assumptions and undertakings were incorrect in any material respect.

Notwithstanding the IRS Ruling and the tax opinions, the IRS could determine the Spin-Off should be treated as a taxable transaction for U.S. federal income tax purposes if it determines any of the representations, assumptions or undertakings that were included in the request for the IRS Ruling are false or have been violated or if it disagrees with the conclusions in the opinions that are not covered by the IRS Ruling.

If the Spin-Off fails to qualify for tax-free treatment, in general, we would be subject to tax as if we had sold the GLPI common stock in a taxable sale for its fair market value.

Under the tax matters agreement that GLPI entered into with us, GLPI generally is required to indemnify us against any tax resulting from the Spin-Off to the extent that such tax resulted from (1) an acquisition of all or a portion of the equity securities or assets of GLPI, whether by merger or otherwise, (2) other actions or failures to act by GLPI, or (3) any of GLPI’s representations or undertakings being incorrect or violated. GLPI’s indemnification obligations to Penn and its subsidiaries, officers and directors will not be limited by any maximum amount. If GLPI is required to indemnify Penn or such other persons under the circumstance set forth in the tax matters agreement, GLPI may be subject to substantial liabilities and there can be no assurance that GLPI will be able to satisfy such indemnification obligations.

On September 27, 2017 the Internal Revenue Service finalized the audit examination of the 2013 U.S. federal income tax return with no adjustments related to the Spin-off including the tax-free treatment. Although the 2013 examination is finalized, the statute of limitation was extended to June 30, 2018.

Peter M. Carlino, our Chairman, and David A. Handler, one of our directors, may have actual or potential conflicts of interest because of their positions at GLPI.

Peter M. Carlino serves as our Chairman and as the Chairman and Chief Executive Officer of GLPI. In addition, David A. Handler, one of our directors, is also a director of GLPI. While we have procedures in place to address such situations, these overlapping positions could create, or appear to create, potential conflicts of interest when our or GLPI's management and directors pursue the same corporate opportunities, such as greenfield development opportunities or potential acquisition targets, or face decisions that could have different implications for us and GLPI. Further, potential conflicts of interest could arise in connection with the resolution of any dispute between us and GLPI (or its subsidiaries) regarding the terms of the agreements governing the separation and the relationship, between us and GLPI, such as under the Leases with GLPI. Potential conflicts of interest could also arise if we and GLPI enter into any commercial or other adverse arrangements with each other in the future.

In connection with the Spin-Off, GLPI agreed to indemnify us for certain liabilities. However, there can be no assurance that these indemnities will be sufficient to insure us against the full amount of such liabilities, or that GLPI's ability to satisfy its indemnification obligation will not be impaired in the future.

Pursuant to the separation and distribution agreement, GLPI has agreed to indemnify us for certain liabilities. However, third parties could seek to hold us responsible for any of the liabilities that GLPI agreed to retain, and there can be no assurance that GLPI will be able to fully satisfy its indemnification obligations. Moreover, even if we ultimately succeed in recovering from GLPI any amounts for which we are held liable, we may be temporarily required to bear these losses while seeking recovery from GLPI.

A court could deem the distribution in the Spin-Off to be a fraudulent conveyance and void the transaction or impose substantial liabilities upon us.

If the transaction is challenged by a third party, a court could deem the distribution of GLPI common shares or certain internal restructuring transactions undertaken by us in connection with the Spin-Off to be a fraudulent conveyance or transfer. Fraudulent conveyances or transfers are defined to include transfers made or obligations incurred with the actual intent to hinder, delay or defraud current or future creditors or transfers made or obligations incurred for less than reasonably equivalent value when the debtor was insolvent, or that rendered the debtor insolvent, inadequately capitalized or unable to pay its debts as they become due. In such circumstances, a court could void the transactions or impose substantial liabilities upon us, which could adversely affect our financial condition and our results of operations. Among other things, the court could require our shareholders to return to us some or all of the shares of our common stock issued in the distribution or require us to fund liabilities of other companies involved in the restructuring transactions for the benefit of creditors. Whether a transaction is a fraudulent conveyance or transfer will vary depending upon the laws of the applicable jurisdiction.

If we and GLPI are treated by the IRS as being under common control, both we and GLPI could experience adverse tax consequences.

If we and GLPI are treated by the IRS as being under common control, the IRS will be authorized to reallocate income and deductions between us and GLPI to reflect arm's length terms. If the IRS were to successfully establish that rents paid by us to GLPI are excessive, (1) we would be denied a deduction for the excessive portion and (2) we would be subject to a penalty on the portion deemed excessive, each of which could have a material adverse effect on our business, financial position or results of operations. In addition, our shareholders would be deemed to have received a distribution that was then contributed to the capital of GLPI.

Risks Related to the Acquisition of Pinnacle

We may be unable to integrate the business of Pinnacle into our business successfully or realize the anticipated benefits of the Pinnacle transaction.

We entered into the merger agreement with Pinnacle with the expectation that the transaction will result in various benefits for the combined company, including, among others, synergies resulting from cost savings and operating efficiencies. Achieving the anticipated benefits of the transaction is subject to a number of uncertainties, including whether the respective businesses and assets of both companies can be integrated in an efficient and effective manner. We will be required to devote significant management attention and resources to integrating the business practices and operations of Pinnacle with our operations. Potential difficulties we may encounter as part of the integration process include the following:

- the inability to successfully combine the business of Pinnacle with our business in a manner that permits the parties to achieve the full revenue, cost synergies and other benefits anticipated to result from the transaction;
- complexities associated with managing the combined businesses, including possible differences in corporate cultures and management philosophies and the challenge of integrating complex systems, technology, networks and other

assets of each of the companies in a seamless manner that minimizes any adverse impact on customers, suppliers, employees and other constituencies; and

- potential unknown liabilities and unforeseen increased expenses or delays associated with the integration of Pinnacle's business with our business.

Even if we are able to integrate Pinnacle's businesses successfully, this integration may not result in the realization of the full benefits of the growth opportunities and cost synergies that we currently expect from this integration or that these benefits will be achieved within the anticipated timeframe or at all. For example, we may not be able to eliminate duplicative costs. Moreover, we may incur substantial expenses in connection with the integration of Pinnacle's businesses. While we anticipate that certain expenses will be incurred, such expenses are difficult to estimate accurately, and may exceed current estimates. Accordingly, the benefits from the transaction may be offset by costs incurred or delays in integrating the businesses. Failure to achieve these anticipated benefits could result in increased costs or decreases in the amount of expected revenues and could adversely affect the combined company's future business, financial condition, operating results and prospects.

Our future results could suffer if we cannot effectively manage the expanded operations following the transaction.

The size of the combined business is significantly larger than the size of either the Penn business or the Pinnacle business prior to the closing of the transaction. Our future success depends, in part, upon our ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of new operations and associated increased costs and complexity. There can be no assurance that we will be successful or that we will realize any operating efficiencies, cost savings, revenue enhancements or other benefits currently anticipated from the Pinnacle transaction.

Risks Related to Our Capital Structure

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

As of December 31, 2018, we had indebtedness of \$2.45 billion, including \$112.0 million outstanding borrowings under our revolving credit facility and \$1.8 billion in outstanding term loans. In addition, we are required to make significant annual lease payments to GLPI which increased upon the closing of the Pinnacle Acquisition by approximately \$355 million to approximately \$817 million. Beginning January 1, 2019, we are required to make \$23.2 million in initial annual lease payments to VICI pursuant to the Margaritaville Lease. Additionally, upon closing of the Greektown acquisition, we will pay VICI an initial annual rent amount of \$55.6 million.

We have a substantial amount of indebtedness and a significant fixed annual lease payments under the Leases. Our substantial indebtedness and additional fixed costs under our Lease obligations could have important consequences to our financial health. For example, it could:

- make it more difficult for us to satisfy our obligations with respect to our indebtedness;
- limit our ability to participate in multiple or large development projects, including mergers and acquisitions, absent additional third party financing;
- increase our vulnerability to general or regional adverse economic and industry conditions or a downturn in our business;
- require us to dedicate a substantial portion of our cash flow from operations to satisfy our financing obligation and debt service, thereby reducing the availability of our cash flow to fund working capital, capital expenditures 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;
- place us at a competitive disadvantage compared to our competitors that are not as highly leveraged;
- 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 indebtedness or fail to comply with the financial and other restrictive covenants contained in our debt instruments, 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 any of 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. The terms of our debt do not, and any future debt may not, fully prohibit us from incurring additional debt, including debt related to facilities we develop or acquire. If new debt is added to our current debt levels, the related risks that we now face could intensify.

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 favorable financing terms.

While we intend to finance expansion and renovation projects with existing cash, cash flow from operations and borrowings under our senior secured credit facility, we may require additional financing to support our continued growth. However, depending on then current economic or capital market conditions, 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. Finally, our borrowing costs under our senior secured credit facility are tied to LIBOR. We currently have no hedges in place to mitigate the impact of higher LIBOR rates and as such significant increases in LIBOR could have a negative impact on our results of operations.

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

We intend to finance some of our current and future expansion, development and renovation projects and acquisitions with cash flow from operations, borrowings under our senior secured credit facility and equity or debt financings. We are required by the Leases to, in the case of certain expansion projects, or may choose, in the case of other development projects, provide GLPI or VICI with the right to provide the financing needed for such purposes. Depending on the state of the credit markets, if we are unable to finance our current or future projects, we could have to seek alternative financing, such as through selling assets, restructuring debt, increasing our reliance on equity financing or seeking additional joint venture partners. Depending on credit market conditions, alternative sources of funds may not be sufficient to finance our expansion, development and/or renovation, or such other financing may not be available on acceptable terms, in a timely manner or at all. In addition, our existing indebtedness contains 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, development and renovation projects and acquisitions, which may adversely affect our business, financial condition and results of operations.

The capacity under our revolving credit facility, which expires in 2023, is \$700 million. If a large percentage of our lenders were to file for bankruptcy or otherwise default on their obligations to us, we could experience decreased levels of liquidity which could have a detrimental impact on our operations. There is no certainty that our lenders will continue to remain solvent or fund their respective obligations under our senior secured credit facility.

Our indebtedness imposes restrictive covenants on us that could limit our operations and lead to events of default if we do not comply with those covenants.

Our senior secured credit facility requires us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including interest coverage, senior secured net leverage and total net leverage ratios. In addition, our credit facility restricts, among other things, our ability to incur additional indebtedness, incur guarantee obligations, repay certain other indebtedness or amend debt instruments, pay dividends, create liens on our assets, make investments, make acquisitions, engage in mergers or consolidations, engage in certain transactions with subsidiaries and affiliates or otherwise restrict corporate activities. In addition, the indenture governing our senior unsecured notes restricts, among other things, our ability to incur additional indebtedness (excluding certain indebtedness under our credit facility), issue certain preferred stock, pay dividends or distributions on our capital stock or repurchase our capital stock, make certain investments, create liens on our assets to secure certain debt, enter into transactions with affiliates, merge or consolidate with another company, transfer and sell assets and designate our subsidiaries as unrestricted subsidiaries. A failure to comply with the restrictions contained in the documentation governing any of our indebtedness, termination of the Leases (subject to certain exceptions) or the occurrence of certain defaults under the Leases could lead to an event of default thereunder that could result in an acceleration of such indebtedness. Such acceleration would likely constitute an event of default under our other indebtedness, 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 any of our assets securing such debt.

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

We cannot assure you that our business will generate sufficient cash flow from operations or that future borrowings will be available to us under our senior secured credit facility in amounts sufficient to enable us to fund our liquidity needs, including with respect to our indebtedness. We also may incur indebtedness related to facilities we develop or acquire in the future prior to generating cash flow from those facilities. If those facilities do not provide us with cash flow to service that indebtedness, we will need to rely on cash flow from our other properties, which would increase our leverage. 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 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 senior secured credit facility, on attractive terms, commercially reasonable terms or at all. Our future operating performance and our ability to service, extend 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.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 2. PROPERTIES

As detailed in [Item 1. Business, "Operating Properties,"](#) the majority of our facilities are subject to leases of the underlying real estate assets, which, among other things, includes the land underlying the facility and the buildings used in the operations of the casino and the hotel. The following describes the principal real estate associated with our facilities by segment as of December 31, 2018 as well as Margaritaville Resort Casino, which we acquired on January 1, 2019 (all area metrics are approximate):

Northeast Segment

Ameristar East Chicago. We lease 22 acres of land in East Chicago, Indiana, used in the operations of Ameristar East Chicago as well as the casino vessel, hotel and other improvements on the site.

Hollywood Casino Bangor. We lease the land on which the Hollywood Casino Bangor facility is located in Bangor, Maine, which consists of nine acres, and includes a hotel and four-story parking. In addition, we lease 35 acres located at historic Bass Park, which is adjacent to the facility and includes a one-half mile standardbred racetrack with a 12,000 square foot grandstand capable of seating 3,500 patrons.

Hollywood Casino at Charles Town Races. We lease 300 acres on various parcels in Charles Town and Ranson, West Virginia, of which 155 acres comprise Hollywood Casino at Charles Town Races. The facility includes a hotel, a 3/4-mile all-weather lighted thoroughbred racetrack, a training track, two parking garages, an employee parking lot, an enclosed grandstand/clubhouse, and housing facilities for over 1,300 horses.

Hollywood Casino Columbus. We lease 116 acres of land in Columbus, Ohio, where we operate Hollywood Casino Columbus. The property includes the casino as well as structured and surface parking, which are also leased.

Hollywood Casino Lawrenceburg. We lease 53 acres in Lawrenceburg, Indiana, a portion of which serves as the dockside embarkation for the gaming vessel, and includes a Hollywood-themed casino riverboat, an entertainment pavilion, a hotel, two parking garages and an adjacent surface lot. In addition, we lease 52 acres on Route 50 used for remote parking. Effective January 2015, we own and operate a hotel and event center located less than a mile away from our Hollywood Casino Lawrenceburg property, which includes 168 rooms, 18,000 square feet of multi-purpose space and 19,500 square feet of ballroom and meeting space.

Hollywood Casino at Penn National Race Course. We lease 574 acres in Grantville, Pennsylvania, where Penn National Race Course is located on 181 acres. The facility includes a one-mile all-weather lighted thoroughbred racetrack and a 7/8-mile turf track, a parking garage and surface parking spaces. The property also includes 393 acres surrounding Penn National Race Course that are available for future expansion or development.

Hollywood Casino Toledo. We lease 44 acres in Toledo, Ohio, where we operate Hollywood Casino Toledo. The property includes the casino as well as structured and surface parking, which are also leased.

Hollywood Gaming at Dayton Raceway. We lease 120 acres on the site of an abandoned Delphi Automotive plant in Dayton, Ohio, where we relocated Raceway Park and opened a new gaming facility on August 28, 2014. The facility includes a 5/8-mile standardbred racetrack and surface parking.

Hollywood Gaming at Mahoning Valley Race Course. We lease 193 acres in Austintown, Ohio, where we relocated Beulah Park and opened a new gaming facility in September 2014. The facility includes a one-mile thoroughbred racetrack and surface parking.

Meadows Racetrack and Casino. We lease the real estate used in the operations of Meadows Racetrack and Casino, located on 153 acres of land approximately 25 miles south of Pittsburgh, Pennsylvania. We also lease the off-track wagering facility in Pittsburgh.

Plainridge Park Casino. We lease the 90-acre site in Plainville, Massachusetts, where we opened Plainridge Park Casino in June 2015. The property includes the casino as well as structured and surface parking. The facility also includes a 5/8-mile live harness racing track and a two-story clubhouse.

South Segment

1st Jackpot Casino. We lease 94 acres of land and own 53 acres of wetlands in Tunica, Mississippi. The property includes the casino, surface parking and other land-based facilities.

Ameristar Vicksburg. Ameristar Vicksburg is located on a total of 74 acres of land in Vicksburg, Mississippi, on either side of Washington Street near Interstate 20. In addition to the gaming and hotel facilities, we operate a recreational vehicle park and utilize buildings for warehousing and support services also located on these parcels. We lease the real estate assets at this location.

Boomtown Biloxi. We lease 20 acres in Biloxi, Mississippi, most of which is utilized for the gaming location. We also lease 5 acres of submerged tidelands at the casino site from the State of Mississippi and one acre of land utilized mostly for the daiquiri bar area and welcome center.

Boomtown Bossier City. Boomtown Bossier City is located on 23 acres in Bossier City, Louisiana on the banks of the Red River. We lease the real estate at this site, including the dockside riverboat casino, under the terms of the Pinnacle Master Lease and lease one acre of water bottoms.

Boomtown New Orleans. Boomtown New Orleans is located in Harvey, Louisiana on 54 acres. The land, facilities, and associated improvements at the property, including the dockside riverboat casino and hotel, are leased.

Hollywood Casino Gulf Coast. We lease 580 acres in the city of Bay St. Louis, Mississippi. The property includes a land-based casino, an 18-hole golf course, a hotel, a 20-slip marina, a 100-space recreational vehicle park and other facilities.

Hollywood Casino Tunica. We lease 68 acres of land in Tunica, Mississippi. The property includes a single-level casino, a hotel, surface parking and other land-based facilities.

L'Auberge Baton Rouge. L'Auberge Baton Rouge is located approximately 10 miles south of downtown Baton Rouge, Louisiana. We lease the real estate assets of L'Auberge Baton Rouge, including 99 acres and the casino facility. Additionally, we own 478 acres of excess land adjacent to L'Auberge Baton Rouge, which is available for future expansion and development.

L'Auberge Lake Charles. L'Auberge Lake Charles is located in Lake Charles, Louisiana, approximately 140 miles from Houston and approximately 300 miles and 335 miles from Austin, Texas and San Antonio, Texas, respectively. We lease 235 acres of land; upon which the L'Auberge Lake Charles property is located; the casino facility; and other real estate improvements. Additionally, we own 54 acres of excess land surrounding the site, which is available for future expansion and development.

Margaritaville Resort Casino. Margaritaville Resort Casino is located in Bossier City, Louisiana on 34 acres of land. Effective January 1, 2019, we lease the land and building used in the operations of the property.

Resorts Casino Tunica. We lease 87 acres of land in Tunica, Mississippi. The property includes the casino, a hotel, surface parking and other land-based facilities.

West Segment

Ameristar Black Hawk. Ameristar Black Hawk is located on a six-acre site on the north side of Colorado Highway 119 in Black Hawk, Colorado. We lease the real estate of Ameristar Black Hawk, including the land underlying the casino facility, and other property in the vicinity, including 100 acres of largely hillside land across Richman Street from the casino site, portions of which are used for overflow parking, administrative offices and other operational uses.

Cactus Petes and Horseshu. Cactus Petes and Horseshu are located in Jackpot, Nevada, across from each other on either side of U.S. Highway 93. We lease the real estate at both locations and other property in the vicinity, which includes 34 acres for Cactus Petes, 20 acres for Horseshu, and 26 acres for a service station and 288 housing units that support the primary operations of the Jackpot Properties.

M Resort. We lease 84 acres on the southeast corner of Las Vegas Boulevard and St. Rose Parkway in Henderson, Nevada, where M Resort is located. The M Resort property includes a hotel, a 4,700 space parking facility, and other facilities. We also lease four acres of land which is part of the property.

Zia Park Casino. Our casino adjoins the racetrack and is located on 317 acres that we lease in Hobbs, New Mexico. The property includes a one-mile quarter/thoroughbred racetrack. In August 2014, we opened a new hotel, a business center, exercise/fitness facilities and a breakfast venue.

Tropicana Las Vegas. We own 35 acres on the strip of Las Vegas, Nevada. In addition, we own the casino facility as well as the hotel and structured and surface parking.

Midwest Segment

Ameristar Council Bluffs. Ameristar Council Bluffs is located on 58 acres along the east bank of the Missouri River in Council Bluffs, Iowa. We lease the real estate at this site under the terms of the Pinnacle Master Lease. We sublease one acre of the site to a third party for the operation of a 188-room limited service Holiday Inn Suites Hotel and a 96-room Hampton Inn Hotel.

Argosy Casino Alton. We lease four acres in Alton, Illinois, a portion of which serves as the dockside boarding for the Alton Belle II, a riverboat casino. The dockside facility includes an entertainment pavilion and office space, as well as surface parking areas.

Argosy Casino Riverside. We lease 38 acres in Riverside, Missouri, which includes a barge-based casino, a luxury hotel, an entertainment/banquet facility and a parking garage. We also lease seven acres which is primarily used for overflow parking.

Hollywood Casino Aurora. We lease a dockside barge structure and land-based pavilion in Aurora, Illinois. We lease the half-acre of land on which the pavilion is located. We also lease the rights to a pedestrian walkway bridge and two parking garages, together comprising 2 acres.

Hollywood Casino Joliet. We lease 276 acres in Joliet, Illinois, which includes a barge-based casino, land-based pavilion, a hotel, structured and surface parking areas and a recreational vehicle park.

Hollywood Casino at Kansas Speedway. We own a 50% interest in the entity that owns the 101 acres of land and building used in the operations of Hollywood Casino at Kansas Speedway, which sits on turn two of Kansas Speedway.

Hollywood Casino St. Louis. We lease 248 acres along the Missouri River in Maryland Heights, Missouri, which includes a hotel and structured and surface parking.

Prairie State Gaming. Prairie State Gaming's operations include 1,876 VGTs across a network of 403 bar and/or retail gaming establishments in seven distinct geographic areas throughout Illinois.

River City Casino. We lease the real estate assets used in the operations of River City Casino. The River City Casino site is located on 56 acres in south St. Louis County, approximately 12 miles south of downtown St. Louis.

Other

Freehold Raceway. Through our joint venture in Pennwood, we own a 51-acre site in Freehold, New Jersey, where Freehold Raceway is located. The property features a half-mile standardbred racetrack and a grandstand. In addition, through our joint venture in Pennwood, we own a 10-acre site in Cherry Hill, New Jersey, which is currently undeveloped.

Retama Park Racetrack. We have a management contract with RDC to manage the day-to-day operations of Retama Park Racetrack. PRP owns 28 acres of land located adjacent to, but not used in the operations of Retama Park Racetrack.

Sam Houston Race Park and Valley Race Park. Through our joint venture with MAXXAM, we own 168 acres at Sam Houston Race Park and 71 acres at Valley Race Park. Sam Houston Race Park includes a one-mile dirt track and a 7/8-mile turf track as well as a 226,000 square foot grandstand and pavilion center. Valley Race Park features 91,000 of property square footage as a dog racing and simulcasting facility located in Harlingen, Texas.

Sanford-Orlando Kennel Club. We own 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. Kennel facilities for up to 1,300 greyhounds are located at a leased location approximately 1/2-mile from the racetrack enclosure.

Off-track Wagering Facilities. The following is a list of our three OTWs and their locations:

| Location | Size (Square Ft.) | Owned/Leased | Date Opened |
|-----------------|--------------------------|---------------------|--------------------|
| York, PA | 25,590 | Leased | March 1995 |
| Lancaster, PA | 24,000 | Leased | July 1996 |
| Clementon, NJ | 15,000 | Leased | July 2014 |

In addition, through our joint venture in Pennwood, we own 50% of a leased OTW in Toms River, New Jersey, that has 28,160 square feet.

Corporate and Service Center. We lease office and warehouse space in various locations outside of our operating properties, including 52,116 square feet of executive office and warehouse space for buildings in Wyomissing, Pennsylvania, and our offices in Las Vegas, Nevada.

Penn Interactive Ventures. We lease 7,787 square feet of executive office space in Conshohocken, Pennsylvania, 10,463 square feet of executive office space in San Francisco, California, and 5,740 square feet of executive office space in Henderson, Nevada.

ITEM 3. LEGAL PROCEEDINGS

The Company is subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions, development agreements and other matters arising in the ordinary course of business. The Company does not believe that the final outcome of these matters will have a material adverse effect on its consolidated financial position, cash flows 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; therefore, no assurance can be given that the final outcome of such proceedings may not materially impact the Company's consolidated financial condition, cash flows 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.

Legal proceedings could result in costs, settlements, damages or rulings that materially impact the Company's consolidated financial condition, cash flows or results of operations. The Company believes that it has meritorious defenses, claims and/or counter claims with respect to these proceedings and intends to vigorously defend itself or pursue its claims.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES***Ticker Symbol and Holders of Record***

Our common stock is quoted on the NASDAQ Global Select Market under the symbol "PENN." As of February 19, 2019, there were 1,783 holders of record of our common stock.

Dividends

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. In addition, our senior secured credit facility and senior notes restrict, among other things, our ability to pay dividends. Future financing arrangements may also prohibit the payment of dividends under certain conditions.

Sales of Unregistered Equity Securities

During the years ended December 31, 2018, 2017, and 2016, we did not issue or sell any unregistered equity securities.

Issuer Purchases of Equity Securities

On February 3, 2017, the Company announced a share repurchase program pursuant to which the Board of Directors authorized to repurchase up to \$100 million of the Company's common stock, which expired on February 1, 2019.

The following table provides information regarding purchases of our common stock pursuant to the above repurchase program for the three months ended December 31, 2018. All of the repurchased shares were retired.

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Program | Maximum Dollar Value of Shares that May Yet Be Purchased Under the Program |
|--------------------------------------|---|-------------------------------------|--|---|
| October 1, 2018 - October 31, 2018 | — | \$ — | — | \$ 75,229,530 |
| November 1, 2018 - November 30, 2018 | 893,429 | \$ 21.59 | 893,429 | \$ 55,939,823 |
| December 1, 2018 - December 31, 2018 | 1,406,069 | \$ 21.84 | 1,406,069 | \$ 25,229,529 |
| Total | 2,299,498 | \$ 21.74 | 2,299,498 | |

On January 9, 2019, the Company announced a new share repurchase program pursuant to which the Board of Directors authorized to repurchase up to \$200 million of the Company's common stock. The new share repurchase program covers an authorization period of two years, expiring on December 31, 2020.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial information for the years 2014 through 2018 was derived from our audited Consolidated Financial Statements. The information set forth below should be read in conjunction with “[Management’s Discussion and Analysis of Financial Condition and Results of Operations](#),” the audited Consolidated Financial Statements and related notes thereto.

During the first quarter 2018, the Company adopted FASB ASC Topic 606, *Revenue from Contracts with Customers* (“ASC 606”), using a modified retrospective approach as of the date of initial application, which was January 1, 2018. The modified retrospective approach did not require that prior periods presented be restated. The adoption of ASC 606 did not materially impact the comparability of any of the selected financial information below.

| <i>(in millions, except per share data)</i> | For the year ended December 31, | | | | |
|--|--|----------------------------|----------------------------|----------------------------|----------------------------|
| | 2018 ^(a) | 2017 ^(b) | 2016 ^(c) | 2015 ^(d) | 2014 ^(e) |
| Income statement data: | | | | | |
| Revenues | \$ 3,587.9 | \$ 3,148.0 | \$ 3,034.4 | \$ 2,838.3 | \$ 2,590.5 |
| Total operating expenses | 2,953.8 | 2,702.3 | 2,491.4 | 2,370.5 | 2,333.3 |
| Operating income | 634.1 | 445.7 | 543.0 | 467.8 | 257.2 |
| Total other expenses | (544.2) | (470.8) | (422.4) | (411.2) | (410.5) |
| Income (loss) before income taxes | 89.9 | (25.1) | 120.6 | 56.6 | (153.3) |
| Income tax benefit (expense) | 3.6 | 498.5 | (11.3) | (55.9) | (30.5) |
| Net income (loss) | \$ 93.5 | \$ 473.4 | \$ 109.3 | \$ 0.7 | \$ (183.8) |
| Per share data: | | | | | |
| Earnings (loss) per common share—Basic | \$ 0.96 | \$ 5.21 | \$ 1.21 | \$ 0.01 | \$ (2.34) |
| Earnings (loss) per common share—Diluted | \$ 0.93 | \$ 5.07 | \$ 1.19 | \$ 0.01 | \$ (2.34) |
| Weighted-average shares outstanding—Basic ^(f) | 97,105 | 90,854 | 82,929 | 80,003 | 78,425 |
| Weighted-average shares outstanding—Diluted ^(f) | 100,338 | 93,378 | 91,407 | 90,904 | 78,425 |
| Other data: | | | | | |
| Depreciation and amortization | \$ 269.0 | \$ 267.1 | \$ 271.2 | \$ 259.5 | \$ 266.7 |
| Interest expense | \$ 539.4 | \$ 466.8 | \$ 459.2 | \$ 443.1 | \$ 425.1 |
| Project and maintenance capital expenditures | \$ 92.6 | \$ 99.3 | \$ 97.2 | \$ 199.2 | \$ 228.1 |
| Cash flows provided by (used in): | | | | | |
| Operating activities ^{(g)(h)} | \$ 352.8 | \$ 477.8 | \$ 408.0 | \$ 417.4 | \$ 272.5 |
| Investing activities | \$ (1,423.1) | \$ (221.6) | \$ (79.3) | \$ (781.0) | \$ (375.5) |
| Financing activities ^(g) | \$ 1,272.1 | \$ (207.0) | \$ (339.9) | \$ 395.5 | \$ 18.6 |
| Balance Sheet Data—As of December 31: | | | | | |
| Cash, cash equivalents and restricted cash | \$ 481.2 | \$ 279.4 | \$ 230.2 | \$ 241.5 | \$ 209.6 |
| Total assets | \$ 10,961.0 | \$ 5,234.8 | \$ 4,974.5 | \$ 5,138.8 | \$ 4,624.6 |
| Total financing obligations | \$ 7,148.4 | \$ 3,538.8 | \$ 3,514.1 | \$ 3,564.6 | \$ 3,611.5 |
| Total debt | \$ 2,412.2 | \$ 1,250.2 | \$ 1,415.5 | \$ 1,711.0 | \$ 1,241.4 |
| Stockholders’ equity (deficit) | \$ 731.2 | \$ (73.1) | \$ (543.3) | \$ (678.0) | \$ (708.0) |

(a) The financial position, results of operations and cash flows as of and for the year ended December 31, 2018 include the impact of the acquisition of Pinnacle in October 2018. In addition, we incurred \$95.0 million in costs, primarily associated with the Pinnacle Acquisition, a \$21.0 million loss on early extinguishment of debt, and a \$34.3 million long-lived asset impairment charge. In addition, during the year ended December 31, 2018, we recorded \$464.5 million of interest expense on the financing obligations associated with the Master Leases.

(b) The financial position and results of operations for the year ended December 31, 2017, reflect impairment losses on our goodwill and other intangible assets of \$18.0 million and a provision for loan losses and unfunded loan commitments to the JIVDC of \$89.8 million. In addition, during the year ended December 31, 2017, we recorded \$397.6 million of interest expense on the Penn Master Lease financing obligation, released \$741.9 million of our deferred tax valuation allowance, and recorded a \$261.3 million write-down of our deferred tax assets due to the lowering of the corporate tax rate from 35% to 21%.

(c) The financial position, cash flows and results of operations as of and for the year ended December 31, 2016, reflect the acquisition of Rocket Speed in August 2016. In addition, during the year ended December 31, 2016, we recorded \$391.7 million of interest expense on the Penn Master Lease financing obligation.

(d) The financial position and results of operations as of and for the year ended December 31, 2015, reflect impairment losses on our other intangible assets of \$40.0 million related to the write-off of our Plainridge Park Casino gaming license and a write-down of the gaming license at Hollywood

Gaming at Dayton Raceway. In addition, during the year ended December 31, 2015, we recorded \$390.1 million of interest expense on the Penn Master Lease financing obligation.

- (e) The financial position and results of operations as of and for the year ended December 31, 2014, reflect impairment losses on our goodwill and other intangible assets of \$155.3 million and property and equipment of \$4.6 million. In addition, during the year ended December 31, 2014, we recorded insurance recoveries, net of deductible charges of \$5.7 million, which related to tornado damage at Hollywood Casino St. Louis incurred in 2013, and \$379.2 million of interest expense on the Penn Master Lease financing obligation.
- (f) Since we reported an operating loss for the year ended December 31, 2014, we were required to use basic weighted-average common shares outstanding because the inclusion of diluted shares would have been anti-dilutive.
- (g) In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-15, “Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments.” The Company adopted this new guidance on January 1, 2018 on a retrospective basis. As a result of adopting this new guidance, the impact to the year ended December 31, 2017 was an increase to net cash provided by operating activities and an increase to net cash used in financing activities of \$18.0 million within the Company’s Consolidated Statements of Cash Flows.
- (h) In November 2016, the FASB issued ASU No. 2016-18, “Statement of Cash Flows (Topic 230): Restricted Cash.” The Company adopted this new guidance on January 1, 2018 on a retrospective basis. As a result of adopting this new guidance, the impact to the years ended December 31, 2017, 2016, 2015 and 2014, were increases (decreases) to net cash provided by operating activities of \$0.7 million, \$(3.8) million, \$3.6 million and \$(0.1) million, respectively, within the Company’s Consolidated Statements of Cash Flows.

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

The following discussion and analysis of financial condition, results of operations, liquidity and capital resources should be read in conjunction with, and is qualified in its entirety by, our audited Consolidated Financial Statements and the notes thereto, included in this Annual Report on Form 10-K, and other filings with the Securities and Exchange Commission.

EXECUTIVE OVERVIEW

Our Business

Penn National Gaming, Inc., together with its subsidiaries, is a leading, diversified, multi-jurisdictional owner and manager of gaming and racing facilities and video gaming terminal ("VGT") operations with a focus on slot machine entertainment. In the second half of 2018, we launched live sports wagering at our facilities in Mississippi, Pennsylvania and West Virginia. In addition, the Company operates an interactive gaming division through its subsidiary, Penn Interactive Ventures, LLC ("PIV"). As of December 31, 2018, we owned, managed, or had ownership interests in 40 facilities in 18 jurisdictions. The majority of the gaming facilities used in the Company's operations are subject to triple net master leases; the most significant of which are the Penn Master Lease and the Pinnacle Master Lease (as such terms are defined in the "[Liquidity and Capital Resources](#)" section below and collectively referred to as the "Master Leases"), with Gaming and Leisure Properties, Inc. ("GLPI"), a publicly-traded real estate investment trust ("REIT"), as the landlord under the Master Leases. References herein to "Penn," the "Company," "we," "our" or "us" refer to Penn National Gaming, Inc. and its subsidiaries, except where stated or the context otherwise indicates.

In October 2018, the Company completed the acquisition of Pinnacle Entertainment, Inc. ("Pinnacle"), a leading regional gaming operator (the "Pinnacle Acquisition"), for \$2,816.2 million (including the repayment of \$814.3 million in debt obligations). In conjunction with the Pinnacle Acquisition, the Company divested the membership interests of certain Pinnacle subsidiaries which operated the casinos known as Ameristar Casino Resort St. Charles, Ameristar Casino Hotel Kansas City, Belterra Casino Resort and Belterra Park (referred to collectively as the "Divested Properties"), to Boyd Gaming Corporation ("Boyd") in exchange for \$604.9 million of cash, subject to customary final working capital adjustments. Additionally, as a part of the transaction, (i) GLPI acquired the real estate associated with Plainridge Park Casino for \$250.0 million, and concurrently leased back the real estate assets to the Company (the "Plainridge Park Casino Sale-Leaseback") and (ii) a subsidiary of Boyd acquired the real estate assets associated with Belterra Park from a subsidiary of GLPI, from which the Company received proceeds of \$57.7 million. In connection with the sale of the Divested Properties to Boyd as well as the Plainridge Park Casino Sale-Leaseback, the Pinnacle Master Lease, which was assumed by the Company concurrent with the closing of the Pinnacle Acquisition, was amended. The Pinnacle Acquisition added twelve gaming properties to our holdings and provides us with greater operational scale and geographic diversity.

In November 2018, we announced that the Company entered into a definitive agreement to acquire the operations of Greektown Casino-Hotel in Detroit, Michigan, subject to a triple net lease with VICI Properties, Inc. ("VICI"), which we expect to close in the second quarter 2019. In January 2019, we acquired Margaritaville Casino Resort subject to a triple net lease with VICI (the "Margaritaville Lease"). Further, we have planned two development projects in Pennsylvania: Hollywood Casino York and Hollywood Casino Morgantown (a greenfield project), which are both Category 4 satellite gaming facilities. We anticipate that both of these development projects will be complete within 12-18 months after obtaining the necessary local and regulatory approvals.

In May 2017, we completed the acquisitions of 1st Jackpot Casino Tunica (f/k/a Bally's Casino Tunica) and Resorts Casino Tunica. In 2016, Prairie State Gaming acquired two small VGT route operators in Illinois and in the first half of 2017, it acquired two additional Illinois-based VGT operators. In 2015, PIV launched our HollywoodCasino.com Play4Fun social gaming platform with Scientific Games Corporation, and in August 2016, we enhanced our social gaming offerings with the acquisition of Rocket Speed, Inc. ("Rocket Speed"), a leading developer of social casino games.

We believe that our portfolio of assets provides us the benefit of a geographically diversified cash flow from operations. We expect to continue to expand our gaming operations through the implementation and execution of a disciplined capital expenditure program at our existing properties, the pursuit of strategic acquisitions, and the development of new gaming properties. In addition, we expect to pursue opportunities within other distribution channels, such as retail gaming, social gaming, and real money iGaming.

Our properties generate significant operating cash flow since most of our revenue is cash-based from slot machines, table games, and pari-mutuel wagering. Our business is capital intensive, and we rely on cash flow from our properties to generate operating cash to satisfy our obligations under the Master Leases, repay debt, fund maintenance capital expenditures, fund new

capital projects at existing properties and provide excess cash for future development and acquisitions. Additional information regarding our capital projects is discussed in detail in the section entitled [“Liquidity and Capital Resources”](#) below.

Operating and Competitive Environment

Most of our properties operate in mature, competitive markets. Consequently, we expect a significant amount of our future growth to come from prudent acquisitions of gaming properties, jurisdictional expansions, expansions of gaming in existing jurisdictions, expansions/improvements of our existing properties and new growth opportunities. Our geographically-diversified portfolio is comprised largely of new and well-maintained regional gaming facilities. This has allowed us to develop what we believe to be a solid base for future growth opportunities supported by a flexible and attractively-priced capital structure. We have also made investments in joint ventures that we believe will allow us to capitalize on additional gaming opportunities in certain states if legislation or referenda are passed that permit and/or expand gaming in these jurisdictions and we are selected as a licensee.

As reported by most jurisdictions, regional gaming industry trends have shown little revenue growth in recent years as numerous jurisdictions now permit gaming or have expanded their gaming offerings. The proliferation of new gaming facilities continues to impact the overall domestic gaming industry as well as our operating results in certain markets; however, the current economic environment, specifically, low levels of unemployment, strength in residential real estate prices, and high levels of consumer confidence, has resulted in a stable operating environment in recent years. Our ability to continue to succeed in this environment will be predicated on operating our existing facilities efficiently and offering our customers additional gaming experiences through our multi-channel distribution strategy. We seek to continue to expand our customer database through accretive acquisitions, such as the Pinnacle Acquisition, and capitalize on organic growth opportunities from the development of new facilities or the expansion of recently-developed business lines.

Historically, the Company has been reliant on certain key regional gaming markets (for example, its results from Hollywood Casino at Charles Town Races and Hollywood Casino Lawrenceburg). Over the past several years, we have diversified our operations via development of new facilities and acquisitions. The acquisition of Pinnacle has further reduced our reliance on specific properties. In addition, we expect to generate approximately \$100 million in annual run-rate cost synergies within two years of the Pinnacle Acquisition. We also believe that the acquisition of Pinnacle has and will continue to present revenue growth opportunities with respect to increased cross-property play, including visitation to our Las Vegas properties, and higher social gaming volumes due principally to the enhanced scale and size of our customer database.

In October 2017, Pennsylvania’s House Bill 271 was signed into law, which extensively expanded gambling in the state by introducing licenses for up to 10 additional casinos limited to 750 slot machines and up to 40 table games not to be within 25 miles of existing casinos, up to five VGTs at certain truck stops, online gambling, fantasy contests and sport wagering. In response to this bill, we have commenced development of Hollywood Casino York and Hollywood Casino Morgantown, which are discussed above. We believe Hollywood Casino at Penn National Race Course, Hollywood Gaming at Mahoning Valley Race Course, and Meadows Racetrack and Casino, all of which are in our Northeast segment, will be impacted by new competition in the near future based on the ultimate location of the additional facilities, either owned by us or by our competitors.

MGM Springfield in Western Massachusetts opened in August 2018, Tiverton Casino in Tiverton, Rhode Island, which is near the border of Massachusetts, opened in September 2018, and Encore Boston Harbor in Eastern Massachusetts is scheduled to open in June 2019. MGM Springfield and Tiverton Casino have negatively impacted our Plainridge Park Casino, which is in our Northeast segment, since their opening and we expect Encore Boston Harbor to negatively impact Plainridge Park Casino due to the increased competition upon its opening.

Lastly, we expect that a large renovation and expansion, including a 500-room hotel and a parking garage, at Monarch Casino, in Blackhawk, Colorado, which is expected to be complete by July 2019, will have an adverse impact on our Ameristar Blackhawk property, which is included in our West segment, due to the increased competition.

Key Performance Indicators

In our business, revenue is driven by discretionary consumer spending. We have no certain mechanism for determining why consumers choose to spend more or less money at our facilities from period-to-period; therefore, we cannot quantify a dollar amount for each factor that impacts our customers’ spending behaviors. However, based on our experience, we can generally offer some insight into the factors that we believe were likely to account for such changes and which factors may have had a greater impact than others. In all instances, such insights are based solely on our judgment and professional experience, and no assurance can be given as to the accuracy of our judgments.

The vast majority of our revenues is gaming revenue, derived primarily from gaming on slot machines (which represented approximately 92% and 87% of our gaming revenue in 2018 and 2017, respectively), and to a lesser extent, table games, which is highly dependent upon the volume and spending levels of customers at our facilities. Aside from gaming revenues, our revenues are derived from 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.

Key performance indicators related to gaming revenue are slot handle and table game drop, which are volume indicators, and “win” or “hold” percentage. Our typical property slot win percentage is in the range of approximately 6% to 10% of slot handle, and our typical table game hold percentage is in the range of approximately 13% to 27% of table game drop.

Slot handle is the gross amount wagered for the period cited. The win or hold percentage is the net amount of gaming wins and losses, with liabilities recognized for accruals related to the anticipated payout of progressive jackpots. Given the stability in our slot hold percentages on a historical basis, we have not experienced significant impacts to net income from changes in these percentages.

For table games, customers usually purchase chips at the gaming tables. The cash and markers (extensions of credit granted to certain credit worthy customers) are deposited in the gaming table’s drop box. Table game hold is the amount of drop that is retained and recorded as gaming revenue, with liabilities recognized for funds deposited by customers before gaming play occurs and for unredeemed gaming chips. As we are primarily focused on regional gaming markets, our table game hold percentages are fairly stable as the majority of these markets do not regularly experience high-end play, which can lead to volatility in hold percentages. Therefore, changes in table game hold percentages do not typically have a material impact to our net income.

Reportable Segments

We view each of our operating businesses as an operating segment with the exception of our two facilities in Jackpot, Nevada, which we view as one operating segment. During the fourth quarter 2018, the Company made revisions to its reportable segments upon the consummation of the Pinnacle Acquisition. Apart from the addition of the new properties, the most significant change was dividing the South/West segment into two separate reportable segments. For financial reporting purposes, we aggregate our operating segments into the following reportable segments:

| | Location | Real Estate Assets Lease or Ownership Structure |
|--|----------------------|---|
| Northeast segment | | |
| Ameristar East Chicago | East Chicago, IN | Pinnacle Master Lease |
| Hollywood Casino Bangor | Bangor, ME | Penn Master Lease |
| Hollywood Casino at Charles Town Races | Charles Town, WV | Penn Master Lease |
| Hollywood Casino Columbus | Columbus, OH | Penn Master Lease |
| Hollywood Casino Lawrenceburg | Lawrenceburg, IN | Penn Master Lease |
| Hollywood Casino at Penn National Race Course | Grantville, PA | Penn Master Lease |
| Hollywood Casino Toledo | Toledo, OH | Penn Master Lease |
| Hollywood Gaming at Dayton Raceway | Dayton, OH | Penn Master Lease |
| Hollywood Gaming at Mahoning Valley Race Course | Youngstown, OH | Penn Master Lease |
| Meadows Racetrack and Casino | Washington, PA | Meadows Lease |
| Plainridge Park Casino | Plainville, MA | Pinnacle Master Lease |
| South segment | | |
| 1 st Jackpot Casino | Tunica, MS | Penn Master Lease |
| Ameristar Vicksburg | Vicksburg, MS | Pinnacle Master Lease |
| Boomtown Biloxi | Biloxi, MS | Penn Master Lease |
| Boomtown Bossier City | Bossier City, LA | Pinnacle Master Lease |
| Boomtown New Orleans | New Orleans, LA | Pinnacle Master Lease |
| Hollywood Casino Gulf Coast | Bay St. Louis, MS | Penn Master Lease |
| Hollywood Casino Tunica | Tunica, MS | Penn Master Lease |
| L'Auberge Baton Rouge | Baton Rouge, LA | Pinnacle Master Lease |
| L'Auberge Lake Charles | Lake Charles, LA | Pinnacle Master Lease |
| Resorts Casino Tunica | Tunica, MS | Penn Master Lease |
| West segment | | |
| Ameristar Black Hawk | Black Hawk, CO | Pinnacle Master Lease |
| Cactus Petes and Horseshu (the "Jackpot Properties") | Jackpot, NV | Pinnacle Master Lease |
| M Resort | Henderson, NV | Penn Master Lease |
| Tropicana Las Vegas | Las Vegas, NV | Owned |
| Zia Park Casino | Hobbs, NM | Penn Master Lease |
| Midwest segment | | |
| Ameristar Council Bluffs | Council Bluffs, IA | Pinnacle Master Lease |
| Argosy Casino Alton ⁽¹⁾ | Alton, IL | Penn Master Lease |
| Argosy Casino Riverside | Riverside, MO | Penn Master Lease |
| Hollywood Casino Aurora | Aurora, IL | Penn Master Lease |
| Hollywood Casino Joliet | Joliet, IL | Penn Master Lease |
| Hollywood Casino at Kansas Speedway ⁽²⁾ | Kansas City, KS | Owned - JV |
| Hollywood Casino St. Louis | Maryland Heights, MO | Penn Master Lease |
| Prairie State Gaming ⁽³⁾ | Illinois | N/A |
| River City Casino | St. Louis, MO | Pinnacle Master Lease |

(1) The riverboat is owned by us and not subject to the Penn Master Lease.

(2) Pursuant to a joint venture with International Speedway Corporation

(3) VGT route operations

RESULTS OF OPERATIONS

The following table highlights our revenues, operating income (loss) and Adjusted EBITDAR by reportable segment as well as our consolidated net income and Adjusted EBITDA, after Lease Payments. Such segment reporting is on a basis consistent with how we measure our business and allocate resources internally. The financial information presented below reflects the revisions made to our reportable segments as a result of the Pinnacle Acquisition, including restating the prior year financial information.

The Company considers net income to be the most directly comparable financial measure calculated in accordance with generally accepted accounting principles in the United States (“GAAP”) to Adjusted EBITDAR and Adjusted EBITDA, after Lease Payments, which are non-GAAP financial measures. Refer to the “Non-GAAP Financial Measures” section below for the definitions of Adjusted EBITDAR; Adjusted EBITDA, after Lease Payments; and Lease Payments; as well as a reconciliation of net income to Adjusted EBITDAR and Adjusted EBITDA, after Lease Payments.

| <i>(dollars in millions)</i> | For the year ended December 31, | | |
|--|---------------------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Revenues: | | | |
| Northeast segment ^(a) | \$ 1,891.5 | \$ 1,756.6 | \$ 1,741.8 |
| South segment ^(a) | 394.4 | 224.3 | 185.8 |
| West segment ^(a) | 437.9 | 380.4 | 360.8 |
| Midwest segment ^(a) | 823.7 | 735.0 | 704.3 |
| Other ^(b) | 40.4 | 51.7 | 41.7 |
| Revenues | \$ 3,587.9 | \$ 3,148.0 | \$ 3,034.4 |
| Operating income (loss): | | | |
| Northeast segment ^(a) | \$ 514.3 | \$ 451.1 | \$ 437.8 |
| South segment ^(a) | 97.9 | 51.5 | 46.2 |
| West segment ^(a) | 106.5 | (57.3) | 46.4 |
| Midwest segment ^(a) | 233.5 | 191.3 | 182.9 |
| Other ^(b) | (318.1) | (190.9) | (170.3) |
| Operating income | \$ 634.1 | \$ 445.7 | \$ 543.0 |
| Net income | \$ 93.5 | \$ 473.4 | \$ 109.3 |
| Adjusted EBITDAR: | | | |
| Northeast segment ^(a) | \$ 583.8 | \$ 549.3 | \$ 536.4 |
| South segment ^(a) | 118.9 | 62.6 | 56.1 |
| West segment ^(a) | 114.3 | 72.7 | 72.5 |
| Midwest segment ^(a) | 294.3 | 249.7 | 239.9 |
| Other ^(b) | (68.1) | (55.2) | (67.8) |
| Adjusted EBITDAR | 1,043.2 | 879.1 | 837.1 |
| Less: Lease Payments | (537.4) | (455.4) | (442.3) |
| Adjusted EBITDA, after Lease Payments | \$ 505.8 | \$ 423.7 | \$ 394.8 |
| Operating income margin | 17.7% | 14.2% | 17.9% |
| Net income margin | 2.6% | 15.0% | 3.6% |
| Adjusted EBITDAR margin | 29.1% | 27.9% | 27.6% |

(a) See “[Executive Overview](#)” section for listing of properties included in each reportable segment.

(b) The Other category consists of the Company’s standalone racing operations, namely Sanford-Orlando Kennel Club, and the Company’s joint venture interests in Sam Houston Race Park, Valley Race Park, and Freehold Raceway. The Other category also includes PIV, our management contract for Retama Park Racetrack, and our live and televised poker tournament series that operates under the trade name, Heartland Poker Tour. Expenses incurred for corporate and shared services activities that are directly attributable to a property or are otherwise incurred to support a

property are allocated to each property. The Other category also includes corporate overhead costs, which consists of certain expenses, such as: payroll, professional fees, travel expenses and other general and administrative expenses that do not directly relate to or have otherwise been allocated to a property.

Consolidated comparison of the years ended December 31, 2018, 2017 and 2016

Revenues

The following table presents our consolidated revenues at a disaggregated level:

| (dollars in millions) | For the year ended December 31, | | | \$ Change | | % Change | |
|-------------------------------------|---------------------------------|-------------------|-------------------|-----------------|-----------------|------------------------------|---------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 | 2018 vs. 2017 ^(a) | 2017 vs. 2016 |
| Revenues^(a) | | | | | | | |
| Gaming | \$ 2,894.9 | \$ 2,692.0 | \$ 2,606.3 | \$ 202.9 | \$ 85.7 | 7.5 % | 3.3% |
| Food, beverage, hotel and other | 629.7 | 601.7 | 575.4 | 28.0 | 26.3 | 4.7 % | 4.6% |
| Management service and license fees | 6.0 | 11.7 | 11.4 | (5.7) | 0.3 | (48.7)% | 2.6% |
| Reimbursable management costs | 57.3 | 26.1 | 16.0 | 31.2 | 10.1 | 119.5 % | 63.1% |
| | 3,587.9 | 3,331.5 | 3,209.1 | 256.4 | 122.4 | 7.7 % | 3.8% |
| Less: Promotional allowances | — | (183.5) | (174.7) | 183.5 | (8.8) | (100.0)% | 5.0% |
| Revenues | <u>\$ 3,587.9</u> | <u>\$ 3,148.0</u> | <u>\$ 3,034.4</u> | <u>\$ 439.9</u> | <u>\$ 113.6</u> | 14.0 % | 3.7% |

(a) The adoption of Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 606, Revenue from Contracts with Customers, (“ASC 606”) using the modified retrospective transition approach principally impacted the year-over-year comparability of gaming revenues; food, beverage, hotel and other revenues; reimbursable management costs; and promotional allowances; but had minimal impact on revenues. For the years ended December 31, 2017 and 2016, the retail value of accommodations, food and beverage, hotel and other services furnished to our guests without charge was included in gross revenues, then deducted as promotional allowances in determining net revenues.

2018 compared to 2017

Consolidated revenues increased principally as a result of the Pinnacle Acquisition on October 15, 2018, which contributed \$385.6 million to the year ended December 31, 2018; of which, \$303.6 million was gaming revenues and \$82.0 million was food, beverage, hotel and other revenues. In addition, consolidated revenues benefited from strong year-over-year performances at all of our Ohio properties, resulting in an increase of \$18.5 million; and Prairie State Gaming, where revenues increased by \$15.1 million; and a full year of operations of 1st Jackpot Casino Tunica and Resorts Casino Tunica, which were acquired on May 1, 2017 and resulted in an increase of \$22.3 million.

The adoption of ASC 606 had the effect of decreasing gaming revenues and food, beverage, hotel and other revenues by \$206.1 million and \$69.4 million, respectively, and increasing reimbursable management costs by \$46.8 million, of which \$236.8 million related to promotional allowances, resulting in a net impact on consolidated revenues of an increase of \$8.1 million. See the “Segment comparison of the years ended December 31, 2018, 2017 and 2016” section below for more detailed explanations of the fluctuations in revenues.

2017 compared to 2016

Consolidated revenues for the year ended December 31, 2017 increased principally as a result of the acquisitions of 1st Jackpot Casino Tunica and Resorts Casino Tunica, which contributed \$46.4 million, and Prairie State Gaming, which acquired four VGT route operators since the beginning of the fourth quarter 2016, which contributed \$24.7 million. These increases were partially offset by a decrease at Hollywood Casino at Charles Town Races of \$32.9 million due to increased competition from the Maryland market. See the “Segment comparison of the years ended December 31, 2018, 2017 and 2016” section below for more detailed explanations of the fluctuations in revenues.

Operating expenses

The following table presents our consolidated operating expenses:

| | For the year ended December 31, | | | \$ Change | | % Change | |
|--|---------------------------------|-------------------|-------------------|-----------------|-----------------|---------------|---------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 | 2018 vs. 2017 | 2017 vs. 2016 |
| <i>(dollars in millions)</i> | | | | | | | |
| Operating expenses | | | | | | | |
| Gaming | \$ 1,551.4 | \$ 1,365.0 | \$ 1,335.0 | \$ 186.4 | \$ 30.0 | 13.7% | 2.2 % |
| Food, beverage, hotel and other | 439.3 | 421.8 | 406.9 | 17.5 | 14.9 | 4.1% | 3.7 % |
| General and administrative | 618.9 | 514.5 | 462.3 | 104.4 | 52.2 | 20.3% | 11.3 % |
| Reimbursable management costs | 57.3 | 26.1 | 16.0 | 31.2 | 10.1 | 119.5% | 63.1 % |
| Depreciation and amortization | 269.0 | 267.1 | 271.2 | 1.9 | (4.1) | 0.7% | (1.5)% |
| Provision for loan loss and unfunded loan commitments to the JIVDC, net of recoveries, and impairment losses | 17.9 | 107.8 | — | (89.9) | 107.8 | N/M | N/C |
| Total operating expenses | <u>\$ 2,953.8</u> | <u>\$ 2,702.3</u> | <u>\$ 2,491.4</u> | <u>\$ 251.5</u> | <u>\$ 210.9</u> | 9.3% | 8.5 % |

N/M - Not meaningful

N/C - Not calculable

Gaming expenses consist primarily of salaries and wages associated with our gaming operations and gaming taxes. **Food, beverage, hotel and other expenses** consist principally of salaries and wages and costs of goods sold associated with our food, beverage, hotel, racing, and other operations. Gaming, food, beverage, hotel and other expenses for the year ended December 31, 2018 increased year over year primarily as a result of the Pinnacle Acquisition, which increased gaming expenses by \$162.6 million and food, beverage, hotel and other expenses by \$56.9 million. The adoption of ASC 606 had the effect of decreasing food, beverage, hotel and other expenses by \$37.3 million. Gaming, food, beverage, hotel and other expenses increased for the year ended December 31, 2017, as compared to the prior year, as a result of the acquisitions of 1st Jackpot Casino Tunica, Resorts Casino Tunica and the VGT route operators by Prairie State Gaming.

General and administrative expenses include items such as compliance, facility maintenance, utilities, property and liability insurance, surveillance and security, and certain housekeeping services, as well as all expenses for administrative departments such as accounting, purchasing, human resources, legal and internal audit. General and administrative expenses also include lobbying expenses, gains and losses on disposal of assets, changes in the fair value of our contingent purchase price obligations, expense associated with cash-settled stock awards (including changes in fair value thereto) and rent expense associated with the Meadows Lease.

General and administrative expenses for the year ended December 31, 2018 increased year over year primarily as a result of an increase in pre-opening and acquisition costs of \$85.3 million, which principally relates to severance and professional service fees incurred as a result of the Pinnacle Acquisition, and \$62.3 million of general and administrative expenses associated with the acquired Pinnacle operations. These increases are partially offset by a \$28.6 million decrease in the expense recognized on the Company's cash-settled stock awards, which is primarily the result of the decrease in the fair value of the awards year-over-year.

General and administrative expenses for the year ended December 31, 2017 increased year over year primarily due to higher cash-settled stock-based compensation charges of \$23.0 million from increases in Penn's stock price during 2017 compared to 2016, higher bonus accrual expense of \$3.5 million due to the Company's better overall performance against its budget, higher outside services and legal fees of \$9.4 million due to development and acquisition costs and a full year of operations of Rocket Speed, which was acquired on August 1, 2016, partially offset by a \$22.2 million benefit from a buy-out of the contingent purchase price for Rocket Speed.

Reimbursable management costs relate to operating costs related to Casino Rama, which is located in Ontario, Canada, and Hollywood Casino-Jamul San Diego, which is located on the Jamul Tribe's trust land in San Diego, California. Our management contract with Hollywood Casino-Jamul San Diego terminated in the second quarter 2018 and our management contract with Casino Rama terminated in the third quarter 2018. The increase for the year ended December 31, 2018, as compared to the prior year, is a result of the adoption of ASC 606 on January 1, 2018, which required the Company to record reimbursable management costs on the gross basis as opposed to the net basis. The impact with respect to our Casino Rama management contract resulted in the recognition of reimbursable management costs of \$46.8 million for the year ended December 31, 2018.

Depreciation and amortization for the year ended December 31, 2018 increased year over year due to the Pinnacle Acquisition, which contributed \$38.6 million, partially offset by decreases at the majority of our properties due to assets becoming fully depreciated and a decrease in amortization expense at PIV. Depreciation and amortization for the year ended December 31, 2017 decreased year over year primarily due to decreases at the majority of our properties due to assets becoming fully depreciated, partially offset by the acquisitions of 1st Jackpot Casino and Resorts Casino Tunica, increased amortization from a full year of operations at Rocket Speed and the acquisitions of the assets of four small VGT route operators by Prairie State Gaming since the fourth quarter 2016.

Provision for loan loss and unfunded loan commitments to the Jamul Indian Village Development Corporation (“JIVDC”), net of recoveries, and impairment losses for the years ended December 31, 2018 and 2017 include a recovery of \$17.0 million and a provision of \$89.8 million, respectively. **Impairment losses** for the year ended December 31, 2018 primarily relates to an impairment on the property and equipment of our Resorts Casino Tunica facility of \$34.3 million, principally relating to the real estate assets subject to the Penn Master Lease. Impairment losses for the year ended December 31, 2017 relates to a goodwill impairment charge of \$18.0 million relating to Tropicana Las Vegas and Sanford-Orlando Kennel Club.

Other income (expenses)

The following table presents our consolidated other income (expenses):

| | For the year ended December 31, | | | \$ Change | | % Change | |
|---------------------------------------|---------------------------------|------------|------------|---------------|---------------|---------------|---------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 | 2018 vs. 2017 | 2017 vs. 2016 |
| <i>(dollars in millions)</i> | | | | | | | |
| Other income (expenses) | | | | | | | |
| Interest expense | \$ (539.4) | \$ (466.8) | \$ (459.2) | \$ (72.6) | \$ (7.6) | 15.6 % | 1.7 % |
| Interest income | \$ 1.0 | \$ 3.6 | \$ 24.2 | \$ (2.6) | \$ (20.6) | (72.2)% | (85.1)% |
| Income from unconsolidated affiliates | \$ 22.3 | \$ 18.7 | \$ 14.3 | \$ 3.6 | \$ 4.4 | 19.3 % | 30.8 % |
| Loss on early extinguishment of debt | \$ (21.0) | \$ (24.0) | \$ — | \$ 3.0 | \$ (24.0) | (12.5)% | N/C |
| Income tax benefit (expense) | \$ 3.6 | \$ 498.5 | \$ (11.3) | \$ (494.9) | \$ 509.8 | (99.3)% | N/M |
| Other | \$ (7.1) | \$ (2.3) | \$ (1.7) | \$ (4.8) | \$ (0.6) | 208.7 % | 35.3 % |

N/C - Not calculable
N/M - Not meaningful

Interest expense increased primarily due to the Pinnacle Master Lease, which contributed \$63.0 million to the year ended December 31, 2018. Interest expense associated with the Penn Master Lease also increased as a result of the inclusion of 1st Jackpot Casino Tunica and Resorts Casino Tunica into the lease beginning May 2017 and the incurrence of rent escalators. Lastly, interest expense incurred on long-term debt increased by \$7.1 million, pertaining to the fact that the Company had more long-term debt outstanding during the year ended December 31, 2018 as compared to the prior year, which was primarily the result of financing the acquisition of Pinnacle.

Interest expense for the year ended December 31, 2017 increased as compared to the prior year primarily as a result of higher interest payments on the Penn Master Lease financing obligation due to the acquisitions of 1st Jackpot Casino Tunica and Resorts Casino Tunica and the incurrence of rent escalators. In addition, interest expense incurred on long-term debt increased by \$2.8 million due to the higher principal outstanding on the 5.625% Notes than the 5.875% Notes, partially offset by lower borrowings outstanding and lower interest rates on our Revolving Credit Facility, when comparing the year ended December 31, 2017 to the prior year. See the [“Liquidity and Capital Resources”](#) section below for the definitions of the 5.875% Notes, the 5.625% Notes and Revolving Credit Facility.

Interest income decreased for the years ended December 31, 2018 and 2017 as compared to the corresponding prior years due to lower interest accrued on the loan to the JIVDC as a result of its refinancing on October 20, 2016 and the purchase agreement entered into by the Company on May 25, 2018 to sell all of the Company’s outstanding rights and obligations under the term loan C and the JIVDC commitments.

Income from unconsolidated affiliates relates principally to our joint venture in Kansas Entertainment. The increases for the years ended December 31, 2018 and 2017 as compared to the corresponding prior years were attributable to improved operating results of Hollywood Casino at Kansas Speedway.

Loss on early extinguishment of debt for the year ended December 31, 2018 related to the debt financing transactions relating to the Pinnacle Acquisition and principal payments on the Term Loan B Facility (as defined in the [“Liquidity and Capital Resources”](#) section below); in both cases, the losses included the write-off of previously unamortized debt issuance costs. Loss on early extinguishment of debt for the year ended December 31, 2017 related to the Company’s early redemption of its \$300 million 5.875% Notes and was primarily caused by the premium paid by the Company to redeem the 5.875% Notes prior to maturity.

Income tax benefit (expense) was \$3.6 million for the year ended December 31, 2018, compared to income tax benefit of \$498.5 million in the prior year period. Our effective tax rate was (4.0)% for the year ended December 31, 2018, as compared to 1,990.6% for the year ended December 31, 2017. The Company’s effective tax rate in the current year is lower than the federal statutory tax rate of 21% due to the effect of permanent items such as stock compensation and tax credits, as well as the decrease in our federal valuation allowance during the year attributable to the recognition of a capital loss carryforward that offset the capital gain realized from the Plainridge Park Casino Sale-Leaseback. The effective tax rates for both 2017 and 2018 are not correlated to the amount of our income or loss before income taxes due to the impact of the releasing the federal valuation allowance in 2017 and 2018 in the amount of \$741.9 million and \$18.3 million, respectively.

For the year ended December 31, 2017, we recorded a provisional amount for certain enactment-date effects of the Tax Cuts and Jobs Act (the “Tax Act”) by applying the guidance in SAB 118, resulting in a net charge of \$266.0 million included in the income tax provision within the Consolidated Statements of Operations consisting of three components: (i) a \$261.3 million charge due to the revaluation of the net deferred tax assets in the U.S. based on the new lower federal income tax rate, (ii) a \$2.6 million charge related to the one-time mandatory repatriation tax on previously deferred earnings from our wholly-owned Canadian subsidiary (which we will pay interest-free over 8 years) and (iii) a \$2.1 million foreign withholding tax charge due to the new favorable U.S. treatment of foreign dividends whereby we have changed our indefinite reinvestment assertion. While we believed the \$266.0 million net charge represented a reasonable estimate of the income tax effects of the Tax Act in our Consolidated Statements of Operations as of December 31, 2017, these amounts were considered provisional. As of December 31, 2018, the Company finalized its enactment date and measurement period adjustment from the Tax Act, resulting in an increase to the 2017 provisional amount of \$1.2 million.

Our effective income tax rate can vary from period to period depending on, among other factors, the geographic and business mix of our earnings, changes to our valuation allowance and the level of our tax credits. Certain of these and other factors, including our history and projections of pre-tax earnings, are considered in assessing our ability to realize our net deferred tax assets. For the year ended December 31, 2018, we released a partial valuation allowance on our capital loss carryforward that we subsequently recognized in the amount of \$22.4 million from the Plainridge Park Casino Sale-Leaseback. The Company continues to maintain a valuation allowance of \$89.5 million as of December 31, 2018 for federal capital loss carryforwards, as well as certain state filing groups, where it continues to be in a cumulative three-year pretax loss position.

Other includes miscellaneous expense and (income) items. The amount for the year ended December 31, 2018 principally relates to costs associated with the debt refinancing in connection with the Pinnacle Acquisition and foreign currency translation losses related to our Casino Rama management contract which was reclassified from accumulated other comprehensive loss upon termination of the contract. The amount for the year ended December 31, 2017 principally relates to costs associated with the January 2017 debt refinancing.

Segment comparison of the years ended December 31, 2018, 2017 and 2016
Northeast Segment

| | For the Year Ended December 31, | | | \$ Change | | % / bps Change | | |
|---------------------------------------|---------------------------------|------------|------------|---------------|---------------|------------------------------|---------------|--|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 | 2018 vs. 2017 ^(a) | 2017 vs. 2016 | |
| <i>(dollars in millions)</i> | | | | | | | | |
| Revenues ^(a) : | | | | | | | | |
| Gaming | \$ 1,644.2 | \$ 1,583.9 | \$ 1,572.4 | \$ 60.3 | \$ 11.5 | 3.8 % | 0.7 % | |
| Food, beverage, hotel and other | 194.6 | 223.2 | 220.4 | (28.6) | 2.8 | (12.8)% | 1.3 % | |
| Management service and licensing fees | 5.9 | 11.6 | 11.3 | (5.7) | 0.3 | (49.1)% | 2.7 % | |
| Reimbursable management costs | 46.8 | — | — | 46.8 | — | N/C | N/C | |
| | 1,891.5 | 1,818.7 | 1,804.1 | 72.8 | 14.6 | 4.0 % | 0.8 % | |
| Less: Promotional allowances | — | (62.1) | (62.3) | 62.1 | 0.2 | (100.0)% | (0.3)% | |
| Revenues | \$ 1,891.5 | \$ 1,756.6 | \$ 1,741.8 | \$ 134.9 | \$ 14.8 | 7.7 % | 0.8 % | |
| Operating income | \$ 514.3 | \$ 451.1 | \$ 437.8 | \$ 63.2 | \$ 13.3 | 14.0 % | 3.0 % | |
| Adjusted EBITDAR | \$ 583.8 | \$ 549.3 | \$ 536.4 | \$ 34.5 | \$ 12.9 | 6.3 % | 2.4 % | |
| Operating income margin | 27.2% | 25.7% | 25.1% | | | 150 bps | 60 bps | |
| Adjusted EBITDAR margin | 30.9% | 31.3% | 30.8% | | | (40) bps | 50 bps | |

N/C - Not calculable

(a) See footnote (a) to the consolidated revenues table above.

2018 compared to 2017

The Northeast segment's revenues, operating income and Adjusted EBITDAR for the year ended December 31, 2018 benefited from the acquisition of Pinnacle in October 2018, which contributed a combined \$99.1 million of revenues, \$10.9 million of operating income and \$17.6 million of Adjusted EBITDAR, from Ameristar East Chicago and Meadows Racetrack and Casino. Northeast segment operating results also benefited from strong year-over-year performances at all four of our Ohio properties, which all individually grew Adjusted EBITDAR margin and, collectively, increased revenue by \$18.5 million and Adjusted EBITDAR by \$16.7 million. Contraction in Northeast segment Adjusted EBITDAR margin was primarily due to the addition of Meadows Racetrack and Casino, where gaming taxes are unfavorable as compared to the majority of other jurisdictions included in this segment. Management services and licensing fees decreased due to the timing of cessation of the management services of Casino Rama, which ended during the third quarter 2018.

The adoption of ASC 606 had the effect of decreasing gaming revenues and food, beverage, hotel and other revenues by \$54.8 million and \$47.5 million, respectively, and increasing reimbursable management costs, which relate to Casino Rama, by \$46.8 million, of which \$70.7 million related to promotional allowances, resulting in a net impact on Northeast segment revenues of an increase of \$15.2 million.

2017 compared to 2016

The Northeast segment's revenues, operating income and Adjusted EBITDAR increased primarily due to year-over-year improvements in operating results at all four of our Ohio properties, which together increased revenues by \$39.9 million, and gaming volume increase at Plainridge Park Casino, offset by a decrease in gaming volumes at Hollywood Casino at Charles Town Races, principally caused by the opening of a new property in December 2016 within the Baltimore, Maryland market. Hollywood Casino Bangor's operating results were also negatively impacted by the increased competition, but to a lesser degree.

South Segment

| | For the Year Ended December 31, | | | \$ Change | | % / bps Change | |
|---------------------------------|---------------------------------|----------|----------|---------------|---------------|------------------------------|---------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 | 2018 vs. 2017 ^(a) | 2017 vs. 2016 |
| <i>(dollars in millions)</i> | | | | | | | |
| Revenues ^(a) : | | | | | | | |
| Gaming | \$ 302.9 | \$ 203.0 | \$ 166.5 | \$ 99.9 | \$ 36.5 | 49.2 % | 21.9% |
| Food, beverage, hotel and other | 91.5 | 52.1 | 45.2 | 39.4 | 6.9 | 75.6 % | 15.3% |
| | 394.4 | 255.1 | 211.7 | 139.3 | 43.4 | 54.6 % | 20.5% |
| Less: Promotional allowances | — | (30.8) | (25.9) | 30.8 | (4.9) | (100.0)% | 18.9% |
| Revenues | \$ 394.4 | \$ 224.3 | \$ 185.8 | \$ 170.1 | \$ 38.5 | 75.8 % | 20.7% |
| Operating income | \$ 97.9 | \$ 51.5 | \$ 46.2 | \$ 46.4 | \$ 5.3 | 90.1 % | 11.5% |
| Adjusted EBITDAR | \$ 118.9 | \$ 62.6 | \$ 56.1 | \$ 56.3 | \$ 6.5 | 89.9 % | 11.6% |
| Operating income margin | 24.8% | 23.0% | 24.9% | | | 180 bps | (190) bps |
| Adjusted EBITDAR margin | 30.1% | 27.9% | 30.2% | | | 220 bps | (230) bps |

(a) See footnote (a) to the consolidated revenues table above.

Beginning in the first quarter 2019, the operating results of the South segment will include Margaritaville Resort Casino, which was acquired on January 1, 2019, and concluded to be part of the South segment by management.

2018 compared to 2017

The South segment's revenues, operating income, and Adjusted EBITDAR for the year ended December 31, 2018 benefited from the acquisition of Pinnacle in October 2018, which contributed a combined \$151.6 million of revenues, \$37.5 million of operating income and \$45.8 million of Adjusted EBITDAR, from Ameristar Vicksburg, Boomtown Bossier City, Boomtown New Orleans, L'Auberge Baton Rouge and L'Auberge Lake Charles. In addition, as a result of the timing of the acquisitions of 1st Jackpot Casino and Resorts Casino Tunica, which occurred in May 2017, revenues, operating income and Adjusted EBITDAR had increases of \$22.3 million \$6.0 million and \$9.0 million, respectively. South segment operating income was negatively impacted by a \$2.0 million impairment on the property and equipment (not subject to the Penn Master Lease) used in the operations of Resorts Casino Tunica. Primarily as a result of operational efficiencies, South segment operating income margin and Adjusted EBITDAR margin expanded.

The adoption of ASC 606 had the effect of decreasing gaming revenues and food, beverage, hotel and other revenues by \$53.4 million and \$2.1 million, of which \$55.3 million related to promotional allowances, resulting in a net impact on South segment revenues of a decrease of \$0.2 million.

2017 compared to 2016

The South segment's revenues, operating income, and Adjusted EBITDAR for the year ended December 31, 2017, benefited from the acquisitions of 1st Jackpot Casino and Resorts Casino Tunica in May 2017, which contributed a combined \$46.4 million of revenues, \$6.0 million of operating income and \$8.6 million of Adjusted EBITDAR. The benefit from the acquisitions was partially offset by decreased gaming volume at Hollywood Casino Gulf Coast and Boomtown Biloxi, both of which were negatively impacted by Hurricane Nate in October 2017 and decreased gaming volume at Hollywood Casino Tunica.

West Segment

| | For the Year Ended December 31, | | | \$ Change | | % / bps Change | |
|---------------------------------|---------------------------------|-----------|----------|---------------|---------------|------------------------------|--------------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 | 2018 vs. 2017 ^(a) | 2017 vs. 2016 |
| <i>(dollars in millions)</i> | | | | | | | |
| Revenues ^(a) : | | | | | | | |
| Gaming | \$ 228.0 | \$ 219.7 | \$ 211.8 | \$ 8.3 | \$ 7.9 | 3.8 % | 3.7% |
| Food, beverage, hotel and other | 199.4 | 177.4 | 171.8 | 22.0 | 5.6 | 12.4 % | 3.3% |
| Reimbursable management costs | 10.5 | 26.1 | 16.0 | (15.6) | 10.1 | (59.8)% | 63.1% |
| | 437.9 | 423.2 | 399.6 | 14.7 | 23.6 | 3.5 % | 5.9% |
| Less: Promotional allowances | — | (42.8) | (38.8) | 42.8 | (4.0) | (100.0)% | 10.3% |
| Revenues | \$ 437.9 | \$ 380.4 | \$ 360.8 | \$ 57.5 | \$ 19.6 | 15.1 % | 5.4% |
| Operating income (loss) | \$ 106.5 | \$ (57.3) | \$ 46.4 | \$ 163.8 | \$ (103.7) | N/M ^(b) | N/M ^(b) |
| Adjusted EBITDAR | \$ 114.3 | \$ 72.7 | \$ 72.5 | \$ 41.6 | \$ 0.2 | 57.2 % | 0.3% |
| Operating income (loss) margin | 24.3% | (15.1)% | 12.9% | | | N/M ^(b) | N/M ^(b) |
| Adjusted EBITDAR margin | 26.1% | 19.1 % | 20.1% | | | 700 bps | (100) bps |

N/M - Not meaningful

(a) See footnote (a) to the consolidated revenues table above.

(b) As a result of the recovery/provision of loan losses and unfunded loan commitments to the JIVDC as well as the impairment charges discussed below, the fluctuations in operating income (loss) and the associated margins are not comparable.

2018 compared to 2017

The West segment's revenues, operating income, and Adjusted EBITDAR for the year ended December 31, 2018 benefited from the acquisition of Pinnacle in October 2018, which contributed a combined \$53.8 million of revenues, \$18.5 million of operating income and \$20.8 million of Adjusted EBITDAR, from Ameristar Black Hawk and the Jackpot Properties. The West segment operating results also benefited from strong year-over-year performance of Tropicana Las Vegas, which experienced gaming volume growth while achieving operational efficiencies. Adjusted EBITDAR margin of the West segment grew significantly, primarily as a result of the addition of Ameristar Black Hawk and the Jackpot Properties as well as Tropicana Las Vegas.

The adoption of ASC 606 had the effect of decreasing gaming revenues and food, beverage, hotel and other revenues by \$52.1 million and \$8.3 million, respectively, of which \$57.4 million related to promotional allowances, resulting in a net impact on West segment revenues of a decrease of \$3.0 million.

Reimbursable management costs decreased due to the cessation of the management services of Hollywood Casino-Jamul San Diego in May 2018. Operating income for the year ended December 31, 2018 benefited from a \$17.0 million recovery of loan losses and unfunded loan commitments.

2017 compared to 2016

The West segment's revenues and Adjusted EBITDAR increased primarily as a result of gaming volume increases at Tropicana Las Vegas, M Resort and Zia Park, as the local economies showed year-over-year improvements. During the second quarter 2016, we refreshed the gaming floor at Tropicana Las Vegas with new slot machines and launched our Marquee Rewards player loyalty program at the property.

In addition, during the year ended December 31, 2017, we made various incremental food and beverage offerings at Tropicana Las Vegas, most notably, the July 2017 opening of celebrity chef, Robert Irvine's, first signature Las Vegas restaurant, the Robert Irvine Public House, which contributed to year-over-year increases in food and beverage revenues for the segment. In addition, reimbursable management costs increased due to the timing of the opening and commencement of management services of Hollywood Casino-Jamul San Diego, which started in October 2016. During the year ended December 31, 2017, we recorded provisions related to our investments and loans with the JIVDC of \$89.8 million and a \$14.8 million goodwill impairment charge pertaining to Tropicana Las Vegas, which resulted in an operating loss for the year.

West segment Adjusted EBITDAR margin was negatively impacted by higher expenses at Tropicana Las Vegas due to increased marketing expenses and a favorable litigation settlement in the corresponding prior year period.

Midwest Segment

| | For the Year Ended December 31, | | | \$ Change | | % / bps Change | |
|---------------------------------|---------------------------------|----------|----------|---------------|---------------|------------------------------|---------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 | 2018 vs. 2017 ^(a) | 2017 vs. 2016 |
| <i>(dollars in millions)</i> | | | | | | | |
| Revenues ^(a) : | | | | | | | |
| Gaming | \$ 719.8 | \$ 685.4 | \$ 655.6 | \$ 34.4 | \$ 29.8 | 5.0 % | 4.5 % |
| Food, beverage, hotel and other | 103.9 | 96.8 | 96.3 | 7.1 | 0.5 | 7.3 % | 0.5 % |
| | 823.7 | 782.2 | 751.9 | 41.5 | 30.3 | 5.3 % | 4.0 % |
| Less: Promotional allowances | — | (47.2) | (47.6) | 47.2 | 0.4 | (100.0)% | (0.8)% |
| Revenues | \$ 823.7 | \$ 735.0 | \$ 704.3 | \$ 88.7 | \$ 30.7 | 12.1 % | 4.4 % |
| Operating income | \$ 233.5 | \$ 191.3 | \$ 182.9 | \$ 42.2 | \$ 8.4 | 22.1 % | 4.6 % |
| Adjusted EBITDAR | \$ 294.3 | \$ 249.7 | \$ 239.9 | \$ 44.6 | \$ 9.8 | 17.9 % | 4.1 % |
| Operating income margin | 28.3% | 26.0% | 26.0% | | | 230 bps | 0 bps |
| Adjusted EBITDAR margin | 35.7% | 34.0% | 34.1% | | | 170 bps | (10) bps |

(a) See footnote (a) to the consolidated revenues table above.

2018 compared to 2017

The Midwest segment's revenues, operating income, and Adjusted EBITDAR for the year ended December 31, 2018 benefited from the acquisition of Pinnacle in October 2018, which contributed \$81.1 million, \$25.3 million and \$28.8 million, respectively, from River City Casino and Ameristar Council Bluffs. In addition, the Midwest segment operating results benefited from strong year-over-year performances of Argosy Casino Riverside and Prairie State Gaming, where gaming volumes increased and revenues increased by \$18.5 million collectively. Additionally, operational efficiencies at Hollywood Casino St. Louis helped contribute to the year-over-year increase in Midwest segment Adjusted EBITDAR. The expansion in operating income margin was largely driven by River City Casino and Ameristar Council Bluffs whereas the expansion in Adjusted EBITDAR margin was largely driven by Argosy Casino Riverside, Prairie State Gaming and Hollywood Casino St. Louis.

The adoption of ASC 606 had the effect of decreasing gaming revenues and food, beverage, hotel and other revenues by \$45.8 million and \$5.7 million, respectively, of which \$52.7 million related to promotional allowances, resulting in a net impact on Midwest segment revenues of an increase of \$1.2 million.

2017 compared to 2016

The Midwest segment's revenues, operating income, and Adjusted EBITDAR for the year ended December 31, 2017 benefited from the acquisition of the assets of four small VGT route operators in Illinois by Prairie State Gaming since the fourth quarter 2016 and a strong performance at Argosy Casino Riverside, partially offset by the performance of Argosy Casino Alton, where visitation was impeded by flooding in May 2017.

Other

Revenues and Adjusted EBITDAR of the Other category were \$40.4 million and \$(68.1) million, respectively, for the year ended December 31, 2018, representing decreases year-over-year of \$11.3 million and \$12.9 million, respectively, principally as a result of PIV operating results and an increase in corporate overhead costs, largely attributable to payroll and other general and administrative costs associated with Pinnacle.

Revenues and Adjusted EBITDAR of the Other category were \$51.7 million and \$(55.2) million, respectively, for the year ended December 31, 2017, representing increases year-over-year of \$10.0 million and \$12.6 million, respectively, principally as a result of the timing of the acquisition of Rocket Speed by PIV, which was in August 2016, and a decrease in corporate overhead costs, largely attributable to cost containment efforts, which resulted in lower payroll and other general and administrative costs.

Non-GAAP Financial Measures

Definition of Adjusted EBITDAR

We define Adjusted EBITDAR as earnings before interest income and expense, income taxes, depreciation and amortization, rent expense associated with triple net operating leases, stock compensation, debt extinguishment and financing charges, impairment charges, insurance recoveries and deductible charges, changes in the estimated fair value of our contingent purchase price obligations, gain or loss on disposal of assets, the difference between budget and actual expense for cash-settled stock-based awards, pre-opening and acquisition costs, and other income or expenses. Adjusted EBITDAR is also inclusive of income or loss from unconsolidated affiliates, with our share of non-operating items (such as depreciation and amortization) added back for our joint venture in Kansas Entertainment. Adjusted EBITDAR excludes payments associated with our Master Leases with GLPI as these leases are accounted for as financing obligations. As of December 31, 2018, the Company's only triple net operating lease, for purposes of this definition was the Meadows Lease. However, beginning with the first quarter 2019, we expect that the Margaritaville Lease with VICI will be included in this definition. We define Adjusted EBITDAR margin as Adjusted EBITDAR divided by consolidated revenues and Adjusted EBITDAR margin by segment as Adjusted EBITDAR for each segment divided by segment revenues.

In the fourth quarter 2018, in connection with the Pinnacle Acquisition, we began utilizing Adjusted EBITDAR instead of Adjusted EBITDA. The difference between Adjusted EBITDAR and Adjusted EBITDA is the exclusion of rent expense associated with the Meadows Lease.

The Company is required to adopt ASC Topic 842, Leases ("ASC 842"), effective January 1, 2019. Our Master Leases were accounted for as financing obligations under the previous lease accounting literature because they were failed sale leasebacks due to certain continuing involvement provisions. The adoption of ASC 842 requires us to determine the classification (operating or financing) of each component contained within each of our Master Leases with our REIT landlords which will impact the initial valuation of the right-of-use asset and corresponding lease liability at the January 1, 2019 adoption date as well as the subsequent expense recognition as either rent expense or interest expense within our Consolidated Statements of Operations. Because both interest expense and rent expense associated with leases with our REIT landlords are excluded from the definition of Adjusted EBITDAR, we do not expect the adoption of ASC 842 to materially impact Adjusted EBITDAR. Additionally, we expect that the Meadows Lease and the Margaritaville Lease will be classified as operating leases under ASC 842.

In the first quarter 2018, we changed the definition of Adjusted EBITDA to exclude pre-opening and acquisition costs and the variance between budget and actual expense for cash-settled stock-based awards, which are required to be re-measured at fair market value at the end of each reporting period. We decided to exclude pre-opening and acquisition costs to more closely align the Company's calculation of Adjusted EBITDA with our competitors. We decided to exclude both the favorable and unfavorable difference between the budgeted expense and actual expense for our cash-settled stock-based awards due to its non-operational nature. In connection with these changes, we have reclassified our prior period results, where applicable, to conform to the current period presentation.

Definition of Adjusted EBITDA, after Lease Payments

Adjusted EBITDA, after Lease Payments is defined as Adjusted EBITDAR less Lease Payments, which is defined as lease payments made to our REIT landlords under our triple net leases. As of December 31, 2018, the Company's only REIT landlord under our triple net leases, for purposes of this definition, was GLPI as it pertains to both the Master Leases and the Meadows Lease. However, beginning with the first quarter 2019, we expect that the Margaritaville Lease with VICI will be included in this definition. We do not expect the adoption of ASC 842 to materially impact Adjusted EBITDA, after Lease Payments.

Use of Non-GAAP Financial Measures

In addition to GAAP financial measures, Adjusted EBITDAR, Adjusted EBITDAR margin, and Adjusted EBITDA, after Lease Payments, are used by management as important measures of the Company's operating performance. Adjusted EBITDAR has economic substance because it is used by management as a performance measure to analyze the performance of our business, and is especially relevant in evaluating large, long-lived casino-hotel projects because it provides a perspective on the current effects of operating decisions separated from the substantial non-operational depreciation charges and financing costs of such projects. We also present Adjusted EBITDAR and Adjusted EBITDAR margin because it is used by some investors and creditors as an indicator of the strength and performance of ongoing business operations, including our ability to service debt, and to fund capital expenditures, acquisitions and operations. These calculations are commonly used as a basis for investors, analysts and credit rating agencies to evaluate and compare operating performance and value companies within our

industry. In addition, other gaming companies also utilize Adjusted EBITDAR as a supplement to financial measures in accordance with GAAP. In order to view the operations of their casinos on a more stand-alone basis, gaming companies, including us, have historically excluded from their Adjusted EBITDAR calculations certain corporate expenses that do not relate to the management of specific casino properties. However, Adjusted EBITDAR is not a measure of performance or liquidity calculated in accordance with GAAP. Adjusted EBITDAR information is presented as a supplemental disclosure, as management believes that it is a commonly-used measure of performance in the gaming industry, is used in the valuation of gaming companies, and that it is considered by many to be a key indicator of the Company's operating results. In addition to using Adjusted EBITDAR and Adjusted EBITDAR margin to measure the Company's operating performance on a consolidated basis, management uses Adjusted EBITDAR and Adjusted EBITDAR margin as important measures of the operating performance of its segments, including the evaluation of operating personnel.

Adjusted EBITDAR should not be construed as an alternative to net income, as an indicator of the Company's operating performance, as an alternative to cash flows from operating activities, as a measure of liquidity, or as any other measure of performance determined in accordance with GAAP. The Company has significant uses of cash flows, including capital expenditures, interest payments, lease payments under our Master Leases and the Meadows Lease, taxes and debt principal repayments, which are not reflected in Adjusted EBITDAR. It should also be noted that other gaming companies that report Adjusted EBITDAR information may calculate Adjusted EBITDAR in a different manner than the Company; and therefore, comparability may be limited.

Adjusted EBITDA, after Lease Payments is a measure we believe provides useful information to investors because it is an indicator of the performance of ongoing business operations after incorporating the cash flow impact of the Lease Payments to our REIT landlords. In addition, Adjusted EBITDA, after Lease Payments is one of the metrics that our management team is measured against for incentive-based compensation purposes.

Reconciliation of Non-GAAP Financial Measures to GAAP

The following table includes a reconciliation of net income, which is determined in accordance with GAAP, to Adjusted EBITDAR and Adjusted EBITDA, after Lease Payments, which are non-GAAP financial measures.

| <i>(in millions)</i> | For the year ended December 31, | | |
|---|--|-----------------|-----------------|
| | 2018 | 2017 | 2016 |
| Net income | \$ 93.5 | \$ 473.4 | \$ 109.3 |
| Income tax expense (benefit) | (3.6) | (498.5) | 11.3 |
| Loss on early extinguishment of debt | 21.0 | 24.0 | — |
| Income from unconsolidated affiliates | (22.3) | (18.7) | (14.3) |
| Interest income | (1.0) | (3.6) | (24.2) |
| Interest expense | 539.4 | 466.8 | 459.2 |
| Other expense | 7.1 | 2.3 | 1.7 |
| Operating income | 634.1 | 445.7 | 543.0 |
| Rent expense associated with triple net operating lease ⁽¹⁾ | 3.8 | — | — |
| Charge for stock compensation ⁽¹⁾ | 12.0 | 7.8 | 6.9 |
| Cash-settled stock award variance ⁽¹⁾⁽²⁾ | (19.6) | 23.4 | (6.7) |
| Loss (gain) on disposal of assets ⁽¹⁾ | 3.2 | 0.2 | (2.5) |
| Contingent purchase price ⁽¹⁾⁽³⁾ | 0.5 | (6.8) | 1.3 |
| Pre-opening and acquisition costs ⁽¹⁾⁽⁴⁾ | 95.0 | 9.7 | — |
| Depreciation and amortization ⁽⁵⁾ | 269.0 | 267.1 | 271.2 |
| Provision for loan loss and unfunded loan commitments to the JIVDC, net of recoveries, and impairment losses ⁽⁵⁾ | 17.9 | 107.8 | — |
| Insurance recoveries, net of deductible charges ⁽¹⁾ | (0.1) | (0.3) | (0.7) |
| Income from unconsolidated affiliates ⁽⁵⁾ | 22.3 | 18.7 | 14.3 |
| Non-operating items for Kansas JV ⁽⁶⁾ | 5.1 | 5.8 | 10.3 |
| Adjusted EBITDAR ⁽⁷⁾ | 1,043.2 | 879.1 | 837.1 |
| Less: Lease Payments ⁽⁸⁾ | (537.4) | (455.4) | (442.3) |
| Adjusted EBITDA, after Lease Payments ⁽⁷⁾ | \$ 505.8 | \$ 423.7 | \$ 394.8 |

- (1) These items are included in “General and administrative” within the Company’s Consolidated Statements of Operations. See discussion above for explanations of any significant variances in these items.
- (2) The favorable variance between our budgeted and actual expense recorded associated with our cash-settled stock awards for the year ended December 31, 2018, was the result of the Company’s price of its common stock being lower during 2018 than 2017. The unfavorable variance between our budgeted and actual expense recorded associated with our cash-settled stock awards for the year ended December 31, 2017, was the result of the Company’s price of its common stock being higher during 2017 than 2016.
- (3) The variances are principally caused by changes in the fair value of the contingent consideration associated with Plainridge Park Casino and Rocket Speed, which are largely driven by the properties’ actual and projected operating results.
- (4) The variances are principally the result of costs incurred by the Company relating to the Pinnacle Acquisition.
- (5) See discussion above for explanations of any significant variances in these items.
- (6) Consists principally of depreciation and amortization associated with the operations of Hollywood Casino at Kansas Speedway.
- (7) Adjusted EBITDAR and Adjusted EBITDA, after Lease Payments, increased for the year ended December 31, 2018, as compared to the prior year, principally due to the Pinnacle Acquisition, which contributed \$113.0 million and \$37.1 million, respectively.
- (8) Lease Payments increased for the year ended December 31, 2018, as compared to the prior year, principally due to the Pinnacle Master Lease and the Meadows Lease. For more detailed information related to our annual rent payments made to GLPI under our Master Leases, refer to the [“Liquidity and Capital Resources”](#) section below.

LIQUIDITY AND CAPITAL RESOURCES

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

| | For the year ended December 31, | | | \$ Change | | % Change | |
|---|---------------------------------|------------|------------|---------------|---------------|---------------|---------------|
| | 2018 | 2017 | 2016 | 2018 vs. 2017 | 2017 vs. 2016 | 2018 vs. 2017 | 2017 vs. 2016 |
| <i>(dollars in millions)</i> | | | | | | | |
| Net cash provided by operating activities | \$ 352.8 | \$ 477.8 | \$ 408.0 | \$ (125.0) | \$ 69.8 | (26.2)% | 17.1 % |
| Net cash used in investing activities | \$ (1,423.1) | \$ (221.6) | \$ (79.3) | \$ (1,201.5) | \$ (142.3) | 542.2 % | 179.4 % |
| Net cash provided by (used in) financing activities | \$ 1,272.1 | \$ (207.0) | \$ (339.9) | \$ 1,479.1 | \$ 132.9 | N/M | (39.1)% |

N/M - Not meaningful

Operating Cash Flow

The decrease in net cash provided by operating activities of \$125.0 million for the year ended December 31, 2018, compared to the prior year, was primarily due to an increase in cash paid to suppliers and vendors of \$346.6 million and an increase in cash paid to employees of \$68.4 million, driven primarily by the Pinnacle Acquisition. Additionally, the decrease in net cash provided by operating activities was impacted by an increase in interest payments made on the Master Lease financing obligations of \$66.1 million, associated largely with the Pinnacle Master Lease, and an increase in interest payments made on long-term debt of \$11.5 million, primarily due to the debt refinancing in October 2018, which increased our total long-term debt, and an increase in income tax paid of \$67.5 million. The decreases were partially offset by an increase in cash receipts from customers of \$440.0 million, driven primarily by the Pinnacle Acquisition.

The increase in net cash provided by operating activities of \$69.8 million for the year ended December 31, 2017, compared to the prior year, was primarily due to an increase in cash receipts from customers of \$109.2 million; the acquisitions of 1st Jackpot Casino Tunica and Resorts Casino Tunica on May 1, 2017, Rocket Speed on August 1, 2016, and four small acquisitions by Prairie State Gaming since the fourth quarter 2016; and an increase in income tax refunds of \$32.1 million, offset by an increase in cash paid to suppliers and vendors of \$37.6 million, primarily due to the acquisitions noted above, a reduction of \$23.0 million in interest income collections resulting from the refinancing of the Jamul loan in October 2016, cash payments for the early extinguishment of debt of \$18.0 million, and an increase in cash paid to employees of \$15.5 million.

Investing Cash Flow

The increase in net cash used in investing activities of \$1,201.5 million for the year ended December 31, 2018, compared to the prior year, was primarily due to the acquisition of Pinnacle of \$1,945.2 million, offset partially by the cash received for the sale of the Divested Properties of \$661.7 million. Additionally, the increase in net cash used in investing activities was impacted by the purchases of Category 4 gaming licenses in York and Berks County, Pennsylvania for \$57.6 million, and the purchase of real money iGaming and sports betting licenses in Pennsylvania for \$20.0 million.

The increase in net cash used in investing activities of \$142.3 million for the year ended December 31, 2017, compared to the prior year, was primarily due to the \$273.9 million received from the refinancing of loans to the JIVDC in the prior year, cash payments of \$42.5 million primarily related to the acquisition of 1st Jackpot Casino Tunica and Resorts Casino Tunica and decreased proceeds related to the sale of assets held for sale of \$17.2 million primarily from the sale of Rosecroft Raceway in

2016. The increases were partially offset by a \$183.3 million decrease in the loan to the JIVDC and \$8.2 million of principal and interest collections applied against the nonaccrual loan to the JIVDC.

Capital Expenditures

Capital expenditures are accounted for as either project capital or maintenance (replacement) capital expenditures. Project capital expenditures are for fixed asset additions that expand an existing facility or create a new facility. Maintenance capital 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 project capital expenditures by segment for the years ended December 31, 2018, 2017 and 2016:

| <i>(in millions)</i> | For the year ended December 31, | | |
|----------------------|---------------------------------|---------|---------|
| | 2018 | 2017 | 2016 |
| Northeast | \$ 0.1 | \$ 0.3 | \$ 5.3 |
| West | 2.5 | 24.8 | 13.4 |
| Other | 0.3 | — | — |
| Total | \$ 2.9 | \$ 25.1 | \$ 18.7 |

During the year ended December 31, 2017, we made enhancements to Tropicana Las Vegas, including adding a celebrity chef restaurant, the Robert Irvine Public House, which opened on July 27, 2017. During the year ended December 31, 2016, we reconfigured the gaming floor with updated slot machines, altered game placements and refined the table game mix at Tropicana Las Vegas. Additionally, in April 2016, we integrated the property into our Marquee Rewards player loyalty program, enabling our regional gaming customers to redeem their loyalty reward points at the facility.

During the years ended December 31, 2018, 2017 and 2016, we also spent \$89.7 million, \$74.2 million, and \$78.5 million, respectively, on maintenance capital expenditures, including slot machines and slot machine equipment. During the year ended December 31, 2018, maintenance capital expenditures increased year over year partially due to the Pinnacle Acquisition, which added twelve gaming properties.

Cash provided by operating activities as well as cash available under our Revolving Credit Facility funded our capital projects and maintenance capital expenditures for the years ended December 31, 2018, 2017 and 2016.

The following table summarizes our expected capital expenditures for the year ending December 31, 2019 by segment:

| <i>(in millions)</i> | Project | Maintenance |
|--------------------------|---------|-------------|
| Northeast ⁽¹⁾ | \$ 36.5 | \$ 57.4 |
| South | — | 35.2 |
| West | — | 29.3 |
| Midwest | — | 30.3 |
| Other | — | 36.2 |
| Total | \$ 36.5 | \$ 188.4 |

(1) Project capital expenditures includes \$15.0 million for Hollywood Casino York and \$21.5 million for Hollywood Casino Morgantown, which we currently expect to both be part of the Northeast segment.

The development of Hollywood Casino York, our first Category 4 satellite casino, which will be located in the York Galleria Mall in Springettsbury Township will represent an overall capital investment of approximately \$120 million inclusive of the gaming licenses. Hollywood Casino Morgantown, our second Category 4 satellite casino, will be built on a vacant 36-acre site in Caernarvon Township with a capital investment of approximately \$111 million inclusive of the gaming licenses. We anticipate that both of these development projects will be complete by the end of 2020.

Financing Cash Flow

Net cash provided by financing activities was \$1,272.1 million for the year ended December 31, 2018, and consisted of higher net proceeds from our long-term debt from the October 2018 debt refinancing, which increased by \$308.6 million when compared to the prior year period. Additionally, the repayments of our long-term debt decreased by \$1,003.4 million in the

current year. The net cash provided by financing activities for year ended December 31, 2018 also included \$250.0 million in cash received from the Plainridge Park Casino Sale-Leaseback. The increases in cash provided by financing activities for the year ended December 31, 2018, were offset partially by a \$9.6 million increase in principal payments on the financial obligations with GLPI, principally related to the assumption of the Pinnacle Master Lease, and a \$25.2 million increase in payments relating to the repurchase of common stock, as compared to the prior year.

Net cash used in financing activities was \$207.0 million for the year ended December 31, 2017, and when compared to the prior year period, consisted of higher net proceeds from our long-term debt from the January 2017 debt refinancing, which increased by \$1,290.0 million, offset by higher repayments of long-term debt, which increased by \$1,167.3 million. Additionally, we received \$82.6 million from GLPI to finance the acquisitions of 1st Jackpot Casino Tunica and Resorts Casino Tunica. These were partially offset by payments of \$24.8 million relating to the repurchase of common stock, the buy-out of the contingent purchase price with Rocket Speed for \$17.8 million, and the repayment of the corporate airplane loan for \$20.8 million.

Senior Secured Credit Facilities

As of December 31, 2018, the Company's Senior Secured Credit Facilities (as defined below) had a gross outstanding balance of \$1,948.4 million, consisting of a \$707.7 million Term Loan A Facility and a \$1,128.7 million Term Loan B-1 Facility (as such terms are defined below), and a Revolving Credit Facility, which had \$112.0 million drawn as of December 31, 2018.

Additionally, as of December 31, 2018 and 2017, the Company had conditional obligations under letters of credit issued pursuant to the Senior Secured Credit Facilities with face amounts aggregating \$30.0 million and \$22.1 million, respectively, resulting in \$558.0 million and \$677.9 million of available borrowing capacity under the Revolving Credit Facility, respectively.

On October 30, 2013, the Company entered into a credit agreement (the "2013 Credit Agreement") providing for: (i) a five-year \$500 million revolving credit facility (the "2013 Revolving Credit Facility"), (ii) a five-year \$500 million term loan A facility (the "2013 Term Loan A Facility") and (iii) a seven-year \$250 million term loan B facility (the "2013 Term Loan B Facility" and collectively with the 2013 Revolving Credit Facility and the 2013 Term Loan A Facility, the "2013 Senior Secured Credit Facilities"). The 2013 Term Loan A Facility was priced at LIBOR plus a spread (ranging from 1.25% to 2.75%) based on the Company's Consolidated Total Net Leverage Ratio (as defined in the 2013 Credit Agreement). The 2013 Term Loan B Facility was priced at LIBOR plus 2.50%, with a 0.75% LIBOR floor.

On April 28, 2015, the Company entered into an agreement to amend its 2013 Credit Agreement (the "Amended 2013 Credit Agreement"). In August 2015, the Amended 2013 Credit Agreement went into effect, which increased the capacity under the 2013 Revolving Credit Facility to \$633.2 million and increased the 2013 Term Loan A Facility to \$646.7 million. The Amended 2013 Credit Agreement did not impact the 2013 Term Loan B Facility.

On January 19, 2017, the Company entered into an agreement to amend and restate its Amended 2013 Credit Agreement (the "2017 Credit Agreement"), which provided for: (i) a five-year \$700 million revolving credit facility (the "Revolving Credit Facility"), a five-year \$300 million term loan A facility (the "Term Loan A Facility"), and a seven-year \$500 million Term Loan B facility (the "Term Loan B Facility" and collectively with the Revolving Credit Facility and the Term Loan A Facility, the "Senior Secured Credit Facilities").

On October 15, 2018, in connection with the Pinnacle Acquisition, the Company entered into an incremental joinder agreement (the "Incremental Joinder"), which amended the 2017 Credit Agreement (the "Amended 2017 Credit Agreement"). The Incremental Joinder provided for an additional \$430.2 million of incremental loans having the same terms as the existing Term Loan A Facility, with the exception of extending the maturity date, and an additional \$1,128.8 million of loans as a new tranche having new terms (the "Term Loan B-1 Facility"). The proceeds resulting from the Incremental Joinder were used; together with cash on hand and proceeds received from (i) newly-issued shares of the Company's common stock, (ii) the sale of the Divested Properties to Boyd, (iii) the Plainridge Park Casino Sale-Leaseback, and (iv) the sale of the real estate assets associated with Belterra Park to GLPI; to (a) acquire all of the issued and outstanding equity interests of Pinnacle, (b) repay in full Pinnacle's existing senior secured credit facilities at the time of the acquisition, (c) redeem, repurchase, defease or satisfy and discharge in full Pinnacle's outstanding 5.625% senior notes due 2024, (d) repay in full the Company's outstanding borrowings under its Term Loan B Facility at the time of the acquisition, and (e) pay fees, costs and expenses associated with the foregoing. With the exception of extending the maturity date, the Incremental Joinder did not impact the Revolving Credit Facility.

The final maturity dates for the Term Loan A Facility and Term Loan B-1 Facility are October 19, 2023 and October 15, 2025, respectively. The applicable margin for the Term Loan A Facility ranges from 1.25% to 3.00% per annum for LIBOR loans and 0.25% to 2.00% per annum for base rate loans, in each case depending on the Consolidated Total Net Leverage Ratio (as defined in the Amended 2017 Credit Agreement) as of the most recent fiscal quarter. The applicable margin for the Term Loan B-1 Facility is 2.25% per annum for LIBOR loans and 1.25% per annum for base rate loans. The Term Loan B-1 Facility is subject to a LIBOR “floor” of 0.75%. Prior to extinguishment, the applicable margin for the Term Loan B Facility was 2.50% per annum for LIBOR loans and 1.50% per annum for base rate loans. In addition, we pay a commitment fee on the unused portion of the commitments under the Revolving Credit Facility at a rate that ranges from 0.20% to 0.50% per annum, depending on the Consolidated Total Net Leverage Ratio as of the most recent fiscal quarter.

The payment and performance of obligations under the Senior Secured Credit Facilities are guaranteed by a lien on and security interest in substantially all of the assets (other than excluded property such as gaming licenses) of the Company and its subsidiaries.

5.625% Senior Unsecured Notes

On January 19, 2017, the Company completed an offering of \$400 million aggregate principal amount of 5.625% senior unsecured notes that mature on January 15, 2027 (the “5.625% Notes”) at a price of par. Interest on the 5.625% Notes is payable on January 15th and July 15th of each year. The 5.625% Notes are not guaranteed by any of the Company’s subsidiaries except in the event that the Company in the future issues certain subsidiary-guaranteed debt securities. The Company may redeem the 5.625% Notes at any time on or after January 15, 2022, at the declining redemption premiums set forth in the indenture governing the 5.625% Notes, and, prior to January 15, 2022, at a “make-whole” redemption premium set forth in the indenture governing the 5.625% Notes. In addition, prior to January 15, 2020, the Company may redeem the 5.625% Notes with an amount equal to the net proceeds from one or more equity offerings, at a redemption price equal to 105.625% of the principal amount of the 5.625% Notes redeemed, together with accrued and unpaid interest to, but not including, the redemption date, so long as at least 60% of the aggregate principal amount of the notes originally issued under the indenture remains outstanding and such redemption occurs within 180 days of closing of the related equity offering.

The Company used a portion of the proceeds from the issuance of the 5.625% Notes to retire all of its \$300 million aggregate principal amount of its 5.875% senior subordinated notes due 2021 and, along with loans funded under the 2017 Credit Agreement, repay amounts outstanding under its Amended 2013 Credit Agreement, including to fund related transaction fees and expenses. The remaining proceeds from the issuance of the 5.625% Notes were used for general corporate purposes.

Master Lease Financing Obligations

The majority of the gaming facilities used in the Company’s operations are subject to triple net master leases; the most significant of which are the Penn Master Lease and the Pinnacle Master Lease. The Company’s Master Leases are accounted for as financing obligations rather than as leases for accounting purposes. Under triple net master leases, in addition to lease payments for the real estate assets (i.e. land and buildings), the Company is required to pay the following, among other things: (1) all facility maintenance; (2) all insurance required in connection with the leased properties and the business conducted on the leased properties; (3) taxes levied on or with respect to the leased properties (other than taxes on the income of the lessor); and (4) all utilities and other services necessary or appropriate for the leased properties and the business conducted on the leased properties.

Penn Master Lease

Pursuant to a triple net master lease with GLPI (the “Penn Master Lease”), which became effective November 1, 2013, the Company leases real estate assets associated with 20 of the gaming facilities used in its operations. The Penn Master Lease has an initial term of 15 years with four subsequent, five-year renewal periods on the same terms and conditions, exercisable at the Company’s option.

The payment structure under the Penn Master Lease includes a fixed component, a portion of which is subject to an annual escalator of up to 2%, depending on the Adjusted Revenue to Rent Ratio (as defined in the Penn Master Lease) of 1.8:1, and a component that is based on the performance of the facilities, which is prospectively adjusted (i) every five years by an amount equal to 4% of the average change in net revenues of all facilities under the Penn Master Lease compared to a contractual baseline (other than Hollywood Casino Columbus and Hollywood Casino Toledo) during the preceding five years (“Penn Percentage Rent”) and (ii) monthly by an amount equal to 20% of the net revenues of Hollywood Casino Columbus and Hollywood Casino Toledo in excess of a contractual baseline.

In April 2014, we entered into an amendment to the Penn Master Lease in order to revise certain provisions relating to our Sioux City property. In accordance with that amendment, upon the cessation of gaming operations at Argosy Casino Sioux City on July 30, 2014, due to the termination of its gaming license, the annual payment to GLPI was reduced by \$6.2 million. In addition, with the openings of Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course in September 2014, our annual payment increased by \$19 million, which approximated 10% of the real estate construction costs paid for by GLPI related to these facilities.

In connection with the acquisitions of 1st Jackpot Casino Tunica and Resorts Casino Tunica in May 2017, the Company's Penn Master Lease financing obligation increased by \$82.6 million, which was the price paid by GLPI for the casinos' underlying real estate assets. As a result of the addition of these two properties to the Penn Master Lease, the annual rent payment increased by \$9.0 million.

The Company has incurred annual escalators under the Penn Master Lease, which resulted in increases to the Company's annual payment of \$5.4 million, \$2.4 million and \$4.5 million commencing on November 1, 2018, 2017 and 2016, respectively. Additionally, effective November 1, 2018, the Penn Percentage Rent reset resulted in an annual rent reduction of \$11.3 million, which will be in effect until the next Penn Percentage Rent reset, occurring on November 1, 2023.

Total lease payments under the Penn Master Lease were as follows:

| <i>(in thousands)</i> | For the year ended December 31, | | |
|---|--|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Reduction of financing obligation | \$ 60,061 | \$ 57,859 | \$ 50,548 |
| Interest expense attributable to financing obligation | 401,483 | 397,580 | 391,738 |
| Total lease payments under the Penn Master Lease | <u>\$ 461,544</u> | <u>\$ 455,439</u> | <u>\$ 442,286</u> |

Pinnacle Master Lease

In connection with the Pinnacle Acquisition, the Company assumed a triple net master lease with GLPI, originally effective April 28, 2016 ("Pinnacle Master Lease"). Concurrent with the closing of the Pinnacle Acquisition on October 15, 2018, the Company entered into an amendment to the Pinnacle Master Lease to, among other things, (i) remove Ameristar Casino Resort St. Charles, Ameristar Casino Hotel Kansas City and Belterra Casino Resort, which were sold to Boyd, and (ii) add Plainridge Park Casino, whose real estate assets were sold to GLPI and concurrently leased back to the Company for a fixed annual rent of \$25.0 million. Further, the rent payment under the Pinnacle Master Lease was increased by a fixed annual amount of \$13.9 million to adjust the rent to reflect current market conditions. Reflecting this amendment, the Company leases real estate assets associated with twelve of the gaming facilities used in the Company's operations from GLPI.

Upon assumption of the Pinnacle Master Lease, as amended, there were 7.5 years remaining of the initial 10-year term, with five subsequent, five-year renewal periods exercisable at the Company's option. The payment structure under the Pinnacle Master Lease includes a fixed component, which is subject to an annual escalator of up to 2%, depending on the Adjusted Revenue to Rent Ratio (as defined in the Pinnacle Master Lease) of 1.8:1, and a component that is based on the performance of the facilities, which is prospectively adjusted every two years by an amount equal to 4% of the average change in net revenues of all facilities under the Pinnacle Master Lease compared to a contractual baseline during the preceding two years ("Pinnacle Percentage Rent"). The next Pinnacle Percentage Rent reset will occur effective May 1, 2020.

Total lease payments under the Pinnacle Master Lease were as follows:

| <i>(in thousands)</i> | For the Year Ended December 31, 2018 |
|---|---|
| Reduction of financing obligation | \$ 7,351 |
| Interest expense attributable to financing obligation | 62,993 |
| Total lease payments under the Pinnacle Master Lease ⁽¹⁾ | <u>\$ 70,344</u> |

(1) Includes \$13.6 million pertaining to the period from October 15, 2018 through October 31, 2018, which was prepaid by Pinnacle.

Other Long-Term Obligations

Ohio Relocation Fees

As of December 31, 2018 and 2017, other long-term obligations included \$91.3 million and \$105.4 million, respectively, related to the relocation fees for Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course.

In June 2013, the Company finalized the terms of its memorandum of understanding with the State of Ohio, which included an agreement by the Company to pay a relocation fee in return for being able to relocate its existing racetracks in Toledo and Grove City to Dayton and Mahoning Valley, respectively. Upon opening of these two racinos in Ohio in the third quarter 2014, the relocation fee for each new racino was recorded at the present value of the contractual obligation, which was calculated to be \$75.0 million based on the 5.0% discount rate included in the agreement. The relocation fee for each facility is payable as follows: \$7.5 million upon the opening of the facility and eighteen semi-annual payments of \$4.8 million beginning one year from the commencement of operations.

Event Center

As of December 31, 2018 and 2017, other long-term obligations included \$13.2 million and \$13.8 million, respectively, related to the repayment obligation of a hotel and event center located near Hollywood Casino Lawrenceburg.

The City of Lawrenceburg Department of Redevelopment completed construction of a hotel and event center located less than a mile away from Hollywood Casino Lawrenceburg. Effective in January 2015, by contractual agreement, a repayment obligation for the hotel and event center was assumed by a wholly-owned subsidiary of the Company in the amount of \$15.3 million, which was financed through a loan with the City of Lawrenceburg Department of Redevelopment, in exchange for conveyance of the property. The Company is obligated to make annual payments on the loan of \$1.0 million for 20 years beginning January 2016.

Corporate Airplane Loan

On September 30, 2016, the Company acquired a previously-leased corporate airplane that was accounted for as a capital lease, which was financed through an amortizing loan at a fixed interest rate of 5.22% for a term of five years with monthly payments of \$0.2 million and a balloon payment of \$12.6 million at the end of the loan term. We repaid the loan in full on January 19, 2017.

Share Repurchase Programs

On February 3, 2017, the Company announced a share repurchase program pursuant to which the Board of Directors authorized to repurchase up to \$100 million of the Company's common stock, which expired on February 1, 2019. During the years ended December 31, 2018 and 2017, the Company repurchased 2,299,498 and 1,264,149 shares, respectively, of its common stock in open market transactions for \$50.0 million at an average price of \$21.74 per share and \$24.8 million at an average price of \$19.59 per share, respectively.

On January 9, 2019, the Company announced a new share repurchase program pursuant to which the Board of Directors authorized to repurchase up to \$200 million of the Company's common stock. The new share repurchase program covers an authorization period of two years, expiring on December 31, 2020.

Covenants

The Company's Senior Secured Credit Facilities and 5.625% Notes require us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including the Maximum Consolidated Total Net Leverage Ratio, Maximum Consolidated Senior Secured Net Leverage Ratio and Minimum Interest Coverage Ratio (as such terms are defined in our Amended 2017 Credit Agreement) as well as the Fixed Charge Coverage Ratio (as defined in the indenture governing our 5.625% Notes. In addition, the Company's Senior Secured Credit Facilities and 5.625% Notes restrict, among other things, its ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, engage in mergers or consolidations, and otherwise restrict corporate activities. As of December 31, 2018, the Company was in compliance with all required financial covenants.

Outlook

Based on our current level of operations, we believe that cash generated from operations and cash on hand, together with amounts available under our Senior Secured Credit Facilities, will be adequate to meet our anticipated obligations under our Master Leases, debt service requirements, capital expenditures and working capital needs for the foreseeable future. However, we cannot be certain that our business will generate sufficient cash flow from operations, that the U.S. economy will continue to grow in 2019, that our anticipated earnings projections will be realized, that we will achieve the synergies in connection with the Pinnacle Acquisition, or that future borrowings will be available under our Senior Secured Credit Facilities or otherwise will be available in the credit markets to enable us to service our indebtedness 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. 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 risks related to our capital structure.

We have historically maintained a capital structure comprising a mix of equity and debt financing. We vary our leverage to pursue opportunities in the marketplace and in an effort to maximize our enterprise value for our shareholders. We expect to meet our debt obligations as they come due through internally generated funds from operations and/or refinancing them through the debt or equity markets prior to their maturity.

CONTRACTUAL OBLIGATIONS AND OTHER COMMITMENTS

Contractual Cash Obligations

As of December 31, 2018, there was approximately \$558.0 million available for borrowing under our Revolving Credit Facilities. The following table presents our contractual cash obligations at December 31, 2018:

| <i>(in millions)</i> | Total | Payments Due By Period | | | |
|--|--------------------|------------------------|-------------------|-------------------|--------------------|
| | | 2019 | 2020-2021 | 2022-2023 | 2024 and After |
| Senior Secured Credit Facilities | | | | | |
| Principal | \$ 1,948.4 | \$ 46.7 | \$ 111.0 | \$ 718.4 | \$ 1,072.3 |
| Interest ⁽¹⁾ | 516.2 | 94.9 | 174.0 | 154.5 | 92.8 |
| 5.625% Notes | | | | | |
| Principal | 400.0 | — | — | — | 400.0 |
| Interest | 189.1 | 22.2 | 44.5 | 44.5 | 77.9 |
| Purchase obligations | 97.2 | 64.9 | 26.7 | 5.6 | — |
| Capital expenditure commitments ⁽²⁾ | 9.4 | 9.4 | — | — | — |
| Capital leases | 0.4 | — | 0.3 | 0.1 | — |
| Financing obligations ⁽³⁾ | 20,024.4 | 676.6 | 1,300.3 | 1,289.7 | 16,757.8 |
| Operating leases | 446.0 | 43.9 | 71.0 | 58.6 | 272.5 |
| Ohio Payments ⁽⁴⁾ | 155.7 | 33.2 | 62.4 | 50.5 | 9.6 |
| Other liabilities reflected within the Company’s Consolidated Balance Sheets ⁽⁵⁾ | | | | | |
| | 51.2 | 40.9 | 1.7 | 0.6 | 8.0 |
| Total | \$ 23,838.0 | \$ 1,032.7 | \$ 1,791.9 | \$ 2,322.5 | \$ 18,690.9 |

- (1) The interest rates associated with the variable rate components of our Senior Secured Credit Facilities are estimated, based on the forward LIBOR curves plus the current spread based on our current levels of indebtedness over LIBOR as of December 31, 2018. The contractual amounts to be paid on our variable rate obligations are affected by changes in market interest rates and changes in our spreads which are based on our leverage ratios. Future changes in such ratios will impact the contractual amounts to be paid.
- (2) The Company anticipates spending \$224.9 million for future capital expenditures over the next year, of which the Company has been contractually committed to spend \$9.4 million as of December 31, 2018.
- (3) Reflects the undiscounted future minimum lease payments to GLPI over the terms of the Master Leases, including renewal options. The amounts above exclude contingent payments. See [Note 10, “Master Lease Financing Obligations and Lease Obligations”](#) in the notes to our Consolidated Financial Statements for further discussion.
- (4) The Company agreed to pay \$110 million (of which \$48.0 million remains to be paid) to the State of Ohio over ten years in return for certain clarifications from the State of Ohio with respect to various financial matters and limits on competition within the ten-year time period. This amount

also includes the remaining portion of the relocation fees to be paid associated with our two facilities in Dayton and Mahoning Valley, Ohio. See [Note 9, "Long-term Debt"](#) in the notes to our Consolidated Financial Statements for more information.

- (5) Represents liabilities associated with reward programs that can be redeemed for cash, free play or services and other long-term obligations. Does not include any liability for unrecognized tax benefits of \$30.4 million, as the Company cannot make a reasonably reliable estimate of the period of cash settlement with the respective taxing authority. Additionally, it does not include an estimate of the payments associated with our contingent purchase price obligations of \$19.0 million as it is not a fixed obligation.

Other Commercial Commitments

The following table presents our material commercial commitments as of December 31, 2018 for the following future periods:

| <i>(in millions)</i> | Total | Payments Due By Period | | | |
|----------------------------------|---------|------------------------|-----------|-----------|----------------|
| | | 2019 | 2020-2021 | 2022-2023 | 2024 and After |
| Letters of credit ⁽¹⁾ | \$ 30.0 | \$ 30.0 | \$ — | \$ — | \$ — |
| Total | \$ 30.0 | \$ 30.0 | \$ — | \$ — | \$ — |

- (1) The available balance under our Revolving Credit Facilities is reduced by outstanding letters of credit.

CRITICAL ACCOUNTING ESTIMATES

The Consolidated Financial Statements were prepared in accordance with GAAP. 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 accounting for long-lived assets, goodwill and other intangible assets, income taxes, loans to the JIVDC, and the application of business combination accounting as critical accounting estimates, as they are the most important to our financial statement presentation and require difficult, subjective and/or complex judgments.

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 consolidated financial condition.

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

Long-lived assets

As of December 31, 2018, the Company had a net property and equipment balance of \$6,868.8 million within its Consolidated Balance Sheet, representing 62.7% 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 amount of our property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying amount 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. For purposes of recognizing and measuring impairment in accordance with ASC 360, "Property, Plant, and Equipment," assets are grouped at the individual property level representing the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. In assessing the recoverability of the carrying amount 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.

Goodwill and other intangible assets

As of December 31, 2018, the Company had \$1,228.4 million in goodwill and \$1,856.9 million in other intangible assets within its Consolidated Balance Sheet, representing 11.2% and 16.9% of total assets, respectively, resulting from the Company's acquisition of businesses and payments for gaming licenses. These assets require significant management estimates and judgment pertaining to: (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 price. 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 represents the future economic benefits of a business combination measured as the excess purchase price over the fair market value of net assets acquired. Goodwill is tested annually, or more frequently if indicators of impairment exist. An income approach, in which a discounted cash flow model is utilized and a market-based approach utilizing guideline public company ("GPC") multiples of adjusted EBITDA from the Company's peer group is utilized to estimate the fair market value of the Company's reporting units.

For the quantitative goodwill impairment test, the current fair value of each reporting unit is estimated using the combination of a discounted cash flow model and a GPC multiples approach which is then compared to the carrying amount of each reporting unit. The Company adjusts the carrying amount of each reporting unit that utilizes property that is subject to the Master Lease by an allocation of a pro-rata portion of the GLPI financing obligation based on the reporting unit's estimated fair value as a percentage of the aggregate estimated fair value of all reporting units that utilize property that is subject to the Master Lease.

The Company compares the aggregate weighted average fair value to the carrying amount of its reporting units. If the carrying amount of the reporting unit exceeds the aggregate weighted average fair value, an impairment is recorded equal to the amount of the excess not to exceed the amount of goodwill allocated to the reporting unit.

In accordance with ASC 350, "Intangibles Goodwill and Other," the Company considers its gaming licenses and certain other intangible assets as indefinite-lived intangible assets that do not require amortization based on the Company's future expectations to operate its gaming facilities indefinitely (notwithstanding our experience in 2014 in Iowa which the Company concluded was an isolated incident and the first time in the Company's history a gaming regulator has taken an action which could cause it to lose its gaming license) as well as its historical experience in renewing these intangible assets at minimal cost with various state commissions. Rather, these intangible assets are tested annually for impairment, or more frequently if indicators of impairment exist, by comparing the fair value of the recorded assets to their carrying amount. If the carrying amounts of the indefinite life intangible assets exceed their fair value, an impairment loss is recognized. The Company completes its testing of its intangible assets prior to assessing the realizability of its goodwill.

The Company assessed the fair value of its indefinite-lived intangible assets (which are primarily gaming licenses) using the Greenfield Method under the income approach. The Greenfield Method estimates the fair value of the gaming license using a discounted cash flow model assuming the Company built a casino with similar utility to that of the existing facility. The method assumes a theoretical start-up company going into business without any assets other than the intangible asset being valued. As such, the value of the gaming license is a function of the following items:

- Projected revenues and operating cash flows (including an allocation of the Company's projected financing payments to its reporting units consistent with how the GLPI financing obligation is allocated);
- Theoretical construction costs and duration;
- Pre-opening expenses; and
- Discounting that reflects the level of risk associated with receiving future cash flows attributable to the license.

The evaluation of goodwill and indefinite-lived intangible assets requires the use of estimates about future operating results of each reporting unit to determine the estimated fair value of the reporting unit and the indefinite lived intangible assets. The Company must make various assumptions and estimates in performing its impairment testing. The implied fair value includes estimates of future cash flows (including an allocation of the Company's projected financing obligation to its reporting units) that are based on reasonable and supportable assumptions which represent the Company's best estimates of the cash flows expected to result from the use of the assets including their eventual disposition. Changes in estimates, increases in the Company's cost of capital, reductions in transaction multiples, changes in operating and capital expenditure assumptions or application of alternative assumptions and definitions could produce significantly different results. Future cash flow estimates are, by their nature, subjective and actual results may differ materially from the Company's estimates. If the Company's ongoing estimates of future cash flows are not met, the Company may have to record additional impairment charges in future accounting periods. The Company's estimates of cash flows are based on the current regulatory and economic climates, recent operating information and budgets of the various properties where it conducts operations. These estimates could be negatively impacted by changes in federal, state or local regulations, economic downturns, or other events affecting the Company's properties.

Forecasted cash flows (based on the Company's annual operating plan as determined in the fourth quarter) can be significantly impacted by the local economy in which its reporting units operate. For example, increases in unemployment rates can result in decreased customer visitations and/or lower customer spend per visit. In addition, the impact of new legislation which approves gaming in nearby jurisdictions or further expands gaming in jurisdictions where the Company's reporting units currently operate can result in opportunities for the Company to expand its operations. However, it also has the impact of increasing competition for the Company's established properties which generally will have a negative effect on those locations' profitability once competitors become established as a certain level of cannibalization occurs absent an overall increase in customer visitations. Additionally, increases in gaming taxes approved by state regulatory bodies can negatively impact forecasted cash flows.

Assumptions and estimates about future cash flow levels and multiples by individual reporting units are complex and subjective. They are sensitive to changes in underlying assumptions and can be affected by a variety of factors, including external factors, such as industry, geopolitical and economic trends, and internal factors, such as changes in the Company's business strategy, which may reallocate capital and resources to different or new opportunities which management believes will enhance its overall value but may be to the detriment of an individual reporting unit.

Consistent with prior years, the Company's annual goodwill and other indefinite-lived intangible assets impairment test is performed on October 1st of each year and we believe at this time all of our reporting units with goodwill and other intangible assets are at risk to have impairment charges in future periods regardless of the margin by which the current fair value of our reporting units exceed their carrying amount and that such margin cannot and should not be relied upon to predict which properties are most at risk for future impairment charges. This is because the revenue and earnings streams in our industry can vary significantly based on various circumstances, which in many cases are outside of the Company's control, and as such are extremely difficult to predict and quantify. We have disclosed several of these circumstances in the "Risk Factors" section of this Annual Report on Form 10-K. For instance, changes in legislation that approves gaming in nearby jurisdictions, further expansion of gaming in jurisdictions where we currently operate, new state legislation that requires the implementation of smoking restrictions at our casinos or any other events outside of our control that make the customer experience less desirable.

Once an impairment of goodwill or other intangible asset has been recorded, it cannot be reversed. Because the Company's goodwill and other indefinite-lived intangible assets are not amortized, there may be volatility in reported net income because impairment losses, if any, are likely to occur irregularly and in varying amounts. Intangible assets that have a definite life are amortized on a straight-line basis over their estimated useful lives or related service contract. The Company reviews the carrying amount of its amortizing intangible assets for possible impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the carrying amount of the amortizing intangible assets exceed their fair value, an impairment loss is recognized.

The Company's remaining goodwill by reporting unit as of December 31, 2018 was as follows (in thousands):

| Reporting Unit | Goodwill |
|---|---------------------|
| Hollywood Casino St. Louis | \$ 211,883 |
| Hollywood Casino Aurora | 210,007 |
| Argosy Casino Riverside | 161,232 |
| Zia Park Casino | 144,459 |
| Hollywood Casino Lawrenceburg | 68,189 |
| Penn Interactive Ventures | 67,797 |
| Hollywood Casino Tunica | 48,142 |
| 1 st Jackpot and Resorts | 36,529 |
| Prairie State Gaming | 34,185 |
| Ameristar Black Hawk | 33,731 |
| Ameristar Council Bluffs | 31,400 |
| Boomtown Biloxi | 24,565 |
| Hollywood Gaming at Dayton Raceway | 18,239 |
| Ameristar Vicksburg | 16,900 |
| L'Auberge Lake Charles | 13,000 |
| Argosy Casino Alton | 11,863 |
| River City Casino | 9,600 |
| Cactus Petes and Horseshu | 8,900 |
| Ameristar East Chicago | 8,800 |
| Hollywood Casino at Charles Town Races | 8,654 |
| Meadows Racetrack and Casino | 7,400 |
| M Resort | 6,700 |
| Plainridge Park Casino | 6,252 |
| Hollywood Casino Columbus | 6,200 |
| Hollywood Casino at Penn National Race Course | 6,097 |
| Hollywood Casino Toledo | 5,800 |
| Hollywood Casino Joliet | 4,600 |
| Boomtown New Orleans | 4,400 |
| L'Auberge Baton Rouge | 3,100 |
| Hollywood Casino Bangor | 3,000 |
| Hollywood Casino Gulf Coast | 2,700 |
| Hollywood Gaming at Mahoning Valley Race Course | 2,200 |
| Boomtown Bossier City | 1,300 |
| Sanford-Orlando Kennel Club | 598 |
| Total | \$ 1,228,422 |

Income taxes

We account for income taxes in accordance with ASC Topic 740, "Income Taxes" ("ASC 740"). Under ASC 740, 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. ASC 740 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 net deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary. We consider all available positive and negative evidence including projected future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. The evaluation of both positive and negative evidence is a requirement pursuant to ASC 740 in determining more-likely-than-not the net deferred tax assets will be realized. In the event the Company determines that the deferred income tax assets would be realized in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be recorded, which would reduce the provision for income taxes.

On November 1, 2013, as a result of the failed spin-off leaseback, the Company recorded a financing obligation of \$3.5 billion pertaining to the leased real estate assets, which had a carrying amount of \$2.0 billion, resulting in a substantial increase to our net deferred tax assets of \$599.9 million. ASC 740 suggests that additional scrutiny should be given to deferred tax assets of an entity with cumulative pre-tax losses during the most recent three years. Positive evidence of sufficient quantity and

quality is required to overcome such significant negative evidence to conclude that a valuation allowance is not warranted. During the third quarter 2017, the Company determined that a valuation allowance was no longer required against its federal net deferred tax assets for the portion that was expected to be realized due to the positive evidence outweighing the negative evidence (thereby, allowing the Company to achieve the “more-likely-than-not” realization standard). As such, the Company released \$741.9 million of its total valuation allowance during the year ended December 31, 2017.

Application of Business Combination Accounting

We allocate the business combination purchase price to tangible and identifiable intangible assets acquired and liabilities assumed based on their fair values. The excess of the purchase price over those fair values is recorded as goodwill.

Accounting for business combinations required our management to make significant estimates and assumptions, including our estimate of intangible assets, such as gaming licenses, trade names and loyalty programs. Although we believe the assumptions and estimates made have been reasonable and appropriate, they are inherently uncertain. For our gaming license valuation, our properties estimated future cash flows were the primary assumption in the respective intangible valuations. Cash flow estimates included assumptions regarding factors such as recent and budgeted operating performance, net win per unit (revenue), patron visits and growth percentages. The growth percentages were developed considering general macroeconomic conditions as well as competitive impacts from current and anticipated competition through a review of customer market data, operating margins, and current regulatory, social and economic climates. The most significant of the assumptions used in the valuations included: (1) revenue growth/decline percentages; (2) discount rates; (3) effective income tax rates; (4) future terminal values; and (5) capital expenditure assumptions. These assumptions were developed for each acquired property based on historical trends in the current competitive markets in which they operate, and projections of future performance and competition. The primary assumptions with respect to our tradenames and customer relationships were selecting the appropriate royalty rates and cost estimates for replacement cost analyses.

In addition, uncertain tax positions and tax related valuation allowances assumed in connection with a business combination are initially estimated as of the business combination date. We re-evaluate these items quarterly based upon facts and circumstances that existed as of the business combination date with any measurement period adjustments being recognized in the reporting period in which the adjustment amount is determined and offset against goodwill. Subsequent to the measurement period or our final determination of the tax allowance’s or contingency’s estimated value, whichever comes first, changes to these uncertain tax positions and tax related valuation allowances will affect our provision for income taxes within our Consolidated Statements of Operations and could have material impact on our results of operations and financial position.

Loan and unfunded loan commitments to the JIVDC

During the year ended December 31, 2017, we recorded a provision for loan loss and reserves for unfunded loan commitments to the JIVDC of \$89.8 million within our Consolidated Statements of Operations. Our loan was impaired and as such the value was estimated based on the present value of expected future cash flows of the facility discounted at the loan’s original effective interest rate in accordance with ASC 310, “Receivables.” The estimate used subjective assumptions such as, but not limited to, projected future earnings of the facility and potential proceeds, which could have been realized upon termination of our relationship with the Jamul Tribe. As of December 31, 2017, our loan to the JIVDC had a carrying amount of \$20.9 million and an estimated fair value of \$16.5 million.

On May 25, 2018, the Company entered into a purchase agreement (the “Purchase Agreement”) with the senior lender under the credit facility for the gaming facility to sell them all of the Company’s outstanding rights and obligations under the term loan C and the JIVDC commitments. Pursuant to the Purchase Agreement and related agreements, the Company received cash proceeds of \$15.2 million from the sale and was relieved of all rights and obligations with respect to the JIVDC. The sale of the loan resulted in a recovery of loan losses and unfunded loan commitments of \$17.0 million for the year ended December 31, 2018.

RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

For information with respect to new accounting pronouncements and the impact of these pronouncements on our Consolidated Financial Statements, see [Note 4, “New Accounting Pronouncements,”](#) in the notes to our Consolidated Financial Statements.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The table below provides information as of December 31, 2018 about our long-term debt obligations that are sensitive to changes in interest rates. The table presents the notional amounts maturing during the year and the related weighted-average interest rates by maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged by maturity date and the weighted-average interest rates are based on the implied forward LIBOR as of December 31, 2018.

| <i>(dollars in thousands)</i> | 2019 | 2020 | 2021 | 2022 | 2023 | Thereafter | Total | Fair Value |
|--------------------------------------|-----------|-----------|-----------|-----------|------------|--------------|--------------|--------------|
| Fixed rate | \$ — | \$ — | \$ — | \$ — | \$ — | \$ 400,000 | \$ 400,000 | \$ 360,000 |
| Average interest rate | | | | | | 5.625% | | |
| Variable rate | \$ 46,671 | \$ 46,671 | \$ 64,363 | \$ 82,055 | \$ 636,351 | \$ 1,072,313 | \$ 1,948,424 | \$ 1,886,333 |
| Average interest rate ⁽¹⁾ | 4.85% | 4.6% | 4.61% | 4.62% | 4.64% | 4.92% | | |

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the shareholders and the Board of Directors of
Penn National Gaming, Inc. and Subsidiaries

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries (the “Company”) as of December 31, 2018 and 2017, the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity (deficit), and cash flows for each of the two years ended December 31, 2018, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the two years in the period ended December 31, 2018, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2019 expressed an unqualified opinion on the Company’s internal control over financial reporting.

Change in Accounting Principle

As discussed in Note 4 to the consolidated financial statements, effective January 1, 2018, the Company adopted FASB Accounting Standards Update 2014-09, *Revenue From Contracts With Customers*, using the modified retrospective approach.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
February 28, 2019

We have served as the Company’s auditor since 2017.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors of and Shareholders of
Penn National Gaming, Inc. and Subsidiaries

We have audited the accompanying consolidated statements of operations, comprehensive income, changes in stockholders' deficit and cash flows for the year ended December 31, 2016. 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 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 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated results of operations and cash flows of Penn National Gaming, Inc. and Subsidiaries for the year ended December 31, 2016, in conformity with U.S. generally accepted accounting principles.

We also have 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, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 24, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania

February 24, 2017, except for the classification adjustments to the Consolidated Statements of Cash Flows related to the adoption of Accounting Standards Update 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, described in Note 4, as to which the date is March 1, 2018, the classification adjustments to the Consolidated Statements of Cash Flows related to the adoption of Accounting Standards Update No. 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash, described in Note 4, as to which the date is February 28, 2019 and the classification adjustments to reportable segment information included in the Notes to the Consolidated Financial Statements, described in Note 15, as to which the date is February 28, 2019.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

| <i>(in thousands, except share and per share data)</i> | December 31, | |
|---|---------------|--------------|
| | 2018 | 2017 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 479,598 | \$ 277,953 |
| Receivables, net of allowance for doubtful accounts of \$3,161 and \$2,983 | 106,837 | 62,805 |
| Prepaid expenses | 62,971 | 43,780 |
| Other current assets | 28,252 | 16,494 |
| Total current assets | 677,658 | 401,032 |
| Property and equipment, net | 6,868,768 | 2,756,669 |
| Other assets | | |
| Investment in and advances to unconsolidated affiliates | 128,488 | 148,912 |
| Goodwill | 1,228,422 | 1,008,097 |
| Other intangible assets, net | 1,856,868 | 422,606 |
| Deferred income taxes | 80,612 | 390,943 |
| Loan to the JIVDC, net of allowance for loan losses of \$0 and \$64,052 | — | 20,900 |
| Other assets | 120,196 | 85,653 |
| Total other assets | 3,414,586 | 2,077,111 |
| Total assets | \$ 10,961,012 | \$ 5,234,812 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable | \$ 30,551 | \$ 26,048 |
| Accrued expenses | 204,656 | 125,688 |
| Accrued interest | 15,793 | 13,528 |
| Accrued salaries and wages | 139,159 | 111,252 |
| Gaming, pari-mutuel, property, and other taxes | 105,767 | 69,645 |
| Current maturities of long-term debt | 62,140 | 35,612 |
| Current portion of financing obligations | 67,777 | 56,248 |
| Other current liabilities | 112,593 | 91,988 |
| Total current liabilities | 738,436 | 530,009 |
| Long-term debt, net of current maturities and debt issuance costs | 2,350,088 | 1,214,625 |
| Long-term financing obligations, net of current portion | 7,080,638 | 3,482,573 |
| Noncurrent tax liabilities | 32,360 | 34,099 |
| Other noncurrent liabilities | 28,269 | 46,652 |
| Total liabilities | 10,229,791 | 5,307,958 |
| Commitments and contingencies (Note 11) | | |
| Stockholders' equity (deficit) | | |
| Series B Preferred stock (\$0.01 par value, 1,000,000 shares authorized, no shares issued and outstanding) | — | — |
| Series C Preferred stock (\$0.01 par value, 18,500 shares authorized, no shares issued and outstanding) | — | — |
| Common stock (\$0.01 par value, 200,000,000 shares authorized, 118,855,201 and 93,392,635 shares issued, and 116,687,808 and 91,225,242 shares outstanding) | 1,188 | 933 |
| Treasury stock, at cost, (2,167,393 shares held in both periods) | (28,414) | (28,414) |
| Additional paid-in capital | 1,726,401 | 1,007,606 |
| Accumulated deficit | (967,949) | (1,051,818) |
| Accumulated other comprehensive loss | — | (1,453) |
| Total Penn National Gaming, Inc. stockholders' equity (deficit) | 731,226 | (73,146) |
| Non-controlling interest | (5) | — |
| Total stockholders' equity (deficit) | 731,221 | (73,146) |
| Total liabilities and stockholders' equity (deficit) | \$ 10,961,012 | \$ 5,234,812 |

See accompanying notes to the Consolidated Financial Statements.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS

For the year ended December 31,

| <i>(in thousands, except per share data)</i> | 2018 | 2017 | 2016 |
|--|------------------|-------------------|-------------------|
| Revenues | | | |
| Gaming | \$ 2,894,861 | \$ 2,692,021 | \$ 2,606,262 |
| Food, beverage, hotel and other | 629,733 | 601,731 | 575,434 |
| Management service and license fees | 6,043 | 11,654 | 11,348 |
| Reimbursable management costs | 57,281 | 26,060 | 15,997 |
| | 3,587,918 | 3,331,466 | 3,209,041 |
| Less: Promotional allowance | — | (183,496) | (174,661) |
| Revenues | 3,587,918 | 3,147,970 | 3,034,380 |
| Operating expenses | | | |
| Gaming | 1,551,430 | 1,364,989 | 1,334,980 |
| Food, beverage, hotel and other | 439,253 | 421,848 | 406,871 |
| General and administrative | 618,951 | 514,487 | 462,302 |
| Reimbursable management costs | 57,281 | 26,060 | 15,997 |
| Depreciation and amortization | 268,990 | 267,062 | 271,214 |
| Provision for loan loss and unfunded loan commitments to the JIVDC, net of recoveries, and impairment losses | 17,921 | 107,810 | — |
| Total operating expenses | 2,953,826 | 2,702,256 | 2,491,364 |
| Operating income | 634,092 | 445,714 | 543,016 |
| Other income (expenses) | | | |
| Interest expense | (539,417) | (466,761) | (459,243) |
| Interest income | 1,005 | 3,552 | 24,186 |
| Income from unconsolidated affiliates | 22,326 | 18,671 | 14,337 |
| Loss on early extinguishment of debt | (20,964) | (23,963) | — |
| Other | (7,121) | (2,257) | (1,679) |
| Total other expenses | (544,171) | (470,758) | (422,399) |
| Income (loss) before income taxes | 89,921 | (25,044) | 120,617 |
| Income tax benefit (expense) | 3,593 | 498,507 | (11,307) |
| Net income | 93,514 | 473,463 | 109,310 |
| Less: Net loss attributable to non-controlling interest | 5 | — | — |
| Net income attributable to Penn National Gaming, Inc. | <u>\$ 93,519</u> | <u>\$ 473,463</u> | <u>\$ 109,310</u> |
| Earnings per common share | | | |
| Basic earnings per common share | \$ 0.96 | \$ 5.21 | \$ 1.21 |
| Diluted earnings per common share | \$ 0.93 | \$ 5.07 | \$ 1.19 |
| Weighted average basic shares outstanding | 97,105 | 90,854 | 82,929 |
| Weighted average diluted shares outstanding | 100,338 | 93,378 | 91,407 |

See accompanying notes to the Consolidated Financial Statements.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

| <i>(in thousands)</i> | For the year ended December 31, | | |
|--|--|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Net income | \$ 93,514 | \$ 473,463 | \$ 109,310 |
| Other comprehensive income (loss), net of tax: | | | |
| Foreign currency translation adjustment during the period | — | 3,223 | (122) |
| Other comprehensive income (loss) | — | 3,223 | (122) |
| Total comprehensive income | 93,514 | 476,686 | 109,188 |
| Less: Comprehensive loss attributable to non-controlling interest | 5 | — | — |
| Comprehensive income attributable to Penn National Gaming, Inc. | \$ 93,519 | \$ 476,686 | \$ 109,188 |

See accompanying notes to the Consolidated Financial Statements.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIT)

| <i>(in thousands)</i> | Preferred Stock | | Common Stock | | Treasury Stock | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive Loss | Total Penn Stockholders' Equity (Deficit) | Non-Controlling Interest | Total Stockholders' Equity (Deficit) |
|--|-----------------|--------|--------------|----------|----------------|----------------------------|---------------------|--------------------------------------|---|--------------------------|--------------------------------------|
| | Shares | Amount | Shares | Amount | | | | | | | |
| Balance as of January 1, 2016 | 8,624 | \$ — | 80,889,275 | \$ 830 | \$ (28,414) | \$ 988,686 | \$ (1,634,591) | \$ (4,554) | \$ (678,043) | \$ — | \$ (678,043) |
| Share-based compensation arrangements, net of tax benefits of \$6,896 | — | — | 1,609,033 | 16 | — | 25,519 | — | — | 25,535 | — | 25,535 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | (122) | (122) | — | (122) |
| Conversion of Series C Preferred Stock | (8,624) | — | 8,624,000 | 86 | — | (86) | — | — | — | — | — |
| Net income | — | — | — | — | — | — | 109,310 | — | 109,310 | — | 109,310 |
| Balance as of December 31, 2016 | — | — | 91,122,308 | 932 | (28,414) | 1,014,119 | (1,525,281) | (4,676) | (543,320) | — | (543,320) |
| Share-based compensation arrangements | — | — | 1,367,083 | 14 | — | 18,270 | — | — | 18,284 | — | 18,284 |
| Foreign currency translation adjustment | — | — | — | — | — | — | — | 3,223 | 3,223 | — | 3,223 |
| Share repurchases | — | — | (1,264,149) | (13) | — | (24,783) | — | — | (24,796) | — | (24,796) |
| Net income | — | — | — | — | — | — | 473,463 | — | 473,463 | — | 473,463 |
| Balance as of December 31, 2017 | — | — | 91,225,242 | 933 | (28,414) | 1,007,606 | (1,051,818) | (1,453) | (73,146) | — | (73,146) |
| Share-based compensation arrangements | — | — | 1,466,625 | 15 | — | 19,398 | — | — | 19,413 | — | 19,413 |
| Acquisition of Pinnacle | — | — | 26,295,439 | 263 | — | 749,420 | — | — | 749,683 | — | 749,683 |
| Reclassification to earnings upon termination of Casino Rama management contract | — | — | — | — | — | — | — | 1,453 | 1,453 | — | 1,453 |
| Cumulative-effect adjustment upon adoption of ASC 606 | — | — | — | — | — | — | (9,650) | — | (9,650) | — | (9,650) |
| Share repurchases | — | — | (2,299,498) | (23) | — | (50,023) | — | — | (50,046) | — | (50,046) |
| Net income (loss) | — | — | — | — | — | — | 93,519 | — | 93,519 | (5) | 93,514 |
| Balance as of December 31, 2018 | — | \$ — | 116,687,808 | \$ 1,188 | \$ (28,414) | \$ 1,726,401 | \$ (967,949) | \$ — | \$ 731,226 | \$ (5) | \$ 731,221 |

See accompanying notes to the Consolidated Financial Statements.

PENN NATIONAL GAMING, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

| <i>(in thousands)</i> | For the year ended December 31, | | |
|--|---------------------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| Operating activities | | | |
| Net income | \$ 93,514 | \$ 473,463 | \$ 109,310 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | |
| Depreciation and amortization | 268,990 | 267,062 | 271,214 |
| Amortization of items charged to interest expense | 6,419 | 6,960 | 7,200 |
| Change in fair value of contingent purchase price | 454 | (6,840) | 1,277 |
| Loss (gain) on sale of property and equipment and assets held for sale | 3,168 | 172 | (2,471) |
| Income from unconsolidated affiliates | (22,326) | (18,671) | (14,337) |
| Return on investment from unconsolidated affiliates | 26,950 | 26,450 | 26,300 |
| Deferred income taxes | (26,680) | (517,906) | 8,736 |
| Charge for stock-based compensation | 12,034 | 7,780 | 6,871 |
| Provision for loan loss and unfunded loan commitments to the JIVDC, net of recoveries, and impairment losses | 17,921 | 107,810 | — |
| Reclassification of accumulated other comprehensive loss to earnings upon termination of Casino Rama management contract | 1,453 | — | — |
| Loss on early extinguishment of debt | 20,964 | 23,963 | — |
| Changes in operating assets and liabilities, net of businesses acquired | | | |
| Accounts receivable | (1,731) | (9,186) | (5,911) |
| Prepaid expenses and other current assets | 13,288 | (7,239) | (485) |
| Other assets | 1,530 | 2,383 | (8,638) |
| Accounts payable | (6,080) | (342) | (7,500) |
| Accrued expenses | (29,358) | 23,761 | 1,519 |
| Accrued interest | 2,226 | 7,183 | (746) |
| Accrued salaries and wages | 82 | 15,783 | (6,721) |
| Gaming, pari-mutuel, property and other taxes | (19,917) | 8,495 | 3,379 |
| Income taxes | (3,316) | 20,448 | 26,008 |
| Other current and noncurrent liabilities | (6,791) | 46,283 | (7,045) |
| Net cash provided by operating activities | 352,794 | 477,812 | 407,960 |
| Investing activities | | | |
| Project capital expenditures | (2,872) | (25,033) | (18,740) |
| Maintenance capital expenditures | (89,685) | (74,228) | (78,505) |
| Proceeds from sale of property and equipment and assets held for sale | 390 | 1,013 | 18,210 |
| Consideration paid for acquisitions of businesses, net of cash acquired | (1,945,239) | (127,666) | (84,192) |
| Cash received for the sale of the Divested Properties and Belterra Park | 661,654 | — | — |
| Consideration paid for gaming licenses and other intangible assets | (81,604) | (1,652) | (2,667) |
| Contributions from (to) joint ventures | 18,892 | (500) | — |
| Proceeds from the sale of loan to the JIVDC | 15,186 | — | — |
| Loans to the JIVDC | (338) | (845) | (184,193) |
| Receipts applied against nonaccrual loan to the JIVDC | 512 | 8,226 | — |
| Reimbursement of advances with the JIVDC | — | — | 341,864 |
| Funds advanced to the JIVDC in connection with their refinancing | — | — | (98,000) |
| Repayment of note from the previous developer of the Jamul project | — | — | 30,000 |
| Land purchased adjacent to Hollywood Casino Jamul - San Diego | — | (1,500) | (3,065) |
| Other | — | 577 | — |
| Net cash used in investing activities | (1,423,104) | (221,608) | (79,288) |

| <i>(in thousands)</i> | For the year ended December 31, | | |
|---|--|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Financing activities | | | |
| Proceeds from issuance of long-term debt | 1,558,924 | 1,200,000 | — |
| Proceeds from revolving credit facility | 201,000 | 256,435 | 123,000 |
| Principal payments on long-term debt | (482,500) | (1,127,483) | (53,662) |
| Repayments on revolving credit facility | (89,000) | (447,435) | (354,000) |
| Prepayment penalties and modification payments incurred with debt refinancing | (11,251) | (18,012) | — |
| Debt issuance costs and debt discount | (27,329) | (25,639) | (253) |
| Payments of other long-term obligations | (15,697) | (35,453) | (13,772) |
| Principal payments on financing obligations | (67,412) | (57,859) | (50,548) |
| Proceeds from the sale of real estate assets in conjunction with acquisitions | 250,000 | 82,600 | — |
| Proceeds from exercise of options | 7,379 | 10,447 | 11,601 |
| Repurchase of common stock | (50,046) | (24,796) | — |
| Payments of contingent purchase price | (4,108) | (19,613) | (1,807) |
| Proceeds from insurance financing | 13,116 | 11,948 | 13,119 |
| Payments on insurance financing | (10,946) | (12,180) | (13,608) |
| Net cash provided by (used in) financing activities | 1,272,130 | (207,040) | (339,930) |
| Change in cash, cash equivalents, and restricted cash | 201,820 | 49,164 | (11,258) |
| Cash, cash equivalents and restricted cash at the beginning of the year | 279,418 | 230,254 | 241,512 |
| Cash, cash equivalents and restricted cash at the end of the year | <u>\$ 481,238</u> | <u>\$ 279,418</u> | <u>\$ 230,254</u> |

| <i>(in thousands)</i> | For the year ended December 31, | | |
|--|--|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Supplemental disclosure: | | | |
| Cash paid for interest, net of amounts capitalized | \$ 530,359 | \$ 452,779 | \$ 452,842 |
| Cash payments (refunds) related to income taxes, net | \$ 24,418 | \$ (43,067) | \$ (11,412) |
| Non-cash investing activities: | | | |
| Accrued capital expenditures | \$ 7,736 | \$ 1,890 | \$ 6,749 |
| Accrued advances to Jamul Tribe | \$ — | \$ 2,465 | \$ 6,962 |
| Reconciliation of cash, cash equivalents and restricted cash: | | | |
| Cash and cash equivalents | \$ 479,598 | \$ 277,953 | \$ 229,510 |
| Restricted cash included in Other assets | 1,640 | 1,465 | 744 |
| Total cash, cash equivalents and restricted cash | <u>\$ 481,238</u> | <u>\$ 279,418</u> | <u>\$ 230,254</u> |

See accompanying notes to the Consolidated Financial Statements.

Non-cash transactions: In conjunction with the purchase price of Rocket Speed on August 1, 2016, the Company increased its acquired assets and other current and noncurrent liabilities by \$34.4 million for the fair value of the contingent purchase price consideration at the time of acquisition. The remaining portion of the purchase price was paid in cash.

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

Note 1—Organization

Penn National Gaming, Inc., together with its subsidiaries, is a leading, diversified, multi-jurisdictional owner and manager of gaming and racing facilities and video gaming terminal (“VGT”) operations with a focus on slot machine entertainment. In the second half of 2018, we launched live sports wagering at our facilities in Mississippi, Pennsylvania and West Virginia. In addition, the Company operates an interactive gaming division through its subsidiary, Penn Interactive Ventures, LLC (“PIV”). As of December 31, 2018, we owned, managed, or had ownership interests in 40 facilities in 18 jurisdictions. The majority of the gaming facilities used in the Company’s operations are subject to triple net master leases; the most significant of which are the Penn Master Lease and the Pinnacle Master Lease (as such terms are defined in [Note 10, “Master Lease Financing Obligations and Lease Obligations”](#) and collectively referred to as the “Master Leases”), with Gaming and Leisure Properties, Inc. (“GLPI”), a publicly-traded real estate investment trust (“REIT”), as the landlord under the Master Leases. References in these footnotes to “Penn,” the “Company,” “we,” “our” or “us” refer to Penn National Gaming, Inc. and its subsidiaries, except where stated or the context otherwise indicates.

In October 2018, the Company completed the acquisition of Pinnacle Entertainment, Inc. (“Pinnacle”), a leading regional gaming operator (the “Pinnacle Acquisition”). In conjunction with the Pinnacle Acquisition, the Company divested the membership interests of certain Pinnacle subsidiaries which operated the casinos known as Ameristar Casino Resort St. Charles, Ameristar Casino Hotel Kansas City, Belterra Casino Resort and Belterra Park (referred to collectively as the “Divested Properties”), to Boyd Gaming Corporation (“Boyd”). Additionally, as a part of the transaction, (i) GLPI acquired the real estate assets associated with the Plainridge Park Casino, and concurrently leased back the real estate assets to the Company (the “Plainridge Park Casino Sale-Leaseback”) and (ii) a subsidiary of Boyd acquired the real estate assets associated with Belterra Park from a subsidiary of GLPI. In connection with the sale of the Divested Properties to Boyd as well as the Plainridge Park Casino Sale-Leaseback, the Pinnacle Master Lease, which was assumed by the Company concurrent with the closing of the Pinnacle Acquisition, was amended (see [Note 10, “Master Lease Financing Obligations and Lease Obligations”](#) for more information). The Pinnacle Acquisition added twelve gaming properties to our holdings and provides us with greater operational scale and geographic diversity.

In May 2017, we completed the acquisitions of 1st Jackpot Casino Tunica (f/k/a Bally’s Casino Tunica) and Resorts Casino Tunica. In 2016, Prairie State Gaming (“PSG”) acquired two small VGT route operators in Illinois and in the first half of 2017, it acquired two additional Illinois-based VGT operators. Further, in August 2016, we enhanced our social gaming offerings with the acquisition of Rocket Speed, Inc. (“Rocket Speed”), a leading developer of social casino games.

Note 2—Basis of Presentation, Principles of Consolidation, Use of Estimates and Reclassifications

Basis of Presentation: The Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and the rules and regulations of the Securities and Exchange Commission (the “SEC”).

Principles of Consolidation: The Consolidated Financial Statements include the accounts of Penn National Gaming, Inc. and its subsidiaries. Investments in and advances to unconsolidated affiliates that do not meet the consolidation criteria of the authoritative guidance for voting interest, controlling interest or variable interest entities (“VIEs”), are accounted for under the equity method. All intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates: The preparation of Consolidated Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect (i) the reported amounts of assets and liabilities, (ii) the disclosure of contingent assets and liabilities at the date of the Consolidated Financial Statements, and (iii) the reported amounts of revenues and expenses during the reporting period. Estimates used by us include, among other things, the useful lives for depreciable and amortizable assets, the allowance for doubtful accounts receivable, income tax provisions, the evaluation of the future realization of deferred tax assets, determining the adequacy of reserves for self-insured liabilities and our customer loyalty programs, the initial measurements of financing obligations associated with the Master Leases, projected cash flows in assessing the recoverability of long-lived assets, asset impairments, goodwill and other intangible assets, projected cash flows in assessing the initial valuation of intangible assets in conjunction with acquisitions, the initial selection of useful lives for depreciable and amortizable assets in conjunction with acquisitions, contingencies and litigation, and the expected term of stock-based compensation awards and stock price volatility when computing stock-based compensation expense. Actual results may differ from those estimates.

Reclassifications: Certain amounts in the Consolidated Statements of Cash Flows for the years ended December 31, 2017 and 2016 have been reclassified to be consistent with the current year presentation. The reclassifications had no impact the Company's financial condition, results of operations or cash flows.

Note 3—Summary of Significant Accounting Policies

Revenue Recognition: The Company's revenue from contracts with customers consists of gaming wagers, food and beverage transactions, retail transactions, hotel room sales, racing wagers, management services related to the management of external casinos, and reimbursable costs associated with management contracts. During the second quarter 2018, our management contract with Hollywood Casino-Jamul San Diego, which is located on the Jamul Tribe's trust land in San Diego, California, was terminated and our management contract with Casino Rama, which is located in Ontario, Canada, was terminated during the third quarter 2018.

On January 1, 2018, the Company adopted Financial Accounting Standards Board (the "FASB") Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU No. 2014-09"), and all related amendments, which introduced a new revenue standard, ASC Topic 606, "Revenue from Contracts with Customers" ("ASC 606" or the "new revenue standard"). As described in [Note 4, "New Accounting Pronouncements,"](#) the adoption of ASC 606 principally affects the presentation of promotional allowances and the measurement of the liability associated with our customer loyalty programs. We adopted ASC 606 using a modified retrospective approach, which did not require us to retrospectively restate prior year amounts. See [Note 4, "New Accounting Pronouncements,"](#) for the current year impacts of adopting the new revenue standard on our Consolidated Financial Statements.

The transaction price for a gaming wagering contract is the difference between gaming wins and losses, not the total amount wagered. The transaction price for food and beverage, hotel and retail contracts is the net amount collected from the customer for such goods and services. Sales tax and other taxes collected on behalf of governmental authorities are accounted for on the net basis and are not included in revenues or expenses. The transaction price for our racing operations, inclusive of live racing events conducted at our racing facilities and our import and export arrangements, is the commission received from the pari-mutuel pool less contractual fees and obligations primarily consisting of purse funding requirements, simulcasting fees, tote fees and certain pari-mutuel taxes that are directly related to the racing operations. The transaction price for our former management service contracts was the amount collected for services rendered in accordance with the contractual terms. The transaction price for the reimbursable costs associated with our former management contracts was the gross amount of the reimbursable expenditure, which primarily consisted of payroll costs incurred by the Company for the benefit of the managed entity. Since the Company was the controlling entity to the arrangement, the reimbursement was recorded on a gross basis with an offsetting amount charged to operating expense.

Gaming revenue contracts involve two performance obligations for those customers earning points under the Company's loyalty reward programs and a single performance obligation for customers that do not participate in the programs. The Company applies a practical expedient by accounting for its gaming contracts on a portfolio basis as such wagers have similar characteristics and the Company reasonably expects the effects on its Consolidated Financial Statements of applying the revenue recognition guidance to the portfolio to not differ materially from that which would result if applying the guidance to an individual wagering contract. For purposes of allocating the transaction price in a wagering contract between the wagering performance obligation and the obligation associated with the loyalty points earned, the Company allocates an amount to the loyalty point contract liability based on the stand-alone selling price of the points earned, which is determined by the value of a point that can be redeemed for slot play and complimentary goods and services such as food and beverage at our restaurants, lodging at our hotels and products offered at our retail stores, less estimated breakage. The allocated revenue for gaming wagers is recognized when the wagering occurs as all such wagers settle immediately. The loyalty reward contract liability amount is deferred and recognized as revenue when the customer redeems the loyalty points for slot play and complimentary goods and services and such goods and services are delivered to the customer.

Food and beverage, hotel and retail services have been determined to be separate, standalone performance obligations and the transaction price for such contracts is recorded as revenue as the good or service is transferred to the customer over their stay at the hotel or when the delivery is made for the food and beverage or retail product. Cancellation fees for hotel and meeting space services are recognized upon cancellation by the customer and are included in food, beverage, hotel and other revenue.

Racing revenue contracts, inclusive of the Company's (i) host racing facilities, (ii) import arrangements that permit the Company to simulcast in live racing events occurring at other racetracks, and (iii) export arrangements that permit the Company's live racing event to be simulcast at other racetracks, provide access to and the processing of wagers into the pari-mutuel pool. The Company has concluded it is not the controlling entity to the arrangement, but rather functions as an agent to

the pari-mutuel pool. Commissions earned from the pari-mutuel pool less contractual fees and obligations are recognized on a net basis, which is included within food, beverage, hotel and other revenues.

Management services have been determined to be separate, standalone performance obligations and the transaction price for such contracts was recorded as services were performed. The Company recorded revenues on a monthly basis calculated by applying the contractual rate called for in the contracts.

PIV generates in-app purchase and advertising revenues from free-to-play social casino games, which can be downloaded to mobile phones and tablets from digital storefronts. Players can purchase virtual playing credits within our social casino games, which allows for increased playing opportunities and functionality. PIV records deferred revenue from the sale of virtual playing credits and recognizes this revenue over the average redemption period of the credits, which is approximately three days. Advertising revenues are recognized in the period when the advertising impression, click or install delivery occurs. PIV also generates revenue through revenue-sharing arrangements with third-party content providers whereby revenues are recognized on a net basis since PIV is not the controlling entity in the arrangement.

Complimentaries associated Gaming Contracts

Food and beverage, hotel, and other services furnished to patrons for free as an inducement to gamble or through the redemption of our customers' loyalty points are recorded as food and beverage, hotel, and other revenues, at their estimated standalone selling prices with an offset recorded as a reduction to gaming revenues. The cost of providing complimentary goods and services to patrons for free as an inducement to gamble as well as for the fulfillment of our loyalty point obligation is included in food, beverage, hotel, and other expenses. Revenues recorded to food and beverage, hotel, and other and offset to gaming revenues for the year ended December 31, 2018 were as follows:

| <i>(in thousands)</i> | For the year ended December 31, 2018 |
|--|---|
| Food and beverage | \$ 137,179 |
| Hotel | 60,859 |
| Other | 8,099 |
| Total complimentaries associated with gaming contracts | <u>\$ 206,137</u> |

Revenue Disaggregation

We generate revenues at our owned, managed, or operated properties principally by providing the following types of services: (i) gaming, (ii) food and beverage, (iii) hotel, (iv) racing, (v) reimbursable management costs and (vi) other. In addition, we assess our revenues based on geographic location of the related properties, which is consistent with our reportable segments (see [Note 15, "Segment Information,"](#) for further information). Our revenue disaggregation by type of revenue and geographic location was as follows:

| <i>(in thousands)</i> | For the year ended December 31, 2018 | | | | | |
|-------------------------------|---|-------------------|-------------------|-------------------|------------------|---------------------|
| | Northeast | South | West | Midwest | Other | Total |
| Revenues: | | | | | | |
| Gaming | \$ 1,644,176 | \$ 302,842 | \$ 228,055 | \$ 719,753 | \$ 35 | \$ 2,894,861 |
| Food and beverage | 109,645 | 56,631 | 89,566 | 57,886 | 1,084 | 314,812 |
| Hotel | 23,208 | 23,320 | 90,824 | 26,323 | — | 163,675 |
| Racing | 20,275 | — | 580 | — | 5,926 | 26,781 |
| Reimbursable management costs | 46,822 | — | 10,459 | — | — | 57,281 |
| Other | 47,388 | 11,558 | 18,403 | 19,755 | 33,404 | 130,508 |
| Revenues | <u>\$ 1,891,514</u> | <u>\$ 394,351</u> | <u>\$ 437,887</u> | <u>\$ 823,717</u> | <u>\$ 40,449</u> | <u>\$ 3,587,918</u> |

For the year ended December 31, 2017

| <i>(in thousands)</i> | Northeast | South | West | Midwest | Other | Total |
|-------------------------------|---------------------|-------------------|-------------------|-------------------|------------------|---------------------|
| Revenues: | | | | | | |
| Gaming | \$ 1,583,882 | \$ 202,967 | \$ 219,743 | \$ 685,429 | \$ — | \$ 2,692,021 |
| Food and beverage | 114,993 | 35,532 | 82,406 | 58,414 | 1,052 | 292,397 |
| Hotel | 21,513 | 10,340 | 76,147 | 21,959 | — | 129,959 |
| Racing | 49,596 | — | 2,340 | — | 10,759 | 62,695 |
| Reimbursable management costs | — | — | 26,060 | — | — | 26,060 |
| Other | 48,645 | 6,263 | 16,605 | 16,404 | 40,417 | 128,334 |
| | <u>1,818,629</u> | <u>255,102</u> | <u>423,301</u> | <u>782,206</u> | <u>52,228</u> | <u>3,331,466</u> |
| Less: Promotional allowances | (62,050) | (30,855) | (42,883) | (47,173) | (535) | (183,496) |
| Revenues | <u>\$ 1,756,579</u> | <u>\$ 224,247</u> | <u>\$ 380,418</u> | <u>\$ 735,033</u> | <u>\$ 51,693</u> | <u>\$ 3,147,970</u> |

For the year ended December 31, 2016

| <i>(in thousands)</i> | Northeast | South | West | Midwest | Other | Total |
|-------------------------------|---------------------|-------------------|-------------------|-------------------|------------------|---------------------|
| Revenues: | | | | | | |
| Gaming | \$ 1,572,378 | \$ 166,509 | \$ 211,788 | \$ 655,587 | \$ — | \$ 2,606,262 |
| Food and beverage | 115,834 | 30,692 | 80,003 | 58,370 | 1,313 | 286,212 |
| Hotel | 20,888 | 8,843 | 73,180 | 22,493 | — | 125,404 |
| Racing | 48,063 | — | 2,331 | — | 15,596 | 65,990 |
| Reimbursable management costs | — | — | 15,997 | — | — | 15,997 |
| Other | 46,900 | 5,646 | 16,260 | 15,454 | 24,916 | 109,176 |
| | <u>1,804,063</u> | <u>211,690</u> | <u>399,559</u> | <u>751,904</u> | <u>41,825</u> | <u>3,209,041</u> |
| Less: Promotional allowances | (62,254) | (25,858) | (38,783) | (47,632) | (134) | (174,661) |
| Revenues | <u>\$ 1,741,809</u> | <u>\$ 185,832</u> | <u>\$ 360,776</u> | <u>\$ 704,272</u> | <u>\$ 41,691</u> | <u>\$ 3,034,380</u> |

Customer-related Liabilities

The Company has two general types of liabilities related to contracts with customers: (i) our loyalty credit obligation and (ii) advance payments on goods and services yet to be provided and for unpaid wagers.

The Company's loyalty reward programs allow members to utilize their reward membership cards to earn loyalty points that are redeemable for slot play and complimentary, such as food and beverage at our restaurants, lodging at our hotels and products offered at our retail stores across the vast majority of the Company's casino properties. The Company accounts for the loyalty credit obligation utilizing a deferred revenue model, which defers revenue at the point in time when the loyalty points are earned by our customers. Revenue associated with the loyalty credit obligation is subsequently recognized into revenue when the loyalty points are redeemed by our customers. The deferred revenue liability is based on the estimated standalone selling price of the loyalty points earned after factoring in the likelihood of redemption.

The Company's loyalty credit obligation, which is included in "Accrued expenses" within our Consolidated Balance Sheets, was \$39.9 million as of December 31, 2018 compared to \$24.7 million upon the adoption of the new revenue standard on January 1, 2018. Our loyalty credit obligations are generally settled within six months of issuance. Changes between the opening and closing balances primarily relate to (i) the Pinnacle Acquisition, in which all acquired gaming properties have a loyalty reward program and (ii) the timing of the customer's election to redeem loyalty points for complimentary and products offered at our food and beverage outlets, hotels and retail stores.

The Company's advance payments on goods and services yet to be provided and for unpaid wagers primarily consist of the following: (i) deposits on rooms and convention space, (ii) money deposited on behalf of a customer in advance of their property visitation (i.e., front money), (iii) outstanding tickets generated by slot machine play or pari-mutuel wagering, (iv) outstanding chip liabilities, (v) unclaimed jackpots, and (vi) gift cards redeemable at our properties. Advance payments on goods and services are recognized as revenue when the good or service is transferred to the customer. Unpaid wagers primarily relate to the Company's obligation to settle outstanding slot tickets, pari-mutuel racing tickets and gaming chips with customers and generally represent obligations stemming from prior wagering events, of which revenue was previously recognized. The

Company's advance payments on goods and services yet to be provided and for unpaid wagers were \$34.3 million and \$21.5 million as of December 31, 2018 and 2017, respectively, of which \$0.7 million and \$1.3 million are classified as long-term, respectively.

Cash and Cash Equivalents: The Company considers all cash balances and highly-liquid investments with original maturities of three months or less at the date of purchase to be cash and cash equivalents.

Concentration of Credit Risk: Financial instruments that subject the Company to credit risk consist of cash and cash equivalents and accounts receivable. The Company's policy is to limit the amount of credit exposure to any one financial institution, and place investments with financial institutions evaluated as being creditworthy, or in short-term money market and tax-free bond funds which are exposed to minimal interest rate and credit risk. 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 investigations of creditworthiness.

The Company's receivables as of December 31, 2018 and 2017 primarily consisted of the following:

| <i>(in thousands)</i> | December 31, | |
|---|---------------------|------------------|
| | 2018 | 2017 |
| Markers issued to customers | \$ 17,242 | \$ 5,237 |
| Cash, credit card, and other advances to customers | 20,925 | 13,891 |
| Receivables from automatic teller machine and cash kiosk transactions | 19,244 | 2,785 |
| Hotel and banquet receivables | 8,142 | 4,566 |
| Receivables due from the West Virginia Lottery ⁽¹⁾ | 4,358 | 6,088 |
| Racing settlements | 6,064 | 5,493 |
| Reimbursement of payroll expenses ⁽²⁾ | 3,439 | 3,366 |
| Receivables due from platform providers for social casino game revenues | 2,255 | 3,019 |
| Other | 28,329 | 21,343 |
| Allowance for doubtful accounts | (3,161) | (2,983) |
| | <u>\$ 106,837</u> | <u>\$ 62,805</u> |

(1) Related to gaming revenue settlements and capital reinvestment projects at Hollywood Casino at Charles Town Races

(2) Reimbursement of payroll expenses paid on behalf of our joint venture in Kansas Entertainment (as defined below)

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 amount, 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.

Property and Equipment: Property and equipment are stated at cost, less accumulated depreciation. Capital expenditures are accounted for as either project capital or maintenance (replacement) capital expenditures. Project capital expenditures are for fixed asset additions that expand an existing facility or create a new facility. Maintenance capital 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. 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.

The estimated useful lives of property and equipment are determined based on the nature of the assets as well as the Company's current operating strategy. Depreciation of property and equipment is recorded using the straight-line method over the following useful lives:

| | Years |
|-----------------------------------|--------------|
| Land improvements | 15 |
| Buildings and improvements | 5 to 31 |
| Vessels | 10 to 35 |
| Furniture, fixtures and equipment | 3 to 31 |

All costs funded by the Company considered to be an improvement to the real estate assets owned by GLPI under the Master Leases are recorded as leasehold improvements. Leasehold improvements are depreciated over the shorter of the estimated useful life of the improvement or the related lease term.

The Company reviews the carrying amount of its property and equipment for possible impairment whenever events or changes in circumstances indicate that the carrying amount 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. For purposes of recognizing and measuring impairment in accordance with ASC Topic 360, "Property, Plant, and Equipment," assets are grouped at the individual property level representing the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets. In assessing the recoverability of the carrying amount 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.

Goodwill and Other Intangible Assets: Goodwill represents the future economic benefits of a business combination measured as the excess of the purchase price over the fair value of net assets acquired and has been allocated to our reporting units. Goodwill is tested annually, or more frequently if indicators of impairment exist. An income approach, in which a discounted cash flow model is utilized and a market-based approach utilizing guideline public company ("GPC") multiples of Adjusted EBITDAR (as defined in [Note 15, "Segment Information"](#)) from the Company's peer group is utilized to estimate the fair value of the Company's reporting units.

For the quantitative goodwill impairment test, the current fair value of each reporting unit is estimated using a combination of the discounted cash flow model and the GPC multiples approach which is then compared to the carrying amount of each reporting unit. The Company adjusts the carrying amount of each reporting unit that utilizes property subject to either of the Master Leases by an allocation of a pro-rata portion of the applicable financing obligation based on the reporting unit's estimated fair value as a percentage of the aggregate estimated fair value of all reporting units that utilize property that is subject to either the Penn Master Lease or the Pinnacle Master Lease, as applicable. The Company compares the aggregate weighted average fair value to the carrying amount of its reporting units. If the carrying amount of the reporting unit exceeds the aggregate weighted average fair value, an impairment is recorded equal to the amount of the excess not to exceed the amount of goodwill allocated to the reporting unit.

The Company considers its gaming licenses and certain other intangible assets to be indefinite-lived based on the Company's future expectations to operate its gaming facilities indefinitely as well as its historical experience in renewing these intangible assets at minimal cost with various state commissions. Rather, these indefinite-lived intangible assets are tested annually for impairment, or more frequently if indicators of impairment exist, by comparing the fair value of the recorded assets to their carrying amount. If the carrying amounts of the indefinite-lived intangible assets exceed their fair value, an impairment is recognized. The Company completes its testing of its indefinite-lived intangible assets prior to assessing the realizability of its goodwill.

The Company assesses the fair value of its indefinite-lived intangible assets (which are primarily gaming licenses) using the Greenfield Method under the income approach. The Greenfield Method estimates the fair value of the gaming license using a discounted cash flow model assuming the Company built a casino with similar utility to that of the existing facility. The method assumes a theoretical start-up company going into business without any assets other than the intangible asset being valued. As such, the value of the gaming license is a function of the following items:

- Projected revenues and operating cash flows (including an allocation of the Company's projected financing payments to its reporting units consistent with how the financing obligations associated with the Master Leases are allocated);

- Theoretical construction costs and duration;
- Pre-opening expenses; and
- Discounting that reflects the level of risk associated with receiving future cash flows attributable to the license.

Once an impairment of goodwill or other intangible asset has been recorded, it cannot be reversed. Other intangible assets that have a definite-life are amortized on a straight-line basis over their estimated useful lives or related service contract. The Company reviews the carrying amount of its amortizing intangible assets for possible impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. If the carrying amount of the amortizing intangible assets exceed their fair value, an impairment loss is recognized. See [Note 8, “Goodwill and Other Intangible Assets.”](#)

Master Lease Financing Obligations: The Company’s spin-off of its real estate assets into GLPI on November 1, 2013 (the “Spin-Off”) and corresponding entrance into the Penn Master Lease did not meet all of the requirements for sale-leaseback accounting treatment under ASC Topic 840, “Leases,” (“ASC 840”); specifically, the Penn Master Lease contains provisions that indicate the Company has prohibited forms of continuing involvement in the leased assets which are not a normal leaseback. Therefore, the Penn Master Lease is accounted for as a financing obligation rather than as a lease. The Company calculated a financing obligation at the inception of the Penn Master Lease based on the future minimum lease payments discounted at the Company’s estimated incremental borrowing rate at lease inception over the lease term of 35 years, which included renewal options that were reasonably assured of being exercised, and the funded construction of certain leased real estate assets in development at the commencement of the Penn Master Lease, which was determined to be 9.7%.

Within a business combination, an arrangement that did not meet all of the requirements for sale-leaseback accounting treatment under ASC 840, and previously accounted for as a financing obligation by the acquiree, retains its classification as a financing obligation on the acquiring company’s consolidated balance sheets at the business combination date. The Company calculated the financing obligation associated with the Pinnacle Master Lease based on the future minimum lease payments discounted at a rate determined to be fair value at the business combination date. The financing obligation associated with Pinnacle Master Lease was calculated at the October 15, 2018 closing date, assuming a remaining lease term of 32.5 years, which included renewal options that were reasonably assured of being exercised, and a discount rate of 7.3%. Furthermore, in conjunction with the Pinnacle Acquisition, GLPI acquired the real estate assets associated with Plainridge Park Casino for \$250.0 million and leased back the real estate assets to the Company pursuant to an amendment to the Pinnacle Master Lease for a fixed annual rent of \$25.0 million over the remaining term of the Pinnacle Master Lease, which resulted in an effective yield of 9.6%.

Minimum lease payments under our Master Leases are recorded as interest expense and, in part, as repayments of principal reducing the associated financing obligations. Contingent payments are recorded as interest expense as incurred. The real estate assets subject to the Master Leases are included on the Company’s Consolidated Balance Sheets and are depreciated over their remaining useful lives. For more information, see [Note 10, “Master Lease Financing Obligations and Lease Obligations.”](#)

Debt Issuance Costs: Debt issuance costs that are incurred by the Company in connection with the issuance of debt are deferred and amortized to interest expense using the effective interest method over the contractual term of the underlying indebtedness. These costs are classified as a direct reduction of long-term debt within the Company’s Consolidated Balance Sheets.

Self-Insurance Reserves: The Company is self-insured for employee health coverage, general liability and workers compensation up to certain stop loss amounts. The Company uses a reserve method for each reported claim plus an allowance for claims incurred but not yet reported to a fully developed claims reserve method based on an actuarial computation of ultimate liability. Self-insurance reserves are included in “Accrued expenses” within the Company’s Consolidated Balance Sheets.

Contingent Purchase Price: The consideration for the Company’s acquisitions may include future payments that are contingent upon the occurrence of a particular event. The Company records an obligation for such contingent payments at fair value as of the acquisition date. The Company revalues its contingent consideration obligations each reporting period. Changes in the fair value of the contingent purchase price obligation can result from changes to one or multiple inputs, including adjustments to the discount rate and changes in the assumed probabilities of successful achievement of certain financial targets. The changes in the fair value of contingent consideration are recognized within the Company’s Consolidated Statements of Operations as a component of “General and administrative” expense.

Income Taxes: The Company accounts for income taxes in accordance with ASC Topic 740, “Income Taxes” (“ASC 740”). Under ASC 740, 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. ASC 740 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 net deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary. The Company considers all available positive and negative evidence including projected future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. The evaluation of both positive and negative evidence is a requirement pursuant to ASC 740 in determining more-likely-than-not the net deferred tax assets will be realized. In the event the Company determines that the deferred income tax assets would be realized in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be recorded, which would reduce the provision for income taxes.

ASC 740 also 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 by prescribing the minimum recognition threshold a tax position is required to meet before being recognized in an enterprise's financial statements. It also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition.

Gaming and Racing Taxes: The Company is subject to gaming and pari-mutuel taxes based on gross gaming revenue and pari-mutuel revenue in the jurisdictions in which it operates. The Company primarily recognizes gaming and pari-mutuel tax expense based on the statutorily required percentage of revenue that is required to be paid to state and local jurisdictions in the states where or in which wagering occurs. In certain states in which the Company operates, gaming taxes are based on graduated rates. The Company records gaming tax expense at the Company's estimated effective gaming tax rate for the year, considering estimated taxable gaming revenue and the applicable rates. Such estimates are adjusted each interim period. If gaming tax rates change during the year, such changes are applied prospectively in the determination of gaming tax expense in future interim periods. For the years ended December 31, 2018, 2017 and 2016, these expenses, which were recorded primarily within gaming expense within the Consolidated Statements of Operations, were \$1,102.3 million, \$983.3 million, and \$962.7 million, respectively.

Earnings Per Share: The Company calculates earnings per share ("EPS") in accordance with ASC Topic 260, "Earnings Per Share" ("ASC 260"). 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 and unvested restricted shares.

During the year ended December 31, 2016, the Company's 8,624 outstanding shares of Series C Preferred Stock were sold by the holders of these securities, and therefore automatically converted to 8,624,000 shares of common stock under previously agreed upon terms. As a result, there are no longer any outstanding shares of Series C Preferred Stock as of December 31, 2018 and 2017. The Company determined that the preferred stock qualified as a participating security as defined in ASC 260 since these securities participate in dividends with the Company's common stock. In accordance with ASC 260, 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. For more information on our Series C Preferred Stock, refer to [Note 13, "Stockholders' Equity \(Deficit\)."](#)

The following table sets forth the allocation of net income for the years ended December 31, 2018, 2017 and 2016 under the two-class method:

| | For the year ended December 31, | | |
|---|---------------------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| <i>(in thousands)</i> | | | |
| Net income attributable to Penn National Gaming, Inc. | \$ 93,519 | \$ 473,463 | \$ 109,310 |
| Net income applicable to preferred stock | — | — | 8,662 |
| Net income applicable to common stock | \$ 93,519 | \$ 473,463 | \$ 100,648 |

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, 2018, 2017 and 2016:

| <i>(in thousands)</i> | For the year ended December 31, | | |
|---|--|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Determination of shares: | | | |
| Weighted-average common shares outstanding | 97,105 | 90,854 | 82,929 |
| Assumed conversion of dilutive employee stock-based awards | 3,018 | 2,431 | 1,299 |
| Assumed conversion of restricted stock | 215 | 93 | 42 |
| Diluted weighted-average common share outstanding before participating security | 100,338 | 93,378 | 84,270 |
| Assumed conversion of preferred stock | — | — | 7,137 |
| Diluted weighted-average common shares outstanding | 100,338 | 93,378 | 91,407 |

Options to purchase 656,588 shares; 51,803 shares; and 3,036,819 shares were outstanding during the years ended December 31, 2018, 2017 and 2016, respectively, but were not included in the computation of diluted EPS because they were antidilutive.

The following table presents the calculation of basic and diluted EPS for the Company's common stock for the years ended December 31, 2018, 2017 and 2016:

| <i>(in thousands, except per share data)</i> | For the year ended December 31, | | |
|---|--|-------------|-------------|
| | 2018 | 2017 | 2016 |
| Calculation of basic EPS: | | | |
| Net income applicable to common stock | \$ 93,519 | \$ 473,463 | \$ 100,648 |
| Weighted-average common shares outstanding | 97,105 | 90,854 | 82,929 |
| Basic EPS | \$ 0.96 | \$ 5.21 | \$ 1.21 |
| Calculation of diluted EPS using two-class method: | | | |
| Net income applicable to common stock | 93,519 | 473,463 | 100,648 |
| Diluted weighted-average common share outstanding before participating security | 100,338 | 93,378 | 84,270 |
| Diluted EPS | \$ 0.93 | \$ 5.07 | \$ 1.19 |

Stock-Based Compensation: The Company accounts for stock compensation under ASC Topic 718, "Compensation-Stock Compensation," 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 is recognized ratably over the requisite service period following the date of grant. The Company accounts for forfeitures in the period in which they occur based on actual amounts.

The fair value of stock options is estimated at the grant date using the Black-Scholes option-pricing model, which requires management to make assumptions, including the expected term, which is based on the contractual term of the stock option and historical exercise data of the Company's employees; the risk-free interest rate; which is based on the U.S. Treasury spot rate with a term equal to the expected term assumed at the grant date; the expected volatility, which is estimated based on the historical volatility of the Company's stock price over the expected term assumed at the grant date; and the expected dividend yield, which we expect to be zero since the Company has not paid any cash dividends on its common stock since its initial public offering in May 1994 and intends to retain all of its earnings to finance the development of its business for the foreseeable future. See [Note 14, "Stock-based Compensation,"](#) for further information.

Variable Interest Entities: In accordance with the authoritative guidance of ASC Topic 810, "Consolidation" ("ASC 810"), the Company consolidates a VIE if the Company is the primary beneficiary, defined as the party that has both the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses of or the right to receive benefits from the VIE that could potentially be significant to the VIE. A variable interest is a contractual, ownership or other interest that changes with changes in the fair value of the VIE's net assets exclusive of variable interests. To determine whether a variable interest the Company holds could potentially be significant to the VIE, the Company considers both qualitative and quantitative factors regarding the nature, size and form of its involvement with the VIE. The Company

assesses whether it is the primary beneficiary of a VIE or the holder of a significant variable interest in a VIE on an on-going basis for each such interest.

Application of Business Combination Accounting: The Company utilizes the acquisition method of accounting in accordance with ASC Topic 805, “Business Combinations,” which requires us to allocate the purchase price to tangible and identifiable intangible assets based on their fair values. The excess of the purchase price over the fair value ascribed to tangible and identifiable intangible assets is recorded as goodwill. If the fair value ascribed to tangible and identifiable intangible assets changes during the measurement period (due to additional information being available and related Company analysis), the measurement period adjustment is recognized in the reporting period in which the adjustment amount is determined and offset against goodwill. The measurement period for our acquisitions are no more than one year in duration.

Segment Information: The Company’s Chief Executive Officer, who is the Company’s Chief Operating Decision Maker (“CODM”), as that term is defined in ASC Topic 280, “Segment Reporting,” measures and assesses the Company’s business performance based on regional operations of various properties grouped together based primarily on their geographic locations.

We view each of our gaming and racing facilities as an operating segment with the exception of our two facilities in Jackpot, Nevada, which we view as one operating segment. We view our combined VGT operations as an operating segment. See [Note 15, “Segment Information,”](#) for further information. For financial reporting purposes, as of December 31, 2018, we aggregate our operating segments into the following reportable segments:

| Northeast segment ⁽¹⁾ | Location |
|--|-----------------------------|
| Ameristar East Chicago | East Chicago, Indiana |
| Hollywood Casino Bangor | Bangor, Maine |
| Hollywood Casino at Charles Town Races | Charles Town, West Virginia |
| Hollywood Casino Columbus | Columbus, Ohio |
| Hollywood Casino Lawrenceburg | Lawrenceburg, Indiana |
| Hollywood Casino at Penn National Race Course | Grantville, Pennsylvania |
| Hollywood Casino Toledo | Toledo, Ohio |
| Hollywood Gaming at Dayton Raceway | Dayton, Ohio |
| Hollywood Gaming at Mahoning Valley Race Course | Youngstown, Ohio |
| Meadows Racetrack and Casino | Washington, Pennsylvania |
| Plainridge Park Casino | Plainville, Massachusetts |
| South segment | Location |
| 1 st Jackpot Casino Tunica | Tunica, Mississippi |
| Ameristar Vicksburg | Vicksburg, Mississippi |
| Boomtown Biloxi | Biloxi, Mississippi |
| Boomtown Bossier City | Bossier City, Louisiana |
| Boomtown New Orleans | New Orleans, Louisiana |
| Hollywood Casino Tunica | Tunica, Mississippi |
| Hollywood Casino Gulf Coast | Bay St. Louis, Mississippi |
| L’Auberge Baton Rouge | Baton Rouge, Louisiana |
| L’Auberge Lake Charles | Lake Charles, Louisiana |
| Resorts Casino Tunica | Tunica, Mississippi |
| West segment ⁽²⁾ | Location |
| Ameristar Black Hawk | Black Hawk, Colorado |
| Cactus Petes and Horseshu | Jackpot, Nevada |
| M Resort | Henderson, Nevada |
| Tropicana Las Vegas | Las Vegas, Nevada |
| Zia Park Casino | Hobbs, New Mexico |
| Midwest segment | Location |
| Ameristar Council Bluffs | Council Bluffs, Iowa |
| Argosy Casino Alton | Alton, Illinois |
| Argosy Casino Riverside | Riverside, Missouri |
| Hollywood Casino Aurora | Aurora, Illinois |
| Hollywood Casino Joliet | Joliet, Illinois |
| Hollywood Casino at Kansas Speedway ⁽³⁾ | Kansas City, Kansas |
| Hollywood Casino St. Louis | Maryland Heights, Missouri |
| Prairie State Gaming | Illinois |
| River City Casino | St. Louis, Missouri |

(1) The Northeast segment also included the Company’s Casino Rama management service contract, which terminated in July 2018.

(2) The West segment also included a management service contract with the JIVDC, which terminated in May 2018.

(3) Pursuant to a joint venture with International Speedway Corporation (“International Speedway”) and includes the Company’s 50% investment in Kansas Entertainment, LLC (“Kansas Entertainment”), which owns the Hollywood Casino at Kansas Speedway.

Note 4—New Accounting Pronouncements

Accounting Pronouncement Implemented in 2017

In March 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU No. 2016-09”), which simplified the accounting for share-based payment awards, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification

on the statement of cash flows. The Company adopted ASU 2016-09 effective January 1, 2017. For the year ended December 31, 2017, the Company recognized an income tax benefit of \$6.3 million related to excess tax deductions that previously would have been recognized as additional paid-in capital within "Total Stockholders' equity (deficit)." The Company did not record a cumulative effect adjustment to retained earnings due to having a full valuation allowance against all deferred tax assets as of January 1, 2017. Deferred tax assets and the valuation allowance increased by \$15.4 million at January 1, 2017 for the tax effect previously unrecognized for excess tax deductions. The Company elected to present the change in classification of excess/deficient tax deductions from a financing activity to an operating activity within its Consolidated Statement of Cash Flows on a retrospective basis. As a result, for the year ended December 31, 2016, there was an increase to net cash provided by operating activities of \$6.9 million and a decrease to net cash used in financing activities of \$6.9 million.

Accounting Pronouncements Implemented in 2018

On January 1, 2018, the Company adopted ASU No. 2014-09 and all related amendments, which introduced ASC 606, to all contracts using the modified retrospective method. As part of the adoption, the Company utilized a practical expedient that permits the evaluation of incomplete contracts (such as our loyalty point obligations) as completed contracts. The Company recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of accumulated deficit. The comparative information has not been restated and continues to be reported under the accounting standards in effect for those periods. The adoption of the new revenue standard did not have a material effect on net income for the year ended December 31, 2018 and the Company does not expect it to have a material impact on a continuing basis.

In accordance with the new revenue standard requirement, the disclosure of the impact of adoption on our Consolidated Statement of Operations and Consolidated Balance Sheet as of and for the year ended December 31, 2018 is as follows:

| For the year ended December 31, 2018 | | | | | | | | | |
|--|--------------|-------------------------------|---------------------------------------|---|-------------------------------|---|--------------------------------------|-----------------------------------|--|
| (in thousands) | As Reported | Impacts of: | | | | | Balances Without Adoption of ASC 606 | Effect of Change Higher / (Lower) | |
| | | Loyalty Points ⁽¹⁾ | Promotional Allowances ⁽²⁾ | Reimbursable Expense - Casino Rama ⁽³⁾ | Racing Revenue ⁽⁴⁾ | Tier Status and Other Benefits ⁽⁵⁾ | | | |
| Revenues | | | | | | | | | |
| Gaming | \$ 2,894,861 | \$ (2,608) | \$ 206,137 | \$ — | \$ — | \$ 2,575 | \$ 3,100,965 | \$ (206,104) | |
| Food, beverage, hotel and other | 629,733 | (252) | 30,629 | — | 38,975 | — | 699,085 | (69,352) | |
| Management service and license fees | 6,043 | — | — | — | — | — | 6,043 | — | |
| Reimbursable management costs | 57,281 | — | — | (46,822) | — | — | 10,459 | 46,822 | |
| | 3,587,918 | (2,860) | 236,766 | (46,822) | 38,975 | 2,575 | 3,816,552 | (228,634) | |
| Less: Promotional allowance | — | — | (236,766) | — | — | — | (236,766) | 236,766 | |
| Revenues | 3,587,918 | (2,860) | — | (46,822) | 38,975 | 2,575 | 3,579,786 | 8,132 | |
| Operating expenses | | | | | | | | | |
| Gaming | 1,551,430 | (1,443) | — | — | — | 4,258 | 1,554,245 | (2,815) | |
| Food, beverage, hotel and other | 439,253 | — | — | — | 38,975 | (1,683) | 476,545 | (37,292) | |
| General and administrative | 618,951 | — | — | — | — | — | 618,951 | — | |
| Reimbursable management costs | 57,281 | — | — | (46,822) | — | — | 10,459 | 46,822 | |
| Depreciation and amortization | 268,990 | — | — | — | — | — | 268,990 | — | |
| Impairment losses, net of recovery on loan loss and unfunded loan commitments to the JIVDC | 17,921 | — | — | — | — | — | 17,921 | — | |
| Total operating expenses | 2,953,826 | (1,443) | — | (46,822) | 38,975 | 2,575 | 2,947,111 | 6,715 | |
| Operating income (loss) | 634,092 | (1,417) | — | — | — | — | 632,675 | 1,417 | |
| Income (loss) before income taxes | 89,921 | (1,417) | — | — | — | — | 88,504 | 1,417 | |
| Income tax benefit (expense) | 3,593 | 323 | — | — | — | — | 3,916 | (323) | |
| Net income (loss) | \$ 93,514 | \$ (1,094) | \$ — | \$ — | \$ — | \$ — | \$ 92,420 | \$ 1,094 | |

- As discussed in [Note 3, "Summary of Significant Accounting Policies,"](#) the Company's loyalty reward programs allow members to utilize their reward membership cards to earn loyalty points that are redeemable for slot play and complimentary. Under the new revenue standard, the Company is required to utilize a deferred revenue model, which defers revenue at the point in time when the loyalty points are earned by our customers and recognize revenue when the loyalty points are redeemed at the estimated standalone selling price. Prior to the adoption of the new revenue standard, the estimated liability for unredeemed points was accrued and recorded to gaming expense based on expected redemption rates and the estimated cost of the goods and services to be provided.
- Under ASC 606, the Company is no longer permitted to report revenue for goods and services provided to customers (i) for free as an inducement to gamble or (ii) on a discretionary basis outside of gaming play (i.e., customer appeasements) as gross revenue with a corresponding reduction in promotional allowances to arrive at net revenues. The new revenue standard requires complimentary related to an inducement to gamble to be recorded as a reduction to gaming revenues and discretionary complimentary provided outside of gaming play to be recorded as a reduction to food, beverage, hotel and other revenues. As such, promotional allowances provided to customers (i) as an inducement to gamble or (ii) on a discretionary basis outside of gaming play are no longer netted within our Consolidated Statements of Operations. In addition, ASC 606 changed the accounting for promotional allowances with respect to non-discretionary complimentary (i.e., a customer's redemption of loyalty points). Under the new revenue standard, the Company is no longer permitted to report revenue for goods and services provided to a customer resulting from loyalty point redemptions with a corresponding reduction in promotional allowances to arrive at net revenue. Instead, ASC 606 requires the utilization of a deferred revenue

model in which previously deferred revenue is recognized as revenue when the loyalty points are redeemed. As such, promotional allowances related to a customer's redemption of loyalty points is no longer netted within our Consolidated Statements of Operations.

- (3) The Company revised its accounting for reimbursable costs associated with our management service contract for Casino Rama. Under the new revenue standard, because we are the controlling entity in the arrangement, reimbursable costs, which primarily consisted of payroll costs, must be recognized as revenue on a gross basis, with an offsetting amount charged to reimbursable management costs within operating expenses. Prior to the adoption of ASC 606, the Company recorded these reimbursable amounts on a net basis.
- (4) Under ASC 606, as it pertains to our racing operations, we concluded that the Company is not the controlling entity in the arrangements; but rather, functions as an agent to the pari-mutuel pool. Consequently, fees and obligations related to the Company's share of purse funding requirements, simulcasting fees, tote fees, certain pari-mutuel taxes and other fees directly related to the Company's racing operations must be reported on a net basis and included as a deduction to food, beverage, hotel and other revenue. Prior to the adoption of the new revenue standard, the Company recorded these fees and obligations in food, beverage, hotel and other expense.
- (5) Under ASC 606, certain tier status and other benefits provided to our customers, most notably, an annual gift to members of our top tiers, are considered separate performance obligations associated with gaming contracts. Therefore, under the new revenue standard, the amount of the transaction price allocated to these performance obligations is recorded as a reduction to gaming revenue rather than as a gaming expense. Consequently, certain of the expenses associated with other benefits are now recorded as food, beverage, hotel and other.

| <i>(in thousands)</i> | As Reported as of December 31, 2018 | Balances Without the Adoption of ASC 606 | Effect of Change Higher (Lower) |
|--|--|---|--|
| Balance Sheet | | | |
| Other assets - Deferred income taxes | \$ 80,612 | \$ 78,953 | \$ 1,659 |
| Current liabilities - Accrued expenses | \$ 204,656 | \$ 191,404 | \$ 13,252 |
| Stockholders' equity - Accumulated deficit | \$ (967,949) | \$ (956,418) | \$ (11,531) |

The cumulative effect of the changes made to our consolidated January 1, 2018 balance sheet for the adoption of ASC 606 was as follows:

| <i>(in thousands)</i> | Balance as of December 31, 2017 | Adjustment due to ASC 606 | Balance as of January 1, 2018 |
|--|--|--------------------------------------|--|
| Balance Sheet | | | |
| Other assets - Deferred income taxes | \$ 390,943 | \$ 2,044 | \$ 392,987 |
| Current liabilities - Accrued expenses | \$ 125,688 | \$ 11,694 | \$ 137,382 |
| Stockholders' equity - Accumulated deficit | \$ (1,051,818) | \$ (9,650) | \$ (1,061,468) |

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Clarification of Certain Cash Receipts and Cash Payments." The amendments are intended to address diversity in practice in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The amendments provide guidance on the following specific cash flow issues: (a) debt prepayment or debt extinguishment costs; (b) settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; (c) contingent consideration payments made after a business combination; (d) proceeds from the settlement of insurance claims; (e) proceeds from the settlement of corporate-owned life insurance policies, including bank-owned life insurance policies; (f) distributions received from equity method investees; (g) beneficial interest in securitization transactions; and (h) separately identifiable cash flows and application of the predominance principle. The Company adopted this new guidance on January 1, 2018 on a retrospective basis. As a result of adopting this new guidance, the impact to the year ended December 31, 2017 was an increase to both net cash provided by operating activities and net cash used in financing activities of \$18.0 million within the Company's Statements of Cash Flows.

In November 2016, the FASB issued ASU No. 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash." The new guidance requires a statement of cash flows to explain the change during the period in the total of cash, cash equivalents, and amounts generally described as restricted cash or restricted cash equivalents. As such, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted this new guidance on January 1, 2018 using a retrospective transition method to each period presented. As a result of adopting this new guidance, the impact to the years ended December 31, 2017 and 2016 was an increase of \$0.7 million and a decrease of \$3.8 million, respectively, to net cash provided by operating activities within the Company's Statements of Cash Flows.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805), Clarifying the Definition of a Business." The new guidance narrows the existing definition of a business and provides a framework for evaluating whether a transaction should be accounted for as an acquisition of assets or a business. Under this guidance, when substantially all of the fair value of gross assets acquired is concentrated in a single asset (or group of similar assets), the assets acquired would not represent a business. In addition, in order to be considered a business, an acquisition would have to include at a minimum an input and a substantive process that together significantly contributes to the ability to create an output. The guidance is effective

for public companies for fiscal years, and interim fiscal periods within those fiscal years, beginning after December 15, 2017, with early adoption permitted and should be applied prospectively. The Company adopted this standard on January 1, 2018, which was applied prospectively to all applicable transactions after the adoption date.

New Accounting Pronouncements to be Implemented in Fiscal Year 2019

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU No. 2016-02”), which supersedes leases accounting as contained within ASC 840. The core principle of ASU No. 2016-02 is that a lessee should recognize on the balance sheet the lease assets and lease liabilities that arise from all lease arrangements with terms greater than 12 months. Recognition of these lease assets and lease liabilities represents a change from previous GAAP, which did not require lease assets and lease liabilities to be recognized for operating leases. Qualitative disclosures along with specific quantitative disclosures will be required to provide enough information to supplement the amounts recorded in the financial statements so that users can understand the nature of the Company’s leasing activities.

The Company has a team in place to evaluate and implement the new guidance and the Company has substantially completed the implementation of a third-party software solution to facilitate compliance with accounting and reporting requirements. The Company continues to enhance accounting systems and update business processes and controls related to the new guidance for leases. Collectively, these activities are expected to enable the Company to meet the new accounting and disclosure requirements upon adoption in the first quarter 2019.

The provisions of ASU No. 2016-02 are effective for the Company’s fiscal year beginning January 1, 2019, including interim periods within that fiscal year. The Company plans to elect the package of practical expedients included in this guidance, which allows us (i) to not reassess whether any expired or existing contracts contain leases; (ii) to not reassess the lease classification for any expired or existing leases; (iii) to account for a lease and non-lease component as a single component for certain classes of assets; and (iv) to not reassess the initial direct costs for existing leases. In addition, the Company does not plan to recognize short-term leases on its Consolidated Balance Sheets and will recognize the expense for those lease payments in the Consolidated Statements of Operations.

In July 2018, the FASB issued ASU No. 2018-11, “Leases - Targeted Improvements,” as an update to the previously-issued guidance. This update added a transition option which allows for the recognition of a cumulative effect adjustment to the opening balance of retained earnings in the period of adoption without recasting the financial statements in periods prior to adoption. The Company plans to elect this transition option.

We expect the most significant judgments and impacts upon adoption of ASU No. 2016-02 to include the following items:

- The Company believes the most significant impact of the adoption of ASU No. 2016-02 relates to the accounting for our triple net leases, which requires us to determine the classification (operating or financing) of each component contained within each of our Master Leases with our REIT landlords which will impact the initial valuation of the right-of-use asset and corresponding lease liability at the January 1, 2019 adoption date as well as the subsequent expense recognition within our Consolidated Statements of Operations. We continue to evaluate our existing sales and leaseback transactions and are evaluating if certain properties building and/or land would be considered a financing or operating lease. If certain properties are derecognized, upon adoption on January 1, 2019, we would derecognize our existing financial obligation and the net book value of the property associated with the previously failed sale-leaseback transaction. A change in the sale-leaseback accounting conclusion would also result in the recognition of a lease liability and right of use asset and a material impact to opening retained earnings. This change will also increase operating expenses and decrease interest expense and a reclassification of certain cash payments from financing outflows to operating outflows in our Consolidated Statements of Cash Flows.
- Upon adoption on January 1, 2019, we will recognize right-of-use assets and lease liabilities that have not previously been recorded. The lease liability for operating leases is based on the net present value of future minimum lease payments. The right-of-use asset for operating leases is based on the lease liability adjusted for the reclassification of certain balance sheet amounts such as deferred rent. Deferred and prepaid rent will not be presented separately after the adoption of the new lease standard.

We expect this standard to have a material impact on our Consolidated Financial Statements and related disclosures. We are finalizing the impact of the standard to our accounting policies, processes, disclosures, and internal control over financial reporting.

The adoption of this standard will have no impact on the Company’s covenant compliance under its current debt agreements.

In June 2018, the FASB issued ASU No. 2018-07, “Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting.” These amendments expand the scope of Topic 718, “Compensation - Stock Compensation” (which currently only includes share-based payments to employees), to include share-based payments issued to nonemployees for goods or services. Consequently, the accounting for share-based payments to nonemployees and employees will be substantially aligned. This new standard supersedes Subtopic 505-50, “Equity - Equity-Based Payments to Non-Employees.” The guidance is effective for public companies for fiscal years, and interim fiscal periods within those fiscal years, beginning after December 15, 2018 with early adoption permitted, but no earlier than a company’s adoption date of ASC 606. The Company does not expect the adoption to have a material impact to its Consolidated Financial Statements.

New Accounting Pronouncements to be Implemented in Fiscal Year 2020

In August 2018, the FASB issued ASU No. 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract.” These amendments align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software (and hosting arrangements that include an internal-use software license). The accounting for the service element of a hosting arrangement that is a service contract is not affected by these amendments. The guidance is effective for public companies for fiscal years, and interim fiscal periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating this guidance to determine the impact to its Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, “Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement.” The ASU removes the requirement to disclose: (a) the amount of and reasons for transfers between Level 1 and Level 2 of the fair value hierarchy; (b) the policy for timing of transfers between levels; and (c) the valuation processes for Level 3 fair value measurements. This new standard requires disclosure of changes in unrealized gains and losses for the period included in other comprehensive income (loss) for recurring Level 3 fair value measurements held at the end of the reporting period and the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements. The amendments on changes in unrealized gains and losses, the range and weighted average of significant unobservable inputs used to develop Level 3 fair value measurements, and the narrative description of measurement uncertainty should be applied prospectively for only the most recent interim or annual period presented in the initial fiscal year of adoption. All other amendments should be applied retrospectively to all periods presented upon their effective date. The guidance is effective for public companies for fiscal years, and interim fiscal periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company is currently evaluating this guidance to determine the impact on its disclosures.

Note 5—Acquisitions and Other Investments

Pinnacle Acquisition

On October 15, 2018, the Company acquired all of the outstanding shares of Pinnacle for a total purchase price of \$2,816.2 million, which consisted of (i) a cash payment of \$20.00 per share of Pinnacle common stock, totaling \$1,252.2 million; (ii) issuance of Penn common stock in the amount of \$749.7 million; and (iii) the retirement of \$814.3 million of Pinnacle debt obligations. As discussed in [Note 1, “Organization,”](#) in conjunction with the Pinnacle Acquisition, the Company divested the membership interests of certain Pinnacle subsidiaries which operated the Divested Properties to Boyd for \$604.9 million of cash, subject to customary final working capital adjustments; GLPI acquired the real estate assets associated with the Plainridge Park Casino for \$250.0 million, and concurrently leased back the real estate assets to the Company; and a subsidiary of Boyd acquired the real estate assets associated with Belterra Park from a subsidiary of GLPI, from which Penn received proceeds of \$57.7 million. Additionally, as a part of the transaction, the Pinnacle Master Lease was assumed and amended by the Company. For more information on the Pinnacle Master Lease and related amendment, see [Note 10, “Master Lease Financing Obligations and Lease Obligations.”](#)

The primary reasons for the acquisition are as follows: (i) the expectation that the Pinnacle Acquisition will create economies of scale and other geographic advantages by broadening the Company’s portfolio of properties to 40 properties across 18 jurisdictions; (ii) the opportunity to combine two of the top customer loyalty programs in the industry to drive incremental revenue while also benefiting from enhanced promotional opportunities in online and social gaming across the Company’s portfolio; and (iii) the identification of revenue and cost synergies driven by the elimination of corporate overhead redundancies and improved property level efficiencies, with limited incremental costs required to scale operations and integrate Pinnacle.

In completing the acquisition, each share of Pinnacle common stock (other than treasury shares held by Pinnacle) outstanding as of October 12, 2018, on a fully-diluted basis, was automatically converted into the right to receive (i) 0.42 of a fully-paid and nonassessable share of Penn common stock (the “Share Exchange Ratio”) plus (ii) \$20.00 in cash. The stock price used to determine the fair value of the stock portion of the purchase price, was based on the volume-weighted average price of a share of Penn common stock as quoted on NASDAQ Global Select Market for the ten trading days between September 28, 2018 and October 11, 2018, which was \$29.80. The actual number of shares of Penn common stock issued to Pinnacle shareholders upon closing was 26,295,439 and the value of those shares was based on the closing price of Penn common stock on October 15, 2018, which was \$28.51.

The following table presents the calculation of the total purchase price:

| <i>(in thousands, except per share data)</i> | October 15, 2018 |
|--|-------------------------|
| Pinnacle diluted shares outstanding | 62,608,188 |
| Share Exchange Ratio | 0.42 |
| Shares of Penn common stock issued to former Pinnacle shareholders | 26,295,439 |
| Price per share of Penn common stock | \$ 28.51 |
| Fair value of Penn common stock issued to former Pinnacle shareholders | 749,683 |
| Cash paid to former Pinnacle shareholders | 1,252,259 |
| Cash paid by Penn to retire Pinnacle debt, inclusive of accrued interest | 814,273 |
| Purchase price | \$ 2,816,215 |

The purchase price excludes \$89.7 million of transaction costs, which were expensed as incurred and included in “General and administrative” within our Consolidated Statement of Operations for the year ended December 31, 2018.

Due primarily to the scale and complexity of the Pinnacle Acquisition, the Company has not yet finalized its valuation analysis and is in the process of evaluating key assumptions that derive the fair value of the assets acquired and liabilities assumed, including the income tax balances. Therefore, the allocation of the purchase price is preliminary and subject to change. The following table reflects the preliminary allocation of the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed, with the excess recorded as goodwill:

| <i>(in thousands)</i> | October 15, 2018 |
|--|-------------------------|
| Cash and restricted cash | \$ 124,231 |
| Assets held for sale ⁽¹⁾ | 667,036 |
| Other current assets ⁽²⁾ | 80,622 |
| Property and equipment - non-Pinnacle Master Lease | 318,856 |
| Property and equipment - Pinnacle Master Lease | 3,984,119 |
| Goodwill | 219,531 |
| Other intangible assets | |
| Gaming licenses | 1,046,000 |
| Trademarks | 298,000 |
| Customer relationships | 22,400 |
| Other long-term assets ⁽²⁾ | 38,767 |
| Total assets | \$ 6,799,562 |
| Long-term financing obligation, including current portion ⁽³⁾ | \$ 3,427,016 |
| Other current liabilities ⁽⁴⁾ | 200,547 |
| Deferred tax liabilities | 339,149 |
| Other long-term liabilities ⁽⁴⁾ | 16,635 |
| Total liabilities | 3,983,347 |
| Net assets acquired | \$ 2,816,215 |

- (1) Assets held for sale represents (i) the proceeds and working capital adjustments related to the divested properties which were sold to Boyd; and (ii) proceeds received from GLPI related to the sale of the Belterra Park real estate assets.
- (2) Other current assets consist primarily of accounts receivable, prepaid expenses and inventories. Other long-term assets consist primarily of long-term notes receivables and deposits.
- (3) Long-term financing obligation, including current portion represents the financing obligation associated with Pinnacle Master Lease, as amended.

(4) Other current liabilities consist primarily of accounts payable, accrued compensation and accrued taxes. Other long-term liabilities primarily relate to deferred compensation.

The Company used the income, market, or cost approach (or a combination thereof) for the valuation as appropriate and used valuation inputs in these models and analyses that were based on market participant assumptions. Market participants are considered to be buyers and sellers unrelated to Penn in the principal or most advantageous market for the asset or liability. For certain items, the carrying amount was determined to be a reasonable approximation of fair value based on information available to Penn management. Property acquired is inclusive of (i) non-Pinnacle Master Lease property related to our operations (such as equipment for use in gaming operations, land/leasehold improvements and furniture and equipment), which was determined to have a fair value of approximately \$319 million and (ii) Pinnacle Master Lease property (such as buildings, boats, vessels, barges, and implied land and land use rights), which was determined to have a fair value of approximately \$3,984 million at the acquisition date. Land use rights represent the intangible value of the Company's ability to utilize and access land associated with long term ground lease agreements that give the Company the exclusive rights to operate the casino gaming facilities associated with such agreements. Management determined the fair value of its (i) vessels based on valuations performed by third-party specialists; (ii) land and land use rights based on the land residual technique; (iii) office equipment, computer equipment and slot machine gaming devices based on the market approach; and (iv) other property based on the cost approach supported where available by observable market data which includes consideration of obsolescence.

Acquired identifiable intangible assets consist of gaming licenses and trademarks, which are both indefinite-lived intangible assets, and customer relationships, which are amortizing intangible assets and have been assigned a useful life of 2.0 years. Management valued (i) gaming licenses using the Greenfield Method under the income approach, which estimates the fair value of the gaming license using a discounted cash flow model assuming the Company built a casino with similar utility to that of the existing facility and assumes a theoretical start-up company going into business without any assets other than the intangible asset being valued; (ii) trademarks using the relief-from-royalty method under the income approach; and (iii) customer relationships (rated player databases) using the with-and-without method of the income approach. All valuation methods are forms of the income approach supported by observable market data for peer casino operator companies.

The goodwill is partially attributable to Penn reporting units that existed prior to the Pinnacle Acquisition as it is expected that these reporting units will experience revenue growth and cost synergies resulting from the combination of the Penn and Pinnacle businesses. Goodwill from the Pinnacle Acquisition, of which \$92.4 million is deductible for tax purposes, has been preliminarily allocated to the Company's reportable segments as follows:

| <i>(in thousands)</i> | Goodwill |
|-----------------------|-------------------|
| Reportable segment: | |
| Northeast | \$ 56,400 |
| South | 48,300 |
| West | 51,431 |
| Midwest | 63,400 |
| Total | <u>\$ 219,531</u> |

The following table includes the financial results of the Pinnacle properties since the acquisition date which is included within our Consolidated Statement of Operations for the year ended December 31, 2018:

| <i>(in thousands)</i> | Period from October 15, 2018 through December 31, 2018 | |
|-----------------------|---|---------|
| Revenues | \$ | 385,863 |
| Net income | \$ | 4,664 |

The following table includes unaudited pro forma consolidated financial information assuming our acquisition of Pinnacle had occurred as of January 1, 2017. The pro forma financial information does not necessarily represent the results that may occur in the future. The pro forma amounts include the historical operating results of Penn and Pinnacle prior to the acquisition, with adjustments directly attributable to the acquisition, inclusive of adjustments for acquisition costs.

| <i>(in thousands, unaudited)</i> | For the year ended December 31, | |
|----------------------------------|--|--------------|
| | 2018 | 2017 |
| Revenues | \$ 5,069,425 | \$ 5,036,559 |
| Net income (loss) | \$ 83,155 | \$ (38,045) |

Greektown Casino-Hotel

On November 14, 2018, the Company announced that it had entered into a definitive agreement to acquire the operations of Greektown Casino-Hotel in Detroit, Michigan for approximately \$300 million in cash. Simultaneous with the closing of the transaction, the Company will enter into a triple net lease agreement with VICI Properties, Inc. (“VICI”), a publicly-traded REIT, for the real estate assets used in the operations of the property. The lease will have an initial annual rent of \$55.6 million and an initial term of 15 years, with four five-year renewal options. The transaction will be financed with a combination of cash on hand and debt. The transaction, which is expected to close in the second quarter 2019, is subject to approval of the Michigan Gaming Control Board and other customary closing conditions.

1st Jackpot Casino Tunica and Resorts Casino Tunica

On May 1, 2017, the Company acquired RIH Acquisitions MS I, LLC and RIH Acquisitions MS II, LLC, the holding companies for the gaming operations of 1st Jackpot Casino Tunica and Resorts Casino Tunica, for total cash consideration of \$47.0 million. The Company leases the underlying real estate assets associated with these properties from GLPI pursuant to the Penn Master Lease. For more information, see [Note 10, “Master Lease Financing Obligations and Lease Obligations.”](#)

Rocket Speed

On August 1, 2016, the Company acquired 100% of the outstanding equity securities of social casino game developer, Rocket Speed, for initial cash consideration of \$60.5 million subject to customary working capital adjustments. The stock purchase agreement included contingent consideration payments over the next two years that were based on a multiple of 6.25 times Rocket Games’ then trailing-twelve-months earnings before interest, taxes, depreciation and amortization (“EBITDA”), subject to a cap of \$110 million. Up to \$10 million of the contingent consideration was accounted for as compensation as it was tied to continued employment over a two-year period. The fair value of the contingent purchase price was estimated to be \$34.4 million at the acquisition date.

In September 2017, PIV reached an agreement with the former shareholders of Rocket Speed to buy out the remaining contingent consideration, which resulted in a benefit of \$22.2 million, which is included within “General and administrative” within our Consolidated Statements of Operations for the year ended December 31, 2017.

Jamul Indian Village Development Corporation

On April 5, 2013, the Company announced that, subject to final National Indian Gaming Commission approval, it and the Jamul Tribe entered into definitive agreements to assist the Jamul Tribe in the development of a Hollywood Casino-branded casino on the Jamul Tribe’s trust land in San Diego County, California. The definitive agreements were entered into to: (i) secure the development, management, and branding services of the Company to assist the Jamul Tribe during the pre-development and entitlement phase of the project; (ii) set forth the terms and conditions under which the Company would provide a loan or loans to the JIVDC to fund certain development costs; and (iii) create an exclusive arrangement between the parties.

The Jamul Tribe is a federally recognized Indian Tribe holding a government-to-government relationship with the U.S. through the U.S. Department of the Interior’s Bureau of Indian Affairs and possessing certain inherent powers of self-government. The Jamul Tribe is the beneficial owner of approximately six acres of reservation land located within the exterior boundaries of the State of California held by the U.S. in trust for the Jamul Tribe (the “Property”). The Jamul Tribe exercises jurisdiction over the Property pursuant to its powers of self-government and consistent with the resolutions and ordinances of the Jamul Tribe.

In January 2014, the Company announced the commencement of construction activities at the site. The facility opened to the public on October 10, 2016. The Company provided a portion of the financing to the JIVDC in connection with the project and, following the opening, had managed and provided branding for the casino.

The Company accounted for the development agreement and related loan commitment letter with the JIVDC as a loan (the “Loan”) with accrued interest in accordance with ASC Topic 310, “Receivables” (“ASC 310”). The Loan represented advances made by the Company to the JIVDC for the development and construction of a gaming facility for the Jamul Tribe on reservation land. As such, the Jamul Tribe owned the casino and its related assets and liabilities. Repayment of funds advanced to the Jamul Tribe was primarily predicated on cash flows from the operations of the facility.

In December 2015, the Company entered into an agreement to purchase a \$60 million subordinated note from the previous developer of the Jamul Indian Village project for \$24 million. Interest on this subordinated note, as of the effective date and at all times thereafter until the Loan has been paid in full, were to accrue as follows: as of the effective date, no interest shall

accrue initially; at the opening date, interest shall accrue at a simple fixed rate of 4.25% per annum. The subordinated note is subordinated to the Loan, and payments on the subordinated note may only be made after all necessary payments are made on the Loan subject to certain limitations. The Company recorded the subordinated note at its acquisition price of \$24 million, which was considered to be its fair value. As described below, this subordinated note was repaid in connection with the Jamul Tribe refinancing of its existing indebtedness and the Company received a \$6 million premium, which was accounted for as an origination fee on our new loan with the JIVDC.

On October 20, 2016, the JIVDC obtained long-term secured financing, consisting of revolving and term loan credit facilities (the “Credit Facilities”) totaling approximately \$460 million. The Credit Facilities, all of which were due in 2022, consisted of a \$5 million revolving credit facility, a \$340 million term loan B facility and a \$98 million term loan C facility (the “Term Loan C”). The revolving credit facility was provided by various commercial banks; the term loan B facility was held by an affiliate of Och-Ziff Real Estate; and the Term Loan C was held by the Company. The Company accounted for the Term Loan C with the JIVDC as a loan in accordance with ASC 310.

Additionally, on October 20, 2016, the Company was repaid a net amount of \$274.9 million (consisting of reimbursements totaling \$372.9 million less funds advanced of \$98.0 million) of the advances to the JIVDC for the development and construction of the property as well as previously purchased Jamul Tribal debt.

Although Hollywood Casino Jamul-San Diego opened to strong business and earnings volumes in October 2016, which met our expectations, results began to soften earlier and with a steeper drop-off than anticipated. As a result, we concluded the Term Loan C was impaired as of December 31, 2016 and at all time periods subsequent to this date. A loan is considered impaired when, based on current information, events and projections, it is probable that the Company will be unable to collect the scheduled payments of principal and/or interest when contractually due under the terms of the loan agreement. The fair value of the Loan was not observable, nor secured by any significant levels of collateral. Therefore, the Loan was not measured using a practical expedient (observable market rate of interest or fair value of collateral) under ASC 310. As such, an impairment charge recorded to the extent the present value of expected future cash flows discounted at the loan’s effective interest rate exceeded the carrying amount of the loan. The Company recorded interest income on a cash basis to the extent a reserve was not required for the impaired loan.

As of June 30, 2017, the JIVDC was effectively in breach of a financial covenant requirement with respect to debt-to-earnings ratios and as of September 30, 2017, the JIVDC was in active negotiations with its lenders to modify certain terms of its loan agreements, including the elimination of its June 30, 2017 financial covenant requirement. Amended terms that were negotiated during the fourth quarter 2017, were not accepted by the Jamul Tribe. As of December 31, 2017, the JIVDC was in default on its obligations. The Term Loan C was fully subordinated to the other lenders that had extended credit to the JIVDC.

In February 2018, the Company and the Jamul Tribe mutually agreed that Penn would no longer manage the facility or provide branding and development services as of May 28, 2018. The Company performed a comprehensive analysis of the future cash flows that we expected to receive on the Term Loan C based upon our best estimates of the operations of the facility and the concessions we would grant to the JIVDC. The expected cash flows to be received by the Company on the Term Loan C were then discounted at the Term Loan C’s effective interest rate in accordance with ASC 310, which was less than its carrying amount as of December 31, 2017. Therefore, the Company recorded a charge of \$86.0 million within its Consolidated Statements of Operations for the year ended December 31, 2017, of which \$64.0 million was recorded to an allowance for loan loss and \$22.0 million was recorded as a reserve for unfunded loan commitments. The reserve for unfunded loan commitments is included in “Other noncurrent liabilities” within the Consolidated Balance Sheets as of December 31, 2017. In addition to the reserves mentioned above, the Company recorded charges of \$3.8 million related to certain advances made to the JIVDC.

The unpaid principal balance of the Term Loan C as of December 31, 2017 was \$98.3 million and the net carrying amount was \$20.9 million. The Company’s remaining exposure as of December 31, 2017 was \$27.9 million, inclusive of future unfunded commitments on the Term Loan C.

On May 25, 2018, the Company entered into a purchase agreement (the “Purchase Agreement”) with the senior lender under the credit facility for the gaming facility to sell them all of the Company’s outstanding rights and obligations under the Term Loan C and the JIVDC commitments. Pursuant to the Purchase Agreement and related agreements, the Company received cash proceeds of \$15.2 million from the sale and has been relieved of all rights and obligations with respect to the JIVDC. The sale of the loan resulted in a recovery of loan losses and unfunded loan commitments of \$17.0 million for the year ended December 31, 2018.

Retama Park Racetrack

We have a management contract with Retama Development Corporation (“RDC”), a local government corporation of the City of Selma, Texas, to manage the day-to-day operations of Retama Park Racetrack, located outside of San Antonio, Texas. In addition, we own 1.0% of the equity of Retama Nominal Holder, LLC, which holds a nominal interest in the racing license used to operate Retama Park Racetrack. Additionally, we own a 75.5% interest in Pinnacle Retama Partners, LLC (“PRP”), which owns the contingent gaming rights that may arise if gaming under the existing racing license becomes legal in Texas in the future.

As of December 31, 2018, PRP held \$16.9 million in promissory notes issued by RDC and \$7.5 million in local government corporation bonds issued by RDC, at amortized cost. The promissory notes and local government corporation bonds, which are included in “Other assets” within our Consolidated Balance Sheets, have long-term contractual maturities and are collateralized by the assets of Retama Park Racetrack. The contractual terms of these promissory notes include interest payments due at maturity; however, we have not recorded accrued interest on these promissory notes because uncertainty exists as to RDC’s ability to make interest payments. We have the positive intent and ability to hold the local government corporation bonds to maturity and until the amortized cost is recovered.

Note 6—Investments in and Advances to Unconsolidated Affiliates

As of December 31, 2018, investment in and advances to unconsolidated affiliates primarily included the Company’s 50% investment in Kansas Entertainment, which is a joint venture with International Speedway, its 50% interest in Freehold Raceway, and its 50% joint venture with MAXXAM, Inc. (“MAXXAM”) that owns and operates racetracks in Texas.

Kansas Joint Venture

The Company has a 50% investment in Kansas Entertainment, which owns the Hollywood Casino at Kansas Speedway. As of December 31, 2018 and 2017, the Company’s investment balance was \$89.4 million and \$88.3 million, respectively. During the years ended December 31, 2018, 2017 and 2016, the Company received distributions from Kansas Entertainment totaling \$27.0 million, \$26.0 million and \$25.8 million, respectively, which the Company deemed to be returns on its investment based on the source of those cash flows from the normal business operations of Kansas Entertainment.

As of and for the years ended December 31, 2018 and 2017, the Company determined that Kansas Entertainment is a VIE that should not be consolidated since the Company does not qualify as the primary beneficiary. In making this determination, the Company concluded that it does not have the ability to direct the activities of Kansas Entertainment that most significantly impact Kansas Entertainment’s economic performance without the approval of International Speedway. Furthermore, International Speedway has substantive participating rights in Kansas Entertainment.

For the year ended December 31, 2018, the Company’s investment in Kansas Entertainment met the requirements of Regulation S-X Rule 4-08(g) to provide summarized financial information. The following table provides summary balance sheet and income statement information of Kansas Entertainment as required under Regulation S-X Rule 1-02(bb) for the comparative periods that are included within the Company’s Consolidated Financial Statements:

| | December 31, | | |
|---|---------------------------------|------------|------------|
| | 2018 | 2017 | 2016 |
| <i>(in thousands)</i> | | | |
| Current assets | \$ 18,260 | \$ 18,452 | \$ 16,638 |
| Noncurrent assets | \$ 161,031 | \$ 165,801 | \$ 176,050 |
| Current liabilities | \$ 15,099 | \$ 17,861 | \$ 15,351 |
| | | | |
| | For the year ended December 31, | | |
| | 2018 | 2017 | 2016 |
| <i>(in thousands)</i> | | | |
| Revenues | \$ 159,017 | \$ 155,636 | \$ 152,926 |
| Operating expenses | 110,409 | 114,681 | 121,006 |
| Operating income | 48,608 | 40,955 | 31,920 |
| Net income | \$ 48,608 | \$ 40,955 | \$ 31,920 |
| | | | |
| Net income attributable to Penn National Gaming, Inc. | \$ 24,304 | \$ 20,478 | \$ 15,960 |

In addition to the assessment performed by the Company of its investment in Kansas Entertainment under the requirements of Regulation S-X Rule 4-08(g), the Company also assessed its investment in Kansas Entertainment under the requirements of Regulation S-X Rule 3-09(b) for the year ended December 31, 2018 and determined it was required to provide audited financial statements of Kansas Entertainment. The audited financial statements of Kansas Entertainment for the years ended June 30, 2018, 2017 and 2016 are provided as exhibits to this document to comply with this rule.

Texas and New Jersey Joint Ventures

The Company has a 50% interest in a joint venture with MAXXAM, which owns and operates the Sam Houston Race Park in Houston, Texas and the Valley Race Park in Harlingen, Texas, and holds a license for a racetrack in Austin, Texas. Sam Houston Race Park hosts thoroughbred and quarter-horse racing and offers daily simulcast operations, and Valley Race Park features dog racing and simulcasting. In addition, through a separate arrangement, the Company has a 50% interest in a joint venture with Greenwood Limited Jersey, Inc. (“Greenwood”), which owns and operates Freehold Raceway, in Freehold, New Jersey. The property features a half-mile standardbred racetrack and a grandstand.

As of December 31, 2018 and 2017, the Company has determined that neither its Texas joint venture nor its New Jersey joint venture qualify as a VIE. Using the guidance for entities that are not VIEs, in both cases, the Company determined that it did not have a controlling financial interest in either of the joint ventures as of and for the years ended December 31, 2018 and 2017, primarily as it did not have the ability to direct the activities of either of the joint ventures that most significantly impacted the joint ventures’ economic performance without the input of MAXXAM or Greenwood, respectively. Therefore, the Company did not consolidate either of its investment in the joint ventures as of and for the years ended December 31, 2018 and 2017.

Note 7—Property and Equipment

Property and equipment, net, consisted of the following:

| <i>(in thousands)</i> | December 31, | |
|---|--------------|--------------|
| | 2018 | 2017 |
| Property and equipment - non-Master Leases | | |
| Land and improvements | \$ 343,987 | \$ 294,695 |
| Building, vessels and improvements | 342,944 | 429,015 |
| Furniture, fixtures and equipment | 1,565,830 | 1,385,889 |
| Leasehold improvements | 152,943 | 130,801 |
| Construction in progress | 25,473 | 15,617 |
| | 2,431,177 | 2,256,017 |
| Less: Accumulated depreciation | (1,400,198) | (1,345,147) |
| | 1,030,979 | 910,870 |
| Property and equipment - Master Leases | | |
| Land and improvements | 2,970,969 | 424,700 |
| Building, vessels and improvements | 3,845,062 | 2,258,577 |
| | 6,816,031 | 2,683,277 |
| Less: Accumulated depreciation | (978,242) | (837,478) |
| | 5,837,789 | 1,845,799 |
| Property and equipment, net | \$ 6,868,768 | \$ 2,756,669 |

Depreciation expense for all of our property and equipment was \$251.9 million, \$248.2 million and \$261.9 million for the years ended December 31, 2018, 2017 and 2016, respectively, of which, \$112.1 million, \$92.4 million and \$91.1 million, pertained to real estate assets subject to either of our Master Leases, respectively. Interest capitalized in connection with major construction projects was zero, \$0.2 million and \$0.1 million for the years ended December 31, 2018, 2017 and 2016, respectively.

During the year ended December 31, 2018, we recorded \$34.3 million of impairment on the property and equipment associated with our Resorts Casino Tunica property, principally relating to the real estate assets subject to the Penn Master Lease. The charge was the result of an impairment assessment performed after reviewing the financial results and projected results of this facility, which has been impacted by nearby competition. This impairment is included in “Provision for loan loss

and unfunded loan commitments to the JIVDC, net of recoveries, and impairment losses” within our Consolidated Statements of Operations. For additional information, see [Note 16, “Fair Value Measurements.”](#)

Note 8—Goodwill and Other Intangible Assets

A reconciliation of goodwill and accumulated goodwill impairment losses, by reportable segment, is as follows:

| <i>(in thousands)</i> | Northeast Segment | South Segment | West Segment | Midwest Segment | Other | Total |
|--|------------------------------|----------------------|---------------------|----------------------------|--------------|--------------|
| Balance as of January 1, 2017 | | | | | | |
| Goodwill, gross | \$ 792,024 | \$ 100,929 | \$ 158,992 | \$ 1,045,983 | \$ 155,322 | \$ 2,253,250 |
| Accumulated goodwill impairment losses | (707,593) | (34,522) | (1,812) | (435,283) | (84,355) | (1,263,565) |
| Goodwill, net | 84,431 | 66,407 | 157,180 | 610,700 | 70,967 | 989,685 |
| Goodwill acquired during year ⁽¹⁾ | — | 35,929 | — | 669 | — | 36,598 |
| Impairment losses during year | — | — | (14,821) | — | (3,205) | (18,026) |
| Other | — | — | — | — | (160) | (160) |
| Balance as of December 31, 2017 | | | | | | |
| Goodwill, gross | 792,024 | 136,858 | 158,992 | 1,046,652 | 155,322 | 2,289,848 |
| Accumulated goodwill impairment losses | (707,593) | (34,522) | (16,633) | (435,283) | (87,720) | (1,281,751) |
| Goodwill, net | 84,431 | 102,336 | 142,359 | 611,369 | 67,602 | 1,008,097 |
| Goodwill acquired during year | 56,400 | 48,300 | 51,431 | 63,400 | 794 | 220,325 |
| Balance as of December 31, 2018 | | | | | | |
| Goodwill, gross | 848,424 | 185,158 | 210,423 | 1,110,052 | 156,116 | 2,510,173 |
| Accumulated goodwill impairment losses | (707,593) | (34,522) | (16,633) | (435,283) | (87,720) | (1,281,751) |
| Goodwill, net | \$ 140,831 | \$ 150,636 | \$ 193,790 | \$ 674,769 | \$ 68,396 | \$ 1,228,422 |

(1) The amount in the South segment originated from the acquisitions of 1st Jackpot Casino Tunica and Resorts Casino Tunica, described in [Note 5, "Acquisitions and Other Investments."](#)

As of September 30, 2017, the Company identified an indicator of impairment on its goodwill as a result of a reversal of a significant deferred tax valuation allowance, which caused increases in the carrying amounts of certain of our reporting units. As a result of an interim assessment for impairment, the goodwill at Tropicana Las Vegas was fully impaired, resulting in an impairment charge of \$14.8 million, and the goodwill at Sanford-Orlando Kennel Club was partially impaired, resulting in an impairment charge of \$3.2 million. The estimated fair values of the reporting units were determined by using discounted cash flow models, which utilized Level 3 inputs. These impairments are included in "Provision for loan loss and unfunded loan commitments to the JIVDC, net of recoveries, and impairment losses" within our Consolidated Statements of Operations.

As of December 31, 2018, six reporting units had negative carrying amounts. The amount of goodwill at these reporting units was as follows (in thousands):

| | |
|--|-----------|
| Northeast segment | |
| Hollywood Casino at Charles Town Races | \$ 8,654 |
| Hollywood Casino Columbus | \$ 6,200 |
| Hollywood Casino Toledo | \$ 5,800 |
| South segment | |
| Hollywood Casino Gulf Coast | \$ 2,700 |
| Midwest segment | |
| Argosy Casino Alton | \$ 11,863 |
| Hollywood Casino Joliet | \$ 4,600 |

The table below presents the gross carrying amount, accumulated amortization, and net carrying amount of each major class of other intangible assets:

| <i>(in thousands)</i> | December 31, 2018 | | | December 31, 2017 | | |
|---|--------------------------|-----------------------------|------------------------|--------------------------|-----------------------------|------------------------|
| | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
| Indefinite-lived intangible assets | | | | | | |
| Gaming licenses | \$ 1,498,309 | \$ — | \$ 1,498,309 | \$ 374,709 | \$ — | \$ 374,709 |
| Trademarks | 298,000 | — | 298,000 | — | — | — |
| Other | 696 | — | 696 | 696 | — | 696 |
| Amortizing intangible assets | | | | | | |
| Customer relationships | 98,752 | (51,544) | 47,208 | 75,252 | (42,432) | 32,820 |
| Other | 61,918 | (49,263) | 12,655 | 56,231 | (41,850) | 14,381 |
| Total other intangible assets | \$ 1,957,675 | \$ (100,807) | \$ 1,856,868 | \$ 506,888 | \$ (84,282) | \$ 422,606 |

Other intangible assets increased by \$1,434.3 million for the year ended December 31, 2018 primarily due to the Pinnacle Acquisition, which is discussed in [Note 5, “Acquisitions and Other Investments.”](#) Additionally, we purchased two Category 4 gaming licenses to operate up to 750 slot machines and initially up to 30 table games, under each license, in York County, Pennsylvania for \$50.1 million and in Berks County, Pennsylvania for \$7.5 million, and real money iGaming and sports betting licenses in Pennsylvania for \$20.0 million, all of which have been classified as indefinite-lived intangible assets. There were no impairment charges recorded on other intangible assets for the years ended December 31, 2018, 2017 or 2016.

Our amortizing intangible assets have a weighted-average remaining amortization period of 3.5 years. Amortization expense relating to our amortizing intangible assets were \$17.1 million, \$18.9 million, and \$9.3 million for the years ended December 31, 2018, 2017 and 2016, respectively. The following table presents the estimated amortization expense based on our amortizing intangible assets as of December 31, 2018 (in thousands):

Years ending December 31:

| | |
|--------------|------------------|
| 2019 | \$ 22,085 |
| 2020 | 16,472 |
| 2021 | 4,795 |
| 2022 | 4,063 |
| 2023 | 4,003 |
| Thereafter | 8,445 |
| Total | \$ 59,863 |

Note 9—Long-term Debt

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

| <i>(in thousands)</i> | December 31, | |
|--|--------------|--------------|
| | 2018 | 2017 |
| Senior Secured Credit Facilities: | | |
| Revolving Credit Facility due 2023 | \$ 112,000 | \$ — |
| Term Loan A Facility due 2023 | 707,674 | 288,750 |
| Term Loan B Facility due 2024 | — | 471,250 |
| Term Loan B-1 Facility due 2025 | 1,128,750 | — |
| 5.625% Notes due 2027 | 400,000 | 400,000 |
| Other long-term obligations | 104,583 | 119,310 |
| Capital leases | 381 | 891 |
| | 2,453,388 | 1,280,201 |
| Less: Current maturities of long-term debt | (62,140) | (35,612) |
| Less: Debt discount | (2,748) | (2,558) |
| Less: Debt issuance costs | (38,412) | (27,406) |
| | \$ 2,350,088 | \$ 1,214,625 |

The following is a schedule of future minimum repayments of long-term debt as of December 31, 2018 (in thousands):

| Year ending December 31: | |
|--------------------------|--------------|
| 2019 | \$ 62,140 |
| 2020 | 63,114 |
| 2021 | 81,474 |
| 2022 | 99,919 |
| 2023 | 655,069 |
| Thereafter | 1,491,672 |
| Total minimum payments | \$ 2,453,388 |

Senior Secured Credit Facilities

On October 30, 2013, the Company entered into a credit agreement (the “2013 Credit Agreement”) providing for: (i) a five-year \$500 million revolving credit facility (the “2013 Revolving Credit Facility”), (ii) a five-year \$500 million term loan A facility (the “2013 Term Loan A Facility”) and (iii) a seven-year \$250 million term loan B facility (the “2013 Term Loan B Facility” and collectively with the 2013 Revolving Credit Facility and the 2013 Term Loan A Facility, the “2013 Senior Secured Credit Facilities”). The 2013 Term Loan A Facility was priced at LIBOR plus a spread (ranging from 1.25% to 2.75%) based on the Company’s Consolidated Total Net Leverage Ratio (as defined in the 2013 Credit Agreement). The 2013 Term Loan B Facility was priced at LIBOR plus 2.50%, with a 0.75% LIBOR floor.

On April 28, 2015, the Company entered into an agreement to amend its 2013 Credit Agreement (the “Amended 2013 Credit Agreement”). In August 2015, the Amended 2013 Credit Agreement went into effect, which increased the capacity under the 2013 Revolving Credit Facility to \$633.2 million and increased the 2013 Term Loan A Facility to \$646.7 million. The Amended 2013 Credit Agreement did not impact the 2013 Term Loan B Facility.

On January 19, 2017, the Company entered into an agreement to amend and restate its Amended 2013 Credit Agreement (the “2017 Credit Agreement”), which provided for: (i) a five-year \$700 million revolving credit facility (the “Revolving Credit Facility”), a five-year \$300 million term loan A facility (the “Term Loan A Facility”), and a seven-year \$500 million Term Loan B facility (the “Term Loan B Facility” and collectively with the Revolving Credit Facility and the Term Loan A Facility, the “Senior Secured Credit Facilities”).

On October 15, 2018, in connection with the Pinnacle Acquisition, the Company entered into an incremental joinder agreement (the “Incremental Joinder”), which amended the 2017 Credit Agreement (the “Amended 2017 Credit Agreement”). The Incremental Joinder provided for an additional \$430.2 million of incremental loans having the same terms as the existing

Term Loan A Facility, with the exception of extending the maturity date, and an additional \$1,128.8 million of loans as a new tranche having new terms (the “Term Loan B-1 Facility”). The proceeds resulting from the Incremental Joinder were used; together with cash on hand and proceeds received from (i) newly-issued shares of the Company’s common stock, (ii) the sale of the Divested Properties to Boyd, (iii) the Plainridge Park Casino Sale-Leaseback, and (iv) the sale of the real estate assets associated with Belterra Park to GLPI; to (a) acquire all of the issued and outstanding equity interests of Pinnacle, (b) repay in full Pinnacle’s existing senior secured credit facilities at the time of the acquisition, (c) redeem, repurchase, defease or satisfy and discharge in full Pinnacle’s outstanding 5.625% senior notes due 2024, (d) repay in full the Company’s outstanding borrowings under its Term Loan B Facility at the time of the acquisition, and (e) pay fees, costs and expenses associated with the foregoing. With the exception of extending the maturity date, the Incremental Joinder did not impact the Revolving Credit Facility.

The final maturity dates for the Term Loan A Facility and Term Loan B-1 Facility are October 19, 2023 and October 15, 2025, respectively. The applicable margin for the Term Loan A Facility ranges from 1.25% to 3.00% per annum for LIBOR loans and 0.25% to 2.00% per annum for base rate loans, in each case depending on the Consolidated Total Net Leverage Ratio (as defined in the Amended 2017 Credit Agreement) as of the most recent fiscal quarter. The applicable margin for the Term Loan B-1 Facility is 2.25% per annum for LIBOR loans and 1.25% per annum for base rate loans. The Term Loan B-1 Facility is subject to a LIBOR “floor” of 0.75%. Prior to extinguishment, the applicable margin for the Term Loan B Facility was 2.50% per annum for LIBOR loans and 1.50% per annum for base rate loans. In addition, we pay a commitment fee on the unused portion of the commitments under the Revolving Credit Facility at a rate that ranges from 0.20% to 0.50% per annum, depending on the Consolidated Total Net Leverage Ratio as of the most recent fiscal quarter.

As of December 31, 2018 and 2017, the Company had conditional obligations under letters of credit issued pursuant to the Senior Secured Credit Facilities with face amounts aggregating \$30.0 million and \$22.1 million, respectively, resulting in \$558.0 million and \$677.9 million of available borrowing capacity under the Revolving Credit Facility, respectively.

For the year ended December 31, 2018, in connection with the debt financing transactions relating to the Pinnacle Acquisition and principal repayments on the Term Loan B Facility, the Company recorded \$5.5 million in refinancing costs and a \$21.0 million loss on early extinguishment of debt, related to refinancing costs on the extinguishment of the Term Loan B Facility and the write-off of debt issuance costs and the discount on the Term Loan B Facility. For the year ended December 31, 2017, in connection with the repayment of the 2013 Senior Secured Credit Facilities, the Company recorded \$1.7 million in refinancing costs and a \$2.3 million loss on early extinguishment of debt, related to the write-off of debt issuance costs and the discount on the 2013 Term Loan B Facility. The refinancing costs are included in “Other” within our Consolidated Statements of Operations.

The payment and performance of obligations under the Senior Secured Credit Facilities are guaranteed by a lien on and security interest in substantially all of the assets (other than excluded property such as gaming licenses) of the Company and its subsidiaries.

5.625% Senior Unsecured Notes

On January 19, 2017, the Company completed an offering of \$400 million aggregate principal amount of 5.625% senior unsecured notes that mature on January 15, 2027 (the “5.625% Notes”) at a price of par. Interest on the 5.625% Notes is payable on January 15th and July 15th of each year. The 5.625% Notes will not be guaranteed by any of the Company’s subsidiaries except in the event that the Company in the future issues certain subsidiary-guaranteed debt securities. The Company may redeem the 5.625% Notes at any time on or after January 15, 2022, at the declining redemption premiums set forth in the indenture governing the 5.625% Notes, and, prior to January 15, 2022, at a “make-whole” redemption premium set forth in the indenture governing the 5.625% Notes. In addition, prior to January 15, 2020, the Company may redeem the 5.625% Notes with an amount equal to the net proceeds from one or more equity offerings, at a redemption price equal to 105.625% of the principal amount of the 5.625% Notes redeemed, together with accrued and unpaid interest to, but not including, the redemption date, so long as at least 60% of the aggregate principal amount of the notes originally issued under the indenture remains outstanding and such redemption occurs within 180 days of closing of the related equity offering.

The Company used a portion of the proceeds from the issuance of the 5.625% Notes to retire its existing 5.875% Notes (as defined below) and, along with loans funded under the 2017 Credit Agreement, repay amounts outstanding under its Amended 2013 Credit Agreement, including to fund related transaction fees and expenses. The remaining proceeds from the issuance of the 5.625% Notes were used for general corporate purposes.

Redemption of 5.875% Senior Subordinated Notes

During the year ended December 31, 2017, the Company redeemed all of its \$300 million 5.875% senior subordinated notes (“5.875% Notes”), which were due in 2021. In connection with this redemption, the Company recorded a \$21.1 million loss on early extinguishment of debt for the year ended December 31, 2017 related to the difference between the reacquisition price of the 5.875% Notes and their carrying amount.

Other Long-Term Obligations

Ohio Relocation Fees

As of December 31, 2018 and 2017, other long-term obligations included \$91.3 million and \$105.4 million, respectively, related to the relocation fees for Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course.

In June 2013, the Company finalized the terms of its memorandum of understanding with the State of Ohio, which included an agreement by the Company to pay a relocation fee in return for being able to relocate its existing racetracks in Toledo and Grove City to Dayton and Mahoning Valley, respectively. Upon opening of these two racinos in Ohio in September 2014, the relocation fee for each new racino was recorded at the present value of the contractual obligation, which was calculated as \$75.0 million based on the 5.0% discount rate included in the agreement. The relocation fee for each facility is payable as follows: \$7.5 million upon the opening of the facility and eighteen semi-annual payments of \$4.8 million beginning one year after the commencement of operations. This obligation is accreted to interest expense at an effective yield of 5.0%. The amount included in interest expense related to this obligation was \$4.8 million, \$5.5 million and \$6.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Event Center

As of December 31, 2018 and 2017, other long-term obligations included \$13.2 million and \$13.8 million, respectively, related to the repayment obligation of a hotel and event center located near Hollywood Casino Lawrenceburg.

The City of Lawrenceburg Department of Redevelopment completed construction of a hotel and event center located less than a mile away from Hollywood Casino Lawrenceburg. Effective in January 2015, by contractual agreement, a repayment obligation for the hotel and event center was assumed by a wholly-owned subsidiary of the Company in the amount of \$15.3 million, which was financed through a loan with the City of Lawrenceburg Department of Redevelopment, in exchange for conveyance of the property. The Company is obligated to make annual payments on the loan of \$1.0 million for 20 years, which began in January 2016. This obligation is accreted to interest expense at its effective yield of 3.0%. The amount included in interest expense related to this obligation was \$0.4 million for each of the years ended December 31, 2018, 2017 and 2016.

Corporate Airplane Loan

On September 30, 2016, the Company acquired a previously-leased corporate airplane that was accounted for as a capital lease, which was financed through an amortizing loan at a fixed interest rate of 5.22% for a term of five years with monthly payments of \$0.2 million and a balloon payment of \$12.6 million at the end of the loan term. We repaid the loan in full on January 19, 2017.

Covenants

Our Senior Secured Credit Facilities and 5.625% Notes require us, among other obligations, to maintain specified financial ratios and to satisfy certain financial tests, including the Maximum Consolidated Total Net Leverage Ratio, Maximum Consolidated Senior Secured Net Leverage Ratio and Minimum Interest Coverage Ratio (as such terms are defined in our Amended 2017 Credit Agreement) as well as the Fixed Charge Coverage Ratio (as defined in the indenture governing our 5.625% Notes). In addition, the Company’s Senior Secured Credit Facilities and 5.625% 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, engage in mergers or consolidations, and otherwise restrict corporate activities. As of December 31, 2018, the Company was in compliance with all required financial covenants.

Note 10—Master Lease Financing Obligations and Lease Obligations**Master Lease Financing Obligations**

The majority of the gaming facilities used in the Company’s operations are subject to triple net master leases; the most significant of which are the Penn Master Lease and the Pinnacle Master Lease. As discussed in [Note 3, “Summary of Significant Accounting Policies,”](#) the Company’s Master Leases are accounted for as financing obligations. Contingent rental payments, such as escalators and the percentage rents not considered to be fixed at lease inception under the Penn Master Lease and the Pinnacle Master Lease are recorded as interest expense as incurred.

Penn Master Lease

Pursuant to a triple net master lease with GLPI (the “Penn Master Lease”), which became effective November 1, 2013, the Company leases real estate assets associated with 20 of the gaming facilities used in its operations. The Penn Master Lease has an initial term of 15 years with four subsequent, five-year renewal periods on the same terms and conditions, exercisable at the Company’s option.

The payment structure under the Penn Master Lease includes a fixed component, a portion of which is subject to an annual escalator of up to 2%, depending on the Adjusted Revenue to Rent Ratio (as defined in the Penn Master Lease) of 1.8:1, and a component that is based on the performance of the facilities, which is prospectively adjusted (i) every five years by an amount equal to 4% of the average change in net revenues of all facilities under the Penn Master Lease compared to a contractual baseline (other than Hollywood Casino Columbus and Hollywood Casino Toledo) during the preceding five years (“Penn Percentage Rent”) and (ii) monthly by an amount equal to 20% of the revenues of Hollywood Casino Columbus and Hollywood Casino Toledo in excess of a contractual baseline.

In April 2014, we entered into an amendment to the Penn Master Lease in order to revise certain provisions relating to our former Argosy Casino Sioux City property. In accordance with that amendment, upon the cessation of gaming operations at Argosy Casino Sioux City on July 30, 2014, due to the termination of its gaming license, the annual payment to GLPI was reduced by \$6.2 million. In addition, with the openings of Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course in September 2014, our annual payment increased by \$19 million, which approximated 10% of the real estate construction costs paid for by GLPI related to these facilities.

In connection with the acquisitions of 1st Jackpot Casino Tunica and Resorts Casino Tunica in May 2017, the Company’s Penn Master Lease financing obligation increased by \$82.6 million, which was the price paid by GLPI for the casinos’ underlying real estate assets. As a result of the addition of these two properties to the Penn Master Lease, the annual rent payment increased by \$9.0 million.

The Company has incurred annual escalators under the Penn Master Lease, which resulted in increases to the Company’s annual payment of \$5.4 million, \$2.4 million and \$4.5 million commencing on November 1, 2018, 2017 and 2016, respectively. Additionally, effective November 1, 2018, the Penn Percentage Rent reset resulted in an annual rent reduction of \$11.3 million, which will be in effect until the next Penn Percentage Rent reset, occurring on November 1, 2023.

Total lease payments under the Penn Master Lease were as follows:

| <i>(in thousands)</i> | For the year ended December 31, | | |
|---|--|-------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Reduction of financing obligation | \$ 60,061 | \$ 57,859 | \$ 50,548 |
| Interest expense attributable to financing obligation | 401,483 | 397,580 | 391,738 |
| Total lease payments under the Penn Master Lease | \$ 461,544 | \$ 455,439 | \$ 442,286 |

The interest expense recognized for the years ended December 31, 2018, 2017 and 2016 includes \$48.9 million, \$46.8 million and \$43.8 million, respectively, from contingent payments associated with the monthly variable components for Hollywood Casino Columbus and Hollywood Casino Toledo.

Pinnacle Master Lease

In connection with the Pinnacle Acquisition, the Company assumed a triple net master lease with GLPI, originally effective April 28, 2016 (“Pinnacle Master Lease”). Concurrent with the closing of the Pinnacle Acquisition on October 15, 2018, the Company entered into an amendment to the Pinnacle Master Lease to, among other things, (i) remove Ameristar Casino Resort St. Charles, Ameristar Casino Hotel Kansas City and Belterra Casino Resort, which were sold to Boyd, and (ii) add Plainridge

Park Casino, whose real estate assets were sold to GLPI and concurrently leased back to the Company for a fixed annual rent of \$25.0 million. Further, the rent payment under the Pinnacle Master Lease was increased by a fixed annual amount of \$13.9 million to adjust the rent to reflect current market conditions. Reflecting this amendment, the Company leases real estate assets associated with twelve of the gaming facilities used in the Company's operations from GLPI.

Upon assumption of the Pinnacle Master Lease, as amended, there were 7.5 years remaining of the initial 10-year term, with five subsequent, five-year renewal periods exercisable at the Company's option. The payment structure under the Pinnacle Master Lease includes a fixed component, which is subject to an annual escalator of up to 2%, depending on the Adjusted Revenue to Rent Ratio (as defined in the Pinnacle Master Lease) of 1.8:1, and a component that is based on the performance of the facilities, which is prospectively adjusted every two years by an amount equal to 4% of the average change in net revenues of all facilities under the Pinnacle Master Lease compared to a contractual baseline during the preceding two years ("Pinnacle Percentage Rent"). The next Pinnacle Percentage Rent reset will occur effective May 1, 2020.

Total lease payments under the Pinnacle Master Lease were as follows:

| <i>(in thousands)</i> | For the Year Ended December 31, 2018 | |
|--|---|---------------|
| Reduction of financing obligation | \$ | 7,351 |
| Interest expense attributable to financing obligation | | 62,993 |
| Total lease payments under the Pinnacle Master Lease ⁽¹⁾ | \$ | 70,344 |

(1) Includes \$13.6 million pertaining to the period from October 15, 2018 through October 31, 2018, which was prepaid by Pinnacle.

The future minimum payments related to the Penn Master Lease and Pinnacle Master Lease as of December 31, 2018 were as follows:

| <i>(in thousands)</i> | Penn Master Lease | Pinnacle Master Lease | Total |
|---|------------------------------|----------------------------------|---------------------|
| Year ending December 31: | | | |
| 2019 | \$ 347,384 | \$ 329,245 | \$ 676,629 |
| 2020 | 347,384 | 308,067 | 655,451 |
| 2021 | 347,384 | 297,478 | 644,862 |
| 2022 | 347,384 | 297,478 | 644,862 |
| 2023 | 347,384 | 297,478 | 644,862 |
| Thereafter | 8,626,711 | 8,131,064 | 16,757,775 |
| Total minimum lease payments | 10,363,631 | 9,660,810 | 20,024,441 |
| Less: Amounts representing interest | (7,100,050) | (7,285,956) | (14,386,006) |
| Plus: Residual values | 215,179 | 1,294,801 | 1,509,980 |
| Present value of future minimum lease payments | 3,478,760 | 3,669,655 | 7,148,415 |
| Less: Current portion of financing obligation | (21,114) | (46,663) | (67,777) |
| Long-term portion of financing obligation | \$ 3,457,646 | \$ 3,622,992 | \$ 7,080,638 |

Operating Lease Commitments

The Company is liable under numerous operating leases for various assets, including, but not limited to ground leases, the Meadows Lease (as defined and discussed below), automobiles, and other equipment. Total rental expense under all operating lease agreements was \$58.1 million, \$45.4 million and \$40.3 million for the years ended December 31, 2018, 2017 and 2016, respectively.

The future minimum lease commitments relating to the base lease rent portion of noncancelable operating leases as of December 31, 2018 were as follows (in thousands):

Year ending December 31:

| | | |
|------------|----|---------|
| 2019 | \$ | 43,913 |
| 2020 | | 40,510 |
| 2021 | | 30,497 |
| 2022 | | 30,109 |
| 2023 | | 28,454 |
| Thereafter | | 272,492 |
| Total | \$ | 445,975 |

Meadows Lease

In connection with the Pinnacle Acquisition, the Company assumed a triple net lease of the real estate assets used in the operation of Meadows Racetrack and Casino, originally effective September 9, 2016 (the “Meadows Lease”), with GLPI as the landlord. The Meadows Lease is accounted for as an operating lease.

Upon assumption of the Meadows Lease, there were 8.0 years remaining of the initial 10-year term, with three subsequent, five-year renewal options followed by one four-year renewal option on the same terms and conditions, exercisable at the Company’s option. The payment structure under the Meadows Lease includes a fixed component (“Meadows Base Rent”), which is subject to an annual escalator of up to 5% for the initial term or until the lease year in which Meadows Base Rent plus Meadows Percentage Rent (see defined below) is a total of \$31.0 million, subject to certain adjustments, and up to 2% thereafter, subject to an Adjusted Revenue to Rent Ratio (as defined in the Meadows Lease) of 2.0:1. The Meadows Percentage Rent is based on the performance of the facilities, which is prospectively adjusted for the next two-year period equal to 4% of the average annual net revenues during the trailing two-year period. The next Meadows Percentage Rent reset will occur effective October 1, 2020.

Total lease payments under the Meadows Lease were \$5.6 million during the year ended December 31, 2018, of which \$3.8 million was recorded as rent expense, which is included in “General and administrative” within our Consolidated Statements of Operations.

Note 11—Commitments and Contingencies

Litigation

The Company is subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions, development agreements and other matters arising in the ordinary 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.

Legal proceedings could result in costs, settlements, damages, or rulings that materially impact the Company’s consolidated financial condition or operating results. The Company believes that it has meritorious defenses, claims and/or counter-claims with respect to these proceedings, and intends to vigorously defend itself or pursue its claims.

Location Share Agreements

The Company’s subsidiary, PSG, enters into location share agreements with bar and retail establishments in Illinois. These agreements are contracts which allow PSG to place VGTs in the bar or retail establishment in exchange for a percentage of the variable revenue generated by the VGTs. PSG holds the gaming license with the state of Illinois and the location share percentage is determined by the state of Illinois. For the years ended December 31, 2018, 2017 and 2016, the total location share payments made by PSG, which are recorded within our Consolidated Statements of Operations as gaming expenses, were \$34.7 million, \$29.7 million, and \$21.2 million, respectively.

Purchase Obligations

The Company has obligations to purchase various goods and services totaling \$97.2 million as of December 31, 2018, of which \$64.9 million will be incurred in 2019.

Capital Expenditure Commitments

The Company's properties that are subject to either of the Master Leases are obligated to spend a minimum of 1% of annual net revenues for the maintenance of those facilities.

Labor Agreements

The Company is required to have agreements with the horsemen at the majority of its racetracks to conduct its live racing and/or simulcasting activities. In addition, in order to operate gaming machines and table games in West Virginia, the Company must maintain agreements with each of the Charles Town horsemen, pari-mutuel clerks and breeders.

At Hollywood Casino at Charles Town Races, the Company has an agreement with the Charles Town Horsemen's Benevolent and Protective Association, which expired on June 18, 2018, but has been extended until April 18, 2019. Hollywood Casino at Charles Town Races also has an agreement with the breeders that expires on June 30, 2019. Additionally, the pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Union of Mutuel Clerks, which expired on December 31, 2010, but has been extended on a month-to-month basis.

The Company's agreement with the Pennsylvania Horsemen's Benevolent and Protective Association at Hollywood Casino at Penn National Race Course was renewed through January 31, 2020. The Company has an agreement with Laborers' International Union of North America Local 108, regarding both on-track and off-track pari-mutuel clerks and admission staff, which expires on December 1, 2021. The Company has an agreement, which runs through August 2021, with the International Chapter of Horseshoers and Allied Equine Trades Local 947 regarding starting gate and jockey valet staff.

The Company's agreement with the Meadows Standardbred Owners Clubs Association was renewed through December 31, 2018. Meadows Racetrack and Casino has existing collective bargaining agreements with (1) The International Union, Security, Police and Fire Professionals of America and Local #508, which expires August 16, 2020, (2) UNITE/Hotel Employees and Restaurant Employees ("HERE") Local 57, which expires on September 11, 2020, and (3) Laborers Local Union #108 On-Track and Off-Track, which expires on March 31, 2022.

We are in the process of extending the Company's agreement with the Maine Harness Horsemen Association at Bangor Raceway through the conclusion of the 2020 racing season.

In March 2014, Hollywood Gaming at Mahoning Valley Race Course entered into an agreement with the Ohio Horsemen's Benevolent and Protective Association. The term is for a period of ten years from the September 2014 commencement of video lottery terminal operations at that facility. Hollywood Gaming at Dayton Raceway entered into a ten-year agreement with the Ohio Harness Horsemen's Association for racing at the property in September 2015. In January 2014, Plainridge Park Casino entered into an agreement with the Harness Horsemen's Association of New England, which expired on December 31, 2018 and is currently under negotiation.

Across certain of the Company's properties, Seafarers Entertainment and Allied Trade Union ("SEATU") represents approximately 1,628 of the Company's employees under a National Agreement that expires on January 24, 2032 and Local Addenda that expire at various times between June 2021 and October 2024.

SEATU agreements are in place at Hollywood Casino Joliet, Hollywood Casino Lawrenceburg, Argosy Casino Riverside, Argosy Casino Alton, Hollywood Casino at Kansas Speedway, Hollywood Gaming Dayton, Hollywood Gaming at Mahoning Valley, Plainridge Park Casino, and Ameristar East Chicago. Argosy Alton has a wage reopener in 2019; Plainridge Park Casino wage reopener from October 2018 is still outstanding. The remainder of the SEATU agreements have expiration dates in 2020 and beyond.

At Hollywood Casino Joliet, the Hotel Employees and Restaurant Employees Union Local 1 represents approximately 172 employees under a collective bargaining agreement which expires on March 31, 2019. At Hollywood Casino Columbus and Hollywood Casino Toledo, a council comprised of the United Auto Workers and the United Steel Workers represents approximately 1,254 employees under a collective bargaining agreement which ends on November 15, 2019.

Ameristar East Chicago has existing collective bargaining agreements with (1) SEATU, which expires on July 30, 2023 and (2) UNITE/HERE Best and Final, which expired April 30, 2018 and has been extended on a year-to-year basis.

Tropicana Las Vegas has seven existing collective bargaining agreements with the following unions: (1) Culinary & Bartenders, which expired on May 31, 2018 and continues year to year at the discretion of either party, (2) United Brotherhood of Carpenters, which expires on July 31, 2019, (3) International Brotherhood of Electrical Workers, which expires on February 28, 2021, (4) International Alliance of Theatrical Stage Employees, which expired on December 31, 2018 and continues year to year at the discretion of either party, (5) International Union of Painters and Allied Trades, which expired on June 30, 2018 and continues year to year at the discretion of either party, and (6)/(7) Teamsters, regarding front and back of the house; both agreements expired on March 31, 2018 and have been extended on a year-to-year basis.

If the Company fails to maintain operative 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 off-track wagering facilities (“OTWs”) and, in West Virginia, the Company will not be permitted to operate its gaming machines and table games unless the state intervenes or changes the statute. In addition, the Company’s simulcasting agreements are subject to the horsemen’s approval. If the Company fails to renew or modify existing agreements on satisfactory terms, 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 Hollywood Casino 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.

Employee Benefit Plans

The Company maintains a qualified retirement plan under the provisions of Section 401(k) of the Internal Revenue Code of 1986, as amended, which covers all eligible employees (the “Penn 401(k) Plan”). The Penn 401(k) 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, where applicable, of 50% of employees’ elective salary deferrals, up to a maximum of 6% of eligible employee compensation. The matching contributions to the Penn 401(k) Plan for the years ended December 31, 2018, 2017 and 2016 were \$6.5 million, \$6.0 million, and \$5.3 million, respectively.

The Company also has a defined contribution plan, the Charles Town Races Future Service Retirement Plan, covering substantially all of its union employees at Hollywood Casino at Charles Town Races. Hollywood Casino at Charles Town Races makes annual contributions to the defined contribution plan for the eligible union employees and to the Penn 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, 1.0% of net video lottery revenue up to a base and, after the base is met, it reverts to 0.5% and 0.84% of table and poker revenue, respectively. The contributions for the two plans at Hollywood Casino at Charles Town Races for the years ended December 31, 2018, 2017 and 2016 were \$2.6 million, \$2.6 million, and \$2.8 million, respectively.

The Company maintains a non-qualified deferred compensation plan (the “EDC Plan”) that covers most management and other highly-compensated employees. The EDC Plan was effective beginning March 1, 2001. The EDC Plan allows the participants to defer, on a pre-tax basis, a portion of their base annual salary and/or their annual bonus and earn tax-deferred earnings on these deferrals. The EDC 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 for the EDC Plan for the years ended December 31, 2018, 2017 and 2016 were \$2.3 million, \$2.2 million, and \$2.2 million, respectively. The Company’s deferred compensation liability, which is included in “Other current liabilities” within the Consolidated Balance Sheets, was \$64.1 million and \$64.7 million as of December 31, 2018 and 2017, respectively.

Note 12—Income Taxes

On December 22, 2017, the President of the United States signed into law comprehensive tax reform legislation commonly known as Tax Cuts and Jobs Act (the “Tax Act”), which introduces significant changes to the United States tax law. The Tax Act provides numerous provisions including, but not limited to, a reduction to the U.S. federal corporate tax rate from 35% to 21% effective January 1, 2018, a temporary provision allowing 100% expensing of qualifying capital improvements, a one-time transition tax on foreign earnings, a general elimination of U.S. federal income taxes on dividends received from foreign subsidiaries and a new provision designed to tax global intangible low-taxed income (“GILTI”).

Also on December 22, 2017, the SEC staff issued Staff Accounting Bulletin No. 118 (“SAB 118”), which provided accounting guidance for the Tax Act. SAB 118 provided a measurement period similar to a business combination whereby a company recognizes provisional amounts to the extent that they are reasonably estimable and adjusts them over time as more information becomes available, not to extend beyond one year from the Tax Act enactment date. In accordance with SAB 118, a company must reflect the income tax effects of the Tax Act for which the accounting under ASC 740 is complete. To the extent

the accounting related to the Tax Act is incomplete but a reasonable estimate is attainable, a provisional estimate should be reflected within the financial statements.

For the year ended December 31, 2017, the Company recorded a provisional amount for certain enactment-date effects of the Tax Act by applying the guidance in SAB 118 for the effects of the following aspects: remeasurement of deferred tax assets and liabilities, one-time transition tax, and tax on GILTI. As of December 31, 2018, the accounting for all enactment-date income tax effects of the Tax Act was complete resulting in an adjustment to income tax expense of \$1.2 million, which increased the effective tax rate for the year ended December 31, 2018 by 1.3%.

In connection with our initial analysis of the Tax Act impact during 2017, we recorded a provisional decrease to net deferred tax assets of \$261.3 million with a corresponding increase to deferred tax expense to account for the change in the federal tax rate to 21%. The Company's computations were complete as of December 22, 2018, and a change of \$0.3 million was recorded in the current year for the remeasurement of our net deferred tax assets. Beginning in 2018, the new federal rate of 21% has been reflected in the current federal tax expense within our Consolidated Statement of Operations.

Additionally, there was a one-time deemed repatriation tax on undistributed foreign earnings and profits (the "transition tax"). The application of the transition tax was relevant to certain undistributed and previously untaxed post-1986 foreign earnings and profits from our management service contract with Casino Rama located in Orillia, Ontario. The Company recognized a provisional tax expense of \$2.6 million related to the transition tax in 2017 and the new law allows a Company to pay this liability over an eight-year period without interest. Upon further analysis of the Tax Act and published guidance issued and proposed by the U.S. Department of the Treasury and the Internal Revenue Service, we finalized our calculations of the transition tax liability during 2018. We increased our December 31, 2017 provisional amount by \$0.9 million, which is included as a component of income tax expense. We have elected to pay our transition tax over the eight-year period provided in the Tax Act. As of December 31, 2018, the remaining balance of our transition tax obligation was \$3.2 million, which will be paid over the next seven years. The Tax Act also contained a new GILTI tax provision and due to the complexity and timing of the enactment, the Company did not record any provisional amount in the December 31, 2017 Consolidated Financial Statements, or make a policy decision regarding whether to record deferred taxes related to GILTI. In accordance with U.S. GAAP, the Company has made an accounting policy election to treat taxes due under the GILTI tax provision as a current period expense. The GILTI provision resulted in a current period expense of \$0.3 million.

The following table summarizes the tax effects of temporary differences between the Consolidated Financial Statements carrying amount of assets and liabilities and their respective tax basis, which are recorded at the prevailing enacted tax rate that will be in effect when these differences are settled or realized. These temporary differences result in taxable or deductible amounts in future years. The Company assessed all available positive and negative evidence to estimate whether sufficient future taxable income will be generated to realize our existing net deferred tax assets. In connection with the failed spin-off-leaseback, the Company continued to record real estate assets and a financing obligation of \$2.0 billion and \$3.5 billion, respectively, on November 1, 2013, which resulted in a substantial increase to our net deferred tax assets of \$599.9 million. ASC 740 suggests that additional scrutiny should be given to deferred taxes of an entity with cumulative pre-tax losses during the most recent three years. Positive evidence of sufficient quantity and quality is required to overcome such significant negative evidence to conclude that a valuation allowance is not warranted.

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

| <i>(in thousands)</i> | December 31, | |
|--|--------------|------------|
| | 2018 | 2017 |
| Deferred tax assets: | | |
| Stock-based compensation expense | \$ 8,998 | \$ 15,038 |
| Accrued expenses | 42,897 | 39,474 |
| Loan to the JIVDC | — | 26,237 |
| Financing obligations associated with Master Leases | 1,919,718 | 900,311 |
| Unrecognized tax benefits | 6,732 | 6,565 |
| Investments in unconsolidated affiliates | 3,579 | — |
| Net operating losses, interest limitation and tax credit carryforwards | 122,785 | 59,842 |
| Gross deferred tax assets | 2,104,709 | 1,047,467 |
| Less: Valuation allowance | (89,508) | (113,699) |
| Net deferred tax assets | 2,015,201 | 933,768 |
| Deferred tax liabilities: | | |
| Property and equipment, non-Master Leases | (47,308) | (33,148) |
| Property and equipment, Master Leases | (1,599,907) | (469,363) |
| Investments in unconsolidated affiliates | — | (1,218) |
| Undistributed foreign earnings | (349) | (2,061) |
| Intangibles | (287,025) | (37,035) |
| Net deferred tax liabilities | (1,934,589) | (542,825) |
| Noncurrent deferred tax assets, net | \$ 80,612 | \$ 390,943 |

We recorded a \$1.0 billion increase in gross deferred income tax assets and \$1.4 billion increase in gross deferred tax liabilities in connection with the acquisition of Pinnacle, which were primarily related to temporary differences associated with the financing obligation on the Pinnacle Master Lease, acquired net operating losses, and property and equipment assumed under the Pinnacle Master Lease, as amended. Pinnacle properties will now be included in our consolidated federal and state tax returns, which impacted our effective tax rate in certain jurisdictions in the fourth quarter 2018.

The realizability of the net deferred tax assets is evaluated quarterly by assessing the need for a valuation allowance and by adjusting the amount of the allowance, if necessary. The Company gives appropriate consideration to all available positive and negative evidence including projected future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. The evaluation of both positive and negative evidence is a requirement pursuant to ASC 740 in determining the net deferred tax assets will be realized. In the event the Company determines that the deferred income tax assets would be realized in the future in excess of their net recorded amount, an adjustment to the valuation allowance would be recorded, which would reduce the provision for income taxes.

The Company determined that a valuation allowance was no longer required against its federal and state net deferred tax assets for the portion that will be realized. The most significant evidence that led to the reversal of the valuation allowance during the three months ended September 30, 2017 included the following:

- **Achievement and sustained growth in our three-year cumulative pretax earnings.** During the fourth quarter 2016, we emerged from a three-year cumulative pretax loss position, generating a near break-even cumulative amount of pretax income. This cumulative pretax income increased to \$76.6 million as of September 30, 2017 and was expected to rise substantially at year-end since the Company had recorded a \$161.5 million pretax loss in the fourth quarter 2014 due to impairment charges of \$155.3 million in that period.
- **Substantial pretax income in seven of the last eight quarters with the only loss reported eight quarters ago.**
- **Lack of significant goodwill and intangible asset impairment charges expected in 2017.** The Company had experienced significant impairment charges in connection with the spin-off of its real estate assets to GLPI in November 2013. The Company recorded impairment charges totaling \$40.0 million, \$159.9 million and \$798.3 million for the years ended December 31, 2015, 2014 and 2013, respectively. There were no impairments recorded in 2016 and for the nine months ended September 30, 2017, the Company recorded impairments of \$29.9 million.

For the three months ended December 31, 2017, there were no material changes to our core business operations that altered our prior interim conclusion to release the valuation allowance against the federal and state net deferred tax assets for the portion that is more-likely-than-not to be realized. As such, the Company released \$741.9 million of its total valuation allowance for the year ended December 31, 2017 due to the positive evidence outweighing the negative evidence thereby allowing the Company to achieve the “more-likely-than-not” realization standard. Moreover, the Company continued to experience significant three-year cumulative pretax income of \$185.5 million as of December 31, 2018 supporting the position that a federal valuation allowance is not necessary excluding the valuation allowance recorded on the federal capital loss carryforwards. During the three months ended December 31, 2018, we released a partial valuation allowance on a capital loss carryforward in the amount of \$22.4 million that offset the capital gain realized on the Plainridge Park Casino Sale-Leaseback. This reversal is reflected in our income tax benefit within the Consolidated Statements of Operations. The Company continued to maintain a valuation allowance of \$89.5 million as of December 31, 2018 primarily related to certain state filing groups where we continue to be in a cumulative three-year pretax loss position.

Following the ownership changes of the Tropicana Las Vegas and more recently the Pinnacle Acquisition, the Company had \$252.8 million of total federal net operating loss carryforwards and a Section 163(j) interest limitation carryforward of \$18.0 million. The portion of tax attributes that will expire on various dates from 2020 through 2037 is \$182.1 million. The remaining tax attributes do not expire. The utilization of indefinite federal net operating loss carryforwards is limited to 80% of taxable income in any given year. As management receives additional information during the measurement period, the tax attributes acquired from Pinnacle may be adjusted through goodwill and accounted for in the period they arise. All acquired tax attributes are subject to limitations under the Internal Revenue Code and underlying Treasury Regulations, however, we believe it is more-likely-than-not that the benefit from these tax attributes will be realized.

For state income tax reporting, the Company had gross state net operating loss carryforwards aggregating approximately \$835.2 million available to reduce future state income taxes, primarily for the Commonwealth of Pennsylvania and the States of Missouri, New Mexico, Louisiana, Iowa, Illinois, and Ohio localities as of December 31, 2018. The tax benefit associated with these net operating loss carryforwards was approximately \$53.2 million. Due to statutorily limited operating loss carryforwards and income and loss projections in the applicable jurisdictions, a valuation allowance has been recorded to reflect the net operating losses which are not presently expected to be realized in the amount of \$32.1 million. If not used, substantially all the carryforwards will expire at various dates from December 31, 2019 to December 31, 2038. The increase in total gross state net operating loss carryforwards was largely due to the tax attributes acquired upon closing the Pinnacle Acquisition. Following the ownership change, the Company acquired approximately \$382.0 million of gross state net operating loss carryforwards available to reduce future state income taxes.

Overall, the Company’s valuation allowance decreased year-over-year by a net amount of \$24.2 million, primarily due to the partial recognition of a capital loss carryforward associated with the loan to the JIVDC that offset the capital gain recognized from the Plainridge Park Casino Sale-Leaseback. The tax effects of the Pinnacle Acquisition were immaterial to the Company’s valuation allowance; however, they are preliminary and subject to change during the measurement period. A change in purchase accounting may affect the recorded deferred tax assets and liabilities and our effective rate in a future period.

The domestic and foreign components of income (loss) before income taxes for the years ended December 31, 2018, 2017 and 2016 were as follows:

| <i>(in thousands)</i> | For the year ended December 31, | | |
|-----------------------|--|--------------------|-------------------|
| | 2018 | 2017 | 2016 |
| Domestic | \$ 89,582 | \$ (29,538) | \$ 116,693 |
| Foreign | 339 | 4,494 | 3,924 |
| Total | <u>\$ 89,921</u> | <u>\$ (25,044)</u> | <u>\$ 120,617</u> |

The provision for income taxes charged to operations for the years ended December 31, 2018, 2017 and 2016 was as follows:

| <i>(in thousands)</i> | For the year ended December 31, | | |
|---|--|-------------------|--------------------|
| | 2018 | 2017 | 2016 |
| Current tax benefit (expense) | | | |
| Federal | \$ (15,336) | \$ (16,318) | \$ (8,721) |
| State | (6,402) | (6,062) | (3,489) |
| Foreign | (1,349) | 2,981 | 9,639 |
| Total current | <u>(23,087)</u> | <u>(19,399)</u> | <u>(2,571)</u> |
| Deferred tax benefit (expense) | | | |
| Federal | 14,576 | 480,712 | (4,701) |
| State | 10,945 | 39,255 | (3,279) |
| Foreign | 1,159 | (2,061) | (756) |
| Total deferred | <u>26,680</u> | <u>517,906</u> | <u>(8,736)</u> |
| Total income tax benefit (expense) | <u>\$ 3,593</u> | <u>\$ 498,507</u> | <u>\$ (11,307)</u> |

The following table reconciles the statutory federal income tax rate to the actual effective income tax rate for the years ended December 31, 2018, 2017 and 2016:

| | For the year ended December 31, | | |
|--|--|------------------|--------------|
| | 2018 | 2017 | 2016 |
| Percent of pretax income | | | |
| Federal statutory rate | 21.0 % | 35.0 % | 35.0 % |
| State and local income taxes - net of federal benefits | (6.2) | 6.3 | 1.2 |
| Nondeductible expenses | 6.9 | (16.0) | 0.3 |
| Goodwill impairment | — | (20.5) | — |
| Compensation | (3.8) | 29.5 | (1.5) |
| Contingent liability settlement | — | 22.9 | 0.6 |
| Foreign | (0.1) | 11.3 | (8.5) |
| Valuation allowance | (20.3) | 2,962.3 | (17.1) |
| Tax Act - deferred rate change | — | (1,043.5) | — |
| Other miscellaneous items | (1.5) | 3.3 | (0.6) |
| Total effective tax rate | <u>(4.0)%</u> | <u>1,990.6 %</u> | <u>9.4 %</u> |

The income tax benefit (expense) differs from the federal statutory amount due to the effect of the items detailed in the table below:

| <i>(in thousands)</i> | For the year ended December 31, | | |
|--|--|-------------------|--------------------|
| | 2018 | 2017 | 2016 |
| Amount of pretax income | | | |
| Federal statutory rate | \$ (18,883) | \$ 8,765 | \$ (42,216) |
| State and local income taxes - net of federal benefits | 5,615 | 1,567 | (1,498) |
| Nondeductible expenses | (6,161) | (4,018) | (371) |
| Goodwill impairment | — | (5,131) | — |
| Compensation | 3,369 | 7,376 | 1,817 |
| Contingent liability settlement | — | 5,740 | (756) |
| Foreign | 117 | 2,840 | 10,268 |
| Valuation allowance | 18,275 | 741,872 | 20,675 |
| Tax Act - deferred rate change | — | (261,329) | — |
| Other miscellaneous items | 1,261 | 825 | 774 |
| Total income tax benefit (expense) | <u>\$ 3,593</u> | <u>\$ 498,507</u> | <u>\$ (11,307)</u> |

A reconciliation of the beginning and ending amounts for the liability for unrecognized tax benefits was as follows:

| <i>(in thousands)</i> | Unrecognized tax benefits |
|---|----------------------------------|
| Unrecognized tax benefits as of January 1, 2017 | \$ 26,792 |
| Additions based on current year positions | 2,979 |
| Additions based on prior year positions | 2,836 |
| Decreases due to settlements and/or reduction in reserves | (1,322) |
| Currency translation adjustments | (119) |
| Settlement payments | (216) |
| Unrecognized tax benefits as of December 31, 2017 | 30,950 |
| Additions based on current year positions | — |
| Additions based on prior year positions | 775 |
| Decreases due to settlements and/or reduction in reserves | (2,005) |
| Currency translation adjustments | (39) |
| Settlement payments | — |
| Unrecognized tax benefits as of December 31, 2018 | \$ 29,681 |

The Company is required under ASC 740 to disclose its accounting policy for classifying interest and penalties, the amount of interest and penalties charged to expense each period, as well as the cumulative amounts recorded within the Consolidated Balance Sheets. The Company will continue to classify any income tax related penalties and interest accrued related to unrecognized tax benefits in the income tax provisions within the Consolidated Statements of Operations.

During the year ended December 31, 2018, the Company did not record any new tax reserves, and accrued interest or penalties related to current year uncertain tax positions. The tax reserves acquired through the Pinnacle Acquisition were immaterial and as such we did not disclose separately in the reconciliation above. In regard to prior year tax positions, the Company recorded \$0.8 million of tax reserves and accrued interest and reversed \$2.2 million of previously recorded tax reserves and accrued interest for uncertain tax positions that are anticipated to settle and/or close within the next 12 months. We recognize accrued interest and penalties related to uncertain tax positions as a component of income taxes. The unrecognized tax benefits of \$30.4 million are included in “Noncurrent tax liabilities” within the Company’s Consolidated Balance Sheets. Overall, the Company recorded a net tax expense of \$0.5 million in connection with its uncertain tax positions for the year ended December 31, 2018.

Included in the liability for unrecognized tax benefits as of December 31, 2018 and 2017 were \$23.6 million and \$25.1 million, respectively, of tax positions that, if reversed, would affect the effective tax rate. Also included in the reserve as of December 31, 2018 and 2017, was less than \$0.1 million and \$0.1 million, respectively, of currency translation gain related to foreign currency tax positions and the settlement receivable on account.

During the years ended December 31, 2018 and 2017, the Company recognized approximately \$0.5 million and \$1.7 million, respectively, of interest and penalties, net of deferred taxes. In addition, due to settlements and/or reductions in previously recorded liabilities, the Company had reductions in previously accrued interest and penalties of \$0.2 million, net of deferred taxes. These accruals are included in “Noncurrent tax liabilities” within the Company’s Consolidated Balance Sheets.

The Company is currently in various stages of the examination process in connection with its open audits. Generally, it is difficult to determine when these examinations will be closed, but the Company reasonably expects that its ASC 740 liabilities will not significantly change over the next twelve months.

As of December 31, 2018, the Company is subject to U.S. federal income tax examinations for the tax years 2015, 2016, and 2017. 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.

As of December 31, 2018 and 2017, “Prepaid expenses” within the Company’s Consolidated Balance Sheets included prepaid income taxes of \$14.9 million and \$12.0 million, respectively.

Note 13—Stockholders' Equity (Deficit)

Share Repurchase Program

On February 3, 2017, the Company announced a share repurchase program pursuant to which the Board of Directors authorized to repurchase up to \$100 million of the Company's common stock, which expired on February 1, 2019. During the years ended December 31, 2018 and 2017, the Company repurchased 2,299,498 and 1,264,149 shares, respectively, of its common stock in open market transactions for \$50.0 million at an average price of \$21.74 per share and \$24.8 million at an average price of \$19.59 per share, respectively. All repurchased shares were retired.

Preferred Equity Investment

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 per share. Specifically, the Company, PNG Acquisition Company Inc. ("Parent") and PNG Merger Sub Inc., a wholly-owned subsidiary of Parent, 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 PNG Merger Sub, Inc. to be merged with and into the Company, 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 was indirectly owned by certain funds managed by affiliates of Fortress Investment Group LLC ("Fortress") and Centerbridge Partners, L.P. ("Centerbridge").

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, certain affiliates of Fortress and Centerbridge agreed to pay the Company a total of \$1.475 billion, consisting of a nonrefundable \$225 million cash termination fee and a \$1.25 billion, zero coupon, preferred equity investment (the "Investment"). On October 30, 2008, the Company closed the sale of the Investment and issued 12,500 shares of the Series B Preferred Stock. During the year ended December 31, 2010, the Company repurchased 225 shares of Series B Preferred Stock for \$11.2 million.

As part of the Spin-Off, the Company entered into an agreement (the "Exchange Agreement") with FIF V PFD LLC, an affiliate of Fortress, providing for the exchange of shares of the Company's Series B Preferred Stock for shares of a new class of preferred stock, Series C Preferred Stock, in contemplation of the Spin-Off.

The Exchange Agreement provided Fortress with the right to exchange its 9,750 shares of Series B Preferred Stock for fractional shares of Series C Preferred Stock at an exchange ratio that treated each such fractional share (and therefore each share of common stock into which such fractional share was convertible) as worth \$67 per share, which was the "ceiling price" at which the shares of Series B Preferred Stock were redeemable by the Company at maturity. Any shares of Series B Preferred Stock that were not exchanged for shares of Series C Preferred Stock prior to the second business day before October 16, 2013, the record date established for the distribution of GLPI common stock in the Spin-Off, were automatically exchanged for shares of Series C Preferred Stock on such date. Subsequently, the Company had the right to purchase from Fortress, prior to the record date for the Spin-Off, a number of shares of Series C Preferred Stock, at a price of \$67 per fractional share of Series C Preferred Stock, such that, immediately following the consummation of the Spin-Off, Fortress would not own more than 9.9% of GLPI's common stock.

On October 11, 2013, the Company completed its exchange and repurchase transactions with Fortress and repurchased all of the 2,300 shares of Series B Preferred Stock held by Centerbridge at par and issued to the affiliate of Fortress 14,553 shares of non-voting Series C Preferred Stock in order to redeem all of the previously outstanding shares of Series B Preferred Stock. The Company then repurchased 5,929 shares of Series C Preferred Stock from Fortress. Additionally, in February 2013, the Company repurchased 225 shares of Series B Preferred Stock from WF Investment Holdings, LLC at a slight discount to par. In these transactions, the Company paid a total of \$649.5 million, which was primarily funded by borrowings under the 2013 Revolving Credit Facility, to the affiliates of Fortress, Centerbridge and WF Investment Holdings, LLC.

In 2016, Fortress sold all 8,624 shares of Series C Preferred Stock, which converted upon sale into 8,624,000 shares of common stock under previously agreed upon terms. As a result, no shares of Series C Preferred Stock were outstanding as of December 31, 2018 and 2017.

Note 14—Stock-Based Compensation

2008 Long Term Incentive Compensation Plan

On August 20, 2008, the Company's Board of Directors approved, subject to shareholder approval, the 2008 Long Term Incentive Compensation Plan (the "2008 Plan") and on November 12, 2008, the Company's shareholders approved the 2008

Plan, which permitted the Company to issue stock options (incentive and/or non-qualified), stock appreciation rights (“SARs”), restricted stock, phantom stock units (“PSUs”) and other equity and cash awards to employees. Non-employee directors were eligible to receive all such awards, other than incentive stock options. On June 9, 2011 and June 12, 2014, the Company’s shareholders approved amendments to the 2008 Plan, which collectively increased the aggregate number of shares of common stock that may be issued from 6,900,000 to 16,350,000. Awards of stock options and SARs were counted against the 16,350,000 limit as one share of common stock for each share granted; however, each share awarded in the form of restricted stock, or any other full value stock award, was counted as issuing 2.44 shares of common stock for purposes of determining the number of shares available for issuance under the 2008 Plan. Any awards that were not settled in shares of common stock were not counted against the limit. The 2008 Plan remains in place until all of the awards granted thereunder have been paid, forfeited or expired. However, the shares which remained available for issuance under such plan as of June 13, 2018 are no longer available for issuance and all future equity awards will be pursuant to the 2018 Long Term Incentive Compensation Plan (the “2018 Plan”) described below.

2018 Long Term Incentive Compensation Plan

On March 21, 2018, the Company’s Board of Directors approved, subject to shareholder approval, the 2018 Plan and on June 13, 2018, the Company’s shareholders approved the 2018 Plan, which permits the Company to issue stock options (incentive and/or non-qualified), SARs, restricted stock, PSUs and other equity and cash awards to employees. Non-employee directors are eligible to receive all such awards, other than incentive stock options. Pursuant to the 2018 Plan, 12,700,000 shares of the Company’s common stock are reserved for issuance. Awards of stock options and SARs will be counted against the 12,700,000 limit as one share of common stock for each share granted. However, each share awarded in the form of restricted stock, or any other full value stock award, will be counted as issuing 2.30 shares of common stock for purposes of determining the number of shares available for issuance under the plan. Any awards that are not settled in shares of common stock shall not count against the limit. As of December 31, 2018, there were 11,921,545 shares available for future grants under the 2018 Plan.

Performance Share Programs

On February 9, 2016, the Company’s Compensation Committee of the Board of Directors adopted a performance share program (the “2016 Performance Share Program”) pursuant to the 2008 Plan, which provides for the issuance of restricted stock awards with performance-based vesting conditions. An aggregate of 172,245 and 189,085 performance shares were granted on February 17, 2017 and February 9, 2016, respectively, with each grant having a three-year award period consisting of three one-year performance periods and a three-year service period.

On February 6, 2018, the Company’s Compensation Committee of the Board of Directors adopted a performance share program (the “2018 Performance Share Program” and together with the 2016 Performance Share Program, the “Performance Share Programs”) pursuant to the 2018 Plan, which provides for the issuance of restricted stock awards with performance-based vesting conditions. An aggregate of 197,727 performance shares were granted on February 6, 2018 with the grant having a three-year award period consisting of three one-year performance periods and a three-year service period.

The Company’s named executive officers and other key executives were/are eligible to participate in the Performance Share Programs. The Performance Share Programs were adopted in order to provide key executives with stock-based compensation tied directly to the Company’s performance to further align their interests with those of shareholders and provide compensation only if the designated performance goals are met for the applicable performance periods. For all awards granted under the Performance Share Programs as of December 31, 2018, the performance goal for each performance period is based on EBITDA, adjusted for certain other items, as established for each one-year performance period. The awards have the potential to be earned at between 0% and 150% of the number of shares granted in one-third increments depending on achievement of the annual performance goals, but remain subject to vesting for the full three-year service period.

As of December 31, 2018, the adjusted EBITDA target for the third tranche of the performance awards granted in 2017 and the second and third tranches of the performance awards granted in 2018 were not yet established. Therefore, for accounting purposes, the Company concluded that a grant date has not yet occurred. Stock-based compensation expense will be measured for each tranche based on the fair value of the restricted stock awards using the Company’s closing stock price on the grant date since all key terms for the specific tranche were established and mutually understood by the Company and the individuals receiving the awards. At each reporting period, accruals of stock-based compensation expense are based on the probable outcome of the performance condition. See “Restricted Stock Awards” section below.

Stock-based Compensation Expense

Stock-based compensation expense for the years ended December 31, 2018, 2017 and 2016 totaled \$12.0 million, \$7.8 million and \$6.9 million, respectively, and is included within the Consolidated Statements of Operations under “General and administrative.”

Stock Options

Stock options that expire between January 3, 2019 and January 3, 2029, have been granted to officers, directors, employees, and predecessor employees to purchase common stock at prices ranging from \$8.88 to \$32.90 per share. All options were granted at the fair market value of the common stock on the grant date (as defined in the respective plan document) and have contractual lives ranging from 1 to 10 years. The Company issues new authorized common shares to satisfy stock option exercises.

The following table contains information about our stock options:

| | Number of Option Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (in years) | Aggregate Intrinsic Value (in thousands) |
|-------------------------------------|-------------------------|---------------------------------|--|--|
| Outstanding as of January 1, 2018 | 6,551,314 | \$ 12.29 | | |
| Granted | 663,343 | \$ 30.75 | | |
| Exercised | (1,302,501) | \$ 8.70 | | |
| Forfeited | (42,945) | \$ 16.67 | | |
| Outstanding as of December 31, 2018 | 5,869,211 | \$ 15.14 | 3.97 | \$ 28,470 |
| Exercisable as of December 31, 2018 | 3,099,460 | \$ 12.83 | 3.25 | \$ 17,992 |

The weighted-average grant-date fair value of options granted during the years ended December 31, 2018, 2017 and 2016 was \$9.88, \$4.48 and \$3.97, respectively. The aggregate intrinsic value of stock options exercised during the years ended December 31, 2018, 2017 and 2016 was \$28.7 million, \$15.8 million and \$10.3 million, respectively.

The following table summarizes information about our outstanding stock options as of December 31, 2018:

| | Exercise Price Range | | | Total |
|---|----------------------|--------------------|--------------------|-------------------|
| | \$8.88 to \$13.35 | \$13.50 to \$20.52 | \$20.75 to \$32.90 | \$8.88 to \$32.90 |
| Outstanding options | | | | |
| Number outstanding | 3,637,366 | 1,570,183 | 661,662 | 5,869,211 |
| Weighted-average remaining contractual life (years) | 3.22 | 4.87 | 6.01 | 3.97 |
| Weighted-average exercise price | \$ 12.65 | \$ 14.38 | \$ 30.67 | \$ 15.14 |
| Exercisable options | | | | |
| Number outstanding | 2,645,735 | 452,466 | 1,259 | 3,099,460 |
| Weighted-average exercise price | \$ 12.53 | \$ 14.56 | \$ 20.75 | \$ 12.83 |

As of December 31, 2018, the unamortized compensation costs not yet recognized related to stock options granted totaled \$9.7 million. This cost is expected to be recognized over the remaining vesting periods, which will not exceed four years.

The following are the weighted-average assumptions used in the Black-Scholes option-pricing model for the years ended December 31, 2018, 2017 and 2016:

| | For the year ended December 31, | | |
|---|---------------------------------|--------|--------|
| | 2018 | 2017 | 2016 |
| Risk-free interest rate | 2.26% | 1.97% | 1.20% |
| Expected volatility | 30.80% | 30.66% | 31.23% |
| Dividend yield | — | — | — |
| Weighted-average expected life (in years) | 5.30 | 5.30 | 5.40 |

Restricted Stock Awards

As noted above, the Company issues restricted stock awards with performance-based vesting conditions under its Performance Share Programs. Additionally, in conjunction with the Pinnacle Acquisition, the Company awarded 129,961 restricted stock awards to new employees of the Company. The following table contains information on our restricted stock awards:

| | Number of Shares | Weighted Average Grant Date Fair Value |
|-----------------------------------|---------------------|--|
| Outstanding as of January 1, 2018 | 267,655 | \$ 13.83 |
| Awarded | 333,478 | \$ 30.00 |
| Released | (30,979) | \$ 14.15 |
| Canceled | (11,333) | \$ 17.96 |
| Outstanding at December 31, 2018 | 558,821 | \$ 23.38 |

As of December 31, 2018, the unamortized compensation costs not yet recognized related to restricted stock awarded totaled \$7.4 million. This cost is expected to be recognized over the remaining vesting periods, which will not exceed four years.

Phantom Stock Units

The Company's PSUs, which vest over a period of three to four years, entitle employees and directors to receive cash based on the fair value of the Company's common stock on the vesting date. The PSUs are accounted for as liability awards and are re-measured at fair value each reporting period until they become vested with compensation expense being recognized over the requisite service period in accordance with ASC Subtopic 718-30, "Compensation—Stock Compensation, Awards Classified as Liabilities." The Company has a liability, which is included in "Accrued salaries and wages" within the Consolidated Balance Sheets, associated with its PSUs of \$1.7 million and \$4.8 million as of December 31, 2018 and 2017, respectively.

For PSUs held by employees and directors of the Company, there was \$3.0 million of total unrecognized compensation cost as of December 31, 2018 that will be recognized over the awards remaining weighted average vesting period of 2.05 years. For the years ended December 31, 2018, 2017 and 2016, the Company recognized \$1.1 million, \$11.9 million, and \$8.5 million of compensation expense associated with these awards, respectively. Amounts paid by the Company for the years ended December 31, 2018, 2017 and 2016 on these cash-settled awards totaled \$4.2 million, \$12.7 million, and \$10.7 million, respectively.

Stock Appreciation Rights

The fair value of SARs is calculated each reporting period and estimated using the Black-Scholes option pricing model. The Company's SARs, which vest over a period of four years, are accounted for as liability awards since they will be settled in cash. Accordingly, the Company has a liability, which is included in "Accrued salaries and wages" within the Consolidated Balance Sheets, associated with its SARs of \$6.8 million and \$24.0 million as of December 31, 2018 and 2017, respectively.

For SARs held by employees of the Company, there was \$4.5 million of total unrecognized compensation cost as of December 31, 2018 that will be recognized over the awards remaining weighted average vesting period of 1.95 years. For the year ended December 31, 2018, the Company recognized a reduction to compensation expense of \$6.7 million associated with these awards compared to a charge to compensation expense of \$21.9 million and \$2.4 million for the years ended December 31, 2017 and 2016, respectively. Amounts paid by the Company for the years ended December 31, 2018, 2017 and 2016 on these cash-settled awards totaled \$10.5 million, \$6.2 million and \$3.3 million, respectively.

Note 15—Segment Information

We have aggregated our operating segments into four reportable segments based on the similar characteristics of the operating segments within the regions in which they operate: Northeast, South, West and Midwest. The Other category is included in the following tables in order to reconcile the segment information to the consolidated information. Inter-segment revenues were not material in any of the years presented below. During the fourth quarter 2018, the Company made revisions to its reportable segments upon the consummation of the Pinnacle Acquisition. Apart from the addition of the new properties, the most significant change was dividing the South/West segment into two separate reportable segments. The financial information presented below reflects such changes, including restating prior year financial information.

The Company utilizes Adjusted EBITDAR (as defined below) as its measure of segment profit or loss. The following table highlights our revenues and Adjusted EBITDAR for each reportable segment and reconciles Adjusted EBITDAR to Income (loss) before income taxes.

| <i>(in thousands)</i> | For the year ended December 31, | | |
|--|--|---------------------|---------------------|
| | 2018 | 2017 | 2016 |
| Revenues: | | | |
| Northeast segment | \$ 1,891,514 | \$ 1,756,579 | \$ 1,741,809 |
| South segment | 394,351 | 224,247 | 185,832 |
| West segment | 437,887 | 380,418 | 360,776 |
| Midwest segment | 823,717 | 735,033 | 704,272 |
| Other ⁽¹⁾ | 40,449 | 51,693 | 41,691 |
| Revenues | \$ 3,587,918 | \$ 3,147,970 | \$ 3,034,380 |
| Adjusted EBITDAR ⁽²⁾: | | | |
| Northeast segment | \$ 583,791 | \$ 549,304 | \$ 536,446 |
| South segment | 118,962 | 62,580 | 56,060 |
| West segment | 114,267 | 72,744 | 72,509 |
| Midwest segment | 294,332 | 249,744 | 239,899 |
| Other ⁽¹⁾ | (68,111) | (55,223) | (67,773) |
| Adjusted EBITDAR ⁽²⁾ | 1,043,241 | 879,149 | 837,141 |
| Other operating benefits (costs) and other income (expenses): | | | |
| Rent expense associated with triple net operating lease ⁽³⁾ | (3,797) | — | — |
| Charge for stock compensation | (12,034) | (7,780) | (6,871) |
| Cash-settled stock award variance | 19,611 | (23,471) | 6,688 |
| Gain (loss) on disposal of assets | (3,168) | (172) | 2,471 |
| Contingent purchase price | (454) | 6,840 | (1,277) |
| Pre-opening and acquisition costs | (95,020) | (9,732) | — |
| Depreciation and amortization | (268,990) | (267,062) | (271,214) |
| Provision for loan loss and unfunded loan commitments to the JIVDC, net of recoveries, and impairment losses | (17,921) | (107,810) | — |
| Insurance recoveries, net of deductible charges | 68 | 289 | 726 |
| Non-operating items for Kansas JV | (5,118) | (5,866) | (10,311) |
| Interest expense | (539,417) | (466,761) | (459,243) |
| Interest income | 1,005 | 3,552 | 24,186 |
| Loss on early extinguishment of debt | (20,964) | (23,963) | — |
| Other | (7,121) | (2,257) | (1,679) |
| Income (loss) before income taxes | \$ 89,921 | \$ (25,044) | \$ 120,617 |

(1) The Other category consists of the Company's standalone racing operations, namely Sanford-Orlando Kennel Club, located in Longwood, Florida, and the Company's joint venture interests in Texas and New Jersey (see [Note 6, "Investments in and Advances to Unconsolidated Affiliates"](#)). The Other category also includes PIV, our management contract for Retama Park Racetrack, and our live and televised poker tournament series that

operates under the trade name, Heartland Poker Tour. Expenses incurred for corporate and shared services activities that are directly attributable to a property or are otherwise incurred to support a property are allocated to each property. The Other category also includes corporate overhead costs, which consist of certain expenses, such as: payroll, professional fees, travel expenses and other general and administrative expenses that do not directly relate to or have otherwise been allocated to a property.

- (2) The Company defines Adjusted EBITDAR as earnings before interest income and expense, income taxes, depreciation and amortization, rent expense associated with our triple net operating leases, stock compensation, debt extinguishment and financing charges, impairment charges, insurance recoveries and deductible charges, changes in the estimated fair value of our contingent purchase price obligations, gain or loss on disposal of assets, the difference between budget and actual expense for cash-settled stock-based awards, pre-opening and acquisition costs, and other income or expenses. Adjusted EBITDAR is also inclusive of income or loss from unconsolidated affiliates, with our share of non-operating items (such as depreciation and amortization) added back for our joint venture in Kansas Entertainment. Adjusted EBITDAR excludes payments associated with our Master Leases with GLPI as these leases are accounted for as financing obligations.
- (3) During the year ended December 31, 2018, the Company's only triple net operating lease was the Meadow Lease.

| <i>(in thousands)</i> | For the year ended December 31, | | |
|-----------------------------------|---------------------------------|------------------|------------------|
| | 2018 | 2017 | 2016 |
| Capital expenditures: | | | |
| Northeast segment | \$ 38,873 | \$ 26,283 | \$ 34,380 |
| South segment | 10,587 | 6,354 | 6,249 |
| West segment | 12,816 | 35,671 | 24,209 |
| Midwest segment | 25,285 | 26,176 | 27,218 |
| Other | 4,996 | 4,777 | 5,189 |
| Total capital expenditures | \$ 92,557 | \$ 99,261 | \$ 97,245 |

| <i>(in thousands)</i> | Northeast | South | West | Midwest | Other | Total |
|---|--------------|--------------|------------|--------------|--------------|---------------|
| As of December 31, 2018 | | | | | | |
| Investment in and advances to unconsolidated affiliates | \$ 105 | \$ — | \$ — | \$ 89,350 | \$ 39,033 | \$ 128,488 |
| Total assets ⁽¹⁾ | \$ 1,330,256 | \$ 1,082,304 | \$ 755,665 | \$ 1,411,468 | \$ 6,381,319 | \$ 10,961,012 |

| | | | | | | |
|---|------------|------------|------------|------------|--------------|--------------|
| As of December 31, 2017 | | | | | | |
| Investment in and advances to unconsolidated affiliates | \$ 102 | \$ — | \$ — | \$ 88,296 | \$ 60,514 | \$ 148,912 |
| Total assets ⁽¹⁾ | \$ 921,044 | \$ 169,255 | \$ 625,019 | \$ 970,809 | \$ 2,548,685 | \$ 5,234,812 |

| | | | | | | |
|---|------------|------------|------------|------------|--------------|--------------|
| As of December 31, 2016 | | | | | | |
| Investment in and advances to unconsolidated affiliates | \$ 76 | \$ — | \$ — | \$ 93,768 | \$ 62,332 | \$ 156,176 |
| Total assets ⁽¹⁾ | \$ 973,423 | \$ 121,619 | \$ 718,457 | \$ 991,759 | \$ 2,169,226 | \$ 4,974,484 |

(1) Total assets of the Other category includes the carrying amount of the real estate assets under the Master Leases.

Note 16—Fair Value Measurements

ASC Topic 820, "Fair Value Measurements and Disclosures," 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, such as interest rates and yield curves that are observable at commonly quoted intervals.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions, as there is little, if any, related market activity.

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 methods and assumptions are used to estimate the fair value of each class of financial instruments for which it is practicable to estimate. The fair value of the Company's trade accounts receivable and payables approximates the carrying amounts.

Cash and cash equivalents

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

Held-to-maturity Securities and Promissory Notes

As discussed in [Note 5, "Acquisitions and Other Investments,"](#) the Company holds local government bonds, which are classified as held-to-maturity securities, and promissory notes. The fair values of such investments are principally based on appraised values of the land associated with Retama Park Racetrack, which are classified as Level 2 inputs.

Loan to the JIVDC

The fair value of the Company's Term Loan C to the JIVDC as of December 31, 2017 was based on the present value of the projected future cash flows discounted at 14%, which we believed approximated the return a market participant would require. Since the projections are based on management's internal projections, the Company concluded that this instrument should be classified as a Level 3 measurement. As discussed in [Note 5, "Acquisitions and Other Investments,"](#) during the year ended December 31, 2018, the Company sold all outstanding rights and obligations under the JIVDC commitments.

Long-term debt

The fair value of the Company's Term Loan A Facility, Term Loan B-1 Facility and 5.625% Notes is estimated based on quoted prices in active markets and as such is a Level 1 measurement. The fair value of the Company's Revolving Credit Facility approximates its carrying amount as it is revolving, variable rate debt, which we classify as a Level 2 measurement.

Other long-term obligations as of December 31, 2018 and 2017 include the relocation fees for Hollywood Gaming at Dayton Raceway and Hollywood Gaming at Mahoning Valley Race Course and the repayment obligation of a hotel and event center located near Hollywood Casino Lawrenceburg, which are discussed in [Note 9, "Long-term Debt."](#) The fair values of these long-term obligations are estimated based on rates consistent with the Company's credit rating for comparable terms and debt instruments and as such are Level 2 measurements.

Other Liabilities

Other liabilities as of December 31, 2018 and 2017 principally consists of contingent consideration relating to Plainridge Park Casino, which was acquired in September 2013. The contingent consideration is calculated based on actual earnings of the gaming operations over the first 10 years of operations, which commenced on June 24, 2015. As of December 31, 2018 and 2017, we were contractually obligated to make seven and eight remaining annual payments, respectively. The fair value of this liability, which is included within our Consolidated Balance Sheet in "Other current liabilities" or "Other noncurrent liabilities," depending on the timing of the next payment, is estimated based on an income approach using a discounted cash flow model and has been classified as a Level 3 measurement.

The carrying amounts and estimated fair values by input level of the Company's financial instruments were as follows:

| | | December 31, 2018 | | | | |
|----------------------------------|------------------------|--------------------------|----------------|----------------|----------------|--|
| <i>(in thousands)</i> | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | | |
| Cash and cash equivalents | \$ 479,598 | \$ 479,598 | \$ 479,598 | \$ — | \$ — | |
| Held-to-maturity securities | \$ 7,466 | \$ 7,879 | \$ — | \$ 7,879 | \$ — | |
| Promissory notes | \$ 16,853 | \$ 17,415 | \$ — | \$ 17,415 | \$ — | |
| Financial liabilities: | | | | | | |
| Long-term debt | | | | | | |
| Senior Secured Credit Facilities | \$ 1,907,932 | \$ 1,886,333 | \$ 1,886,333 | \$ — | \$ — | |
| 5.625% Notes | \$ 399,332 | \$ 360,000 | \$ 360,000 | \$ — | \$ — | |
| Other long-term obligations | \$ 104,583 | \$ 96,338 | \$ — | \$ 96,338 | \$ — | |
| Other liabilities | \$ 21,863 | \$ 21,857 | \$ — | \$ 2,815 | \$ 19,042 | |

| | | December 31, 2017 | | | | |
|----------------------------------|------------------------|--------------------------|----------------|----------------|----------------|--|
| <i>(in thousands)</i> | Carrying Amount | Fair Value | Level 1 | Level 2 | Level 3 | |
| Financial assets: | | | | | | |
| Cash and cash equivalents | \$ 277,953 | \$ 277,953 | \$ 277,953 | \$ — | \$ — | |
| Loan to the JIVDC | \$ 20,900 | \$ 16,533 | \$ — | \$ — | \$ 16,533 | |
| Financial liabilities: | | | | | | |
| Long-term debt | | | | | | |
| Senior Secured Credit Facilities | \$ 730,787 | \$ 760,456 | \$ 760,456 | \$ — | \$ — | |
| 5.625% Notes | \$ 399,249 | \$ 412,000 | \$ 412,000 | \$ — | \$ — | |
| Other long-term obligations | \$ 119,310 | \$ 113,460 | \$ — | \$ 113,460 | \$ — | |
| Other liabilities | \$ 22,696 | \$ 22,696 | \$ — | \$ — | \$ 22,696 | |

The following table summarizes the changes in fair value of the Company's Level 3 liabilities measured on a recurring basis:

| <i>(in thousands)</i> | Other Liabilities Contingent Purchase Price |
|-------------------------------------|--|
| Balance at January 1, 2016 | \$ 13,815 |
| Additions | 34,945 |
| Payments | (1,793) |
| Included in earnings ⁽¹⁾ | 1,277 |
| Balance at December 31, 2016 | 48,244 |
| Additions | 905 |
| Payments | (19,613) |
| Included in earnings ⁽¹⁾ | (6,840) |
| Balance at December 31, 2017 | 22,696 |
| Payments | (4,108) |
| Included in earnings ⁽¹⁾ | 454 |
| Balance at December 31, 2018 | \$ 19,042 |

(1) The charge (benefit) is included within "General and administrative" within our Consolidated Statement of Operations.

The following table sets forth the assets measured at fair value on a non-recurring basis during the years ended December 31, 2018 and 2017:

| <i>(in thousands)</i> | Valuation Date | Valuation Technique | Level 1 | Level 2 | Level 3 | Total Balance | Total Reduction in Fair Value Recorded |
|---------------------------------------|----------------|--------------------------|---------|---------|---------|---------------|--|
| Goodwill ⁽¹⁾ | 9/30/2017 | Discounted Cash Flow | \$ — | \$ — | \$ 598 | \$ 598 | \$ (18,026) |
| Property and equipment ⁽²⁾ | 12/31/2018 | Cost and Market Approach | \$ — | \$ — | \$ — | \$ — | \$ (34,288) |

(1) See [Note 3, "Summary of Significant Accounting Policies"](#) for a description of the inputs and the information used to develop the inputs in calculating the fair value measurements of goodwill and indefinite-lived intangible assets.

(2) The fair value, which was concluded to be zero, of our property and equipment associated with Resorts Casino Tunica was determined using Level 2 inputs. See [Note 7, "Property and Equipment"](#) for more information.

The following table summarizes the significant unobservable inputs used in calculating fair value for our Level 3 liabilities as of December 31, 2018:

| | Valuation Technique | Unobservable Input | Discount Rate |
|--|----------------------|--------------------|---------------|
| Recurring basis: | | | |
| Contingent purchase price - Plainridge Park Casino | Discounted cash flow | Discount rate | 7.53% |

Note 17—Related Party Transactions

The Company currently leases executive office buildings in Wyomissing, Pennsylvania from affiliates of its Chairman of the Board of Directors. Rent expense for the years ended December 31, 2018, 2017 and 2016 was \$1.3 million, \$1.2 million and \$1.2 million, respectively. The leases for the office space expire in May 2019 and August 2024. The future minimum lease commitments relating to these leases as of December 31, 2018 were \$3.2 million.

Note 18—Summarized Quarterly Data (Unaudited)

The following table summarizes the quarterly results of operations for the years ended December 31, 2018 and 2017:

| <i>(in thousands, except per share data)</i> | Fiscal Quarter | | | |
|--|----------------|-----------------------|------------|-----------------------|
| | First | Second ⁽¹⁾ | Third | Fourth ⁽²⁾ |
| 2018 | | | | |
| Revenues | \$ 816,085 | \$ 826,913 | \$ 789,651 | \$ 1,155,269 |
| Operating income | \$ 172,134 | \$ 181,755 | \$ 155,843 | \$ 124,360 |
| Net income (loss) | \$ 45,437 | \$ 53,988 | \$ 36,125 | \$ (42,036) |
| Earnings (loss) per common share: | | | | |
| Basic earnings (loss) per common share | \$ 0.50 | \$ 0.59 | \$ 0.39 | \$ (0.37) |
| Diluted earnings (loss) per common share | \$ 0.48 | \$ 0.57 | \$ 0.38 | \$ (0.37) |

| <i>(in thousands, except per share data)</i> | Fiscal Quarter | | | |
|--|----------------------|-----------------------|----------------------|-----------------------|
| | First ⁽³⁾ | Second ⁽⁴⁾ | Third ⁽⁵⁾ | Fourth ⁽⁶⁾ |
| 2017 | | | | |
| Revenues | \$ 776,224 | \$ 796,463 | \$ 806,247 | \$ 769,036 |
| Operating income | \$ 140,287 | \$ 134,989 | \$ 143,663 | \$ 26,775 |
| Net income (loss) | \$ 5,104 | \$ 17,079 | \$ 789,340 | \$ (338,060) |
| Earnings (loss) per common share: | | | | |
| Basic earnings (loss) per common share | \$ 0.06 | \$ 0.19 | \$ 8.68 | \$ (3.72) |
| Diluted earnings (loss) per common share | \$ 0.06 | \$ 0.18 | \$ 8.43 | \$ (3.72) |

(1) During the second quarter 2018, the Company recorded a recovery of loan losses and unfunded loan commitments of \$17.0 million relating to the JIVDC. See [Note 5, "Acquisitions and Other Investments,"](#) for further details.

(2) During the fourth quarter 2018, we acquired Pinnacle, which resulted in the incurrence of \$74.7 million in pre-opening and acquisition costs. See [Note 5, "Acquisitions and Other Investments,"](#) for further details. In addition, we recorded a \$34.3 million impairment of long-lived assets. See

[Note 7, “Property and Equipment,”](#) for further details. Lastly, we recorded a \$17.2 million loss on early extinguishment of debt. See [Note 9, “Long-term Debt,”](#) for more details.

- (3) During the first quarter 2017, PSG acquired DSG Amusement, Ltd., which operated two VGT routes. Additionally, we recorded a \$23.4 million loss on early extinguishment of debt. See [Note 9, “Long-term Debt,”](#) for more details.
- (4) During the second quarter 2017, PSG acquired Advantage Gaming LLC, which operated two VGT routes, and the Company acquired 1st Jackpot Casino Tunica and Resorts Casino Tunica.
- (5) During the third quarter 2017, we released \$766.2 million of our total valuation allowance, as discussed in [Note 12, “Income Taxes.”](#) In addition, we recorded \$18.0 million of goodwill impairment, as discussed in [Note 8, “Goodwill and Other Intangible Assets.”](#) Lastly, PIV reached an agreement with the former shareholders of Rocket Speed to buy out the remaining contingent consideration, which resulted in a benefit in the amount of \$22.2 million.
- (6) During the fourth quarter 2017, we wrote off \$257.0 million of deferred tax assets due to the Tax Act. See [Note 12, “Income Taxes,”](#) for further information. We also recorded a \$77.9 million provision relating to JIVDC loan losses and unfunded loan commitments.

Note 19—Subsequent Events

Margaritaville Resort Casino

On January 1, 2019, the Company acquired the operations of Margaritaville Resort Casino for an aggregate purchase price of approximately \$115 million pursuant to (i) an agreement and plan of merger (the “Margaritaville Merger Agreement”) among VICI, Riverview Merger Sub Inc., a wholly-owned subsidiary of VICI (“Merger Sub”), Penn Tenant II, LLC (“Buyer”), a wholly-owned subsidiary of the Company, the Company, Bossier Casino Venture (HoldCo), Inc. (“Holdco”) and Silver Slipper Gaming, LLC and (ii) a membership interest purchase agreement (the “MIPA”) among VICI, Merger Sub, Buyer and the Company.

Pursuant to the Margaritaville Merger Agreement, Merger Sub merged with and into Holdco with Holdco surviving the merger as a wholly-owned subsidiary of VICI (the “Merger”) and owner of the land and real estate assets relating to Margaritaville Resort Casino. Pursuant to the MIPA, immediately following the consummation of the Merger, Holdco sold the limited liability company interests in Holdco’s sole direct subsidiary, BCV (Intermediate) LLC, owner of the Margaritaville Resort Casino operating assets, to the Buyer. On the closing date, Buyer and VICI entered into a triple net lease agreement for the Margaritaville Resort Casino facility having an initial annual rent of \$23.2 million and an initial term of 15 years, with four 5-year renewal options. The acquisition was financed through incremental borrowings under the Company’s Revolving Credit Facility.

Due to the recent acquisition date of Margaritaville Resort Casino, the Company has not yet finalized its valuation analysis and is in the process of evaluating key assumptions that derive the fair value of the assets acquired and liabilities assumed, including the income tax balances. Therefore, we are unable to provide the preliminary allocation of the purchase price to the tangible and identifiable intangible assets acquired and liabilities assumed.

New Share Repurchase Program

On January 9, 2019, the Company announced a new share repurchase program pursuant to which the Board of Directors authorized to repurchase up to \$200 million of the Company’s common stock. The new share repurchase program covers an authorization period of two years, expiring on December 31, 2020.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

The Company's management, under the supervision and with the participation of our principal executive officer and principal financial officer, evaluated the effectiveness of the Company's disclosure controls and procedures, as such term is defined under Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of December 31, 2018, which is the end of the period covered by this Annual Report on Form 10-K. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well-designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that the Company's disclosure controls and procedures were effective as of December 31, 2018 to ensure that information required to be disclosed by the Company in reports we file or submit under the Exchange Act is (i) recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the United States Securities and Exchange Commission's rules and forms and (ii) accumulated and communicated to the Company's management, including the Company's principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosures.

Management's Report on Internal Control Over Financial Reporting

The Company's 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, 2018. 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 (2013 framework).

On October 15, 2018, the Company completed its acquisition of Pinnacle Entertainment, Inc. ("Pinnacle"). Since the Company has not yet fully incorporated the internal controls and procedures of Pinnacle into the Company's internal control over financial reporting, management excluded Pinnacle from its assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. This acquisition constituted approximately 56% of the Company's total consolidated assets and approximately 11% of the Company's consolidated revenues as of and for the year ended December 31, 2018, respectively.

Based on this assessment, management determined that the Company maintained effective internal control over financial reporting as of December 31, 2018.

Deloitte & Touche LLP, the Company's independent registered public accounting firm that audited the Consolidated Financial Statements for the year ended December 31, 2018, issued an attestation report on the Company's internal control over financial reporting which immediately follows this report.

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, 2018, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. In making our assessment of changes in internal control over financial reporting, we have excluded Pinnacle, which was acquired on October 15, 2018. We intend to disclose any material changes in internal control over financial reporting with respect to the acquisition of Pinnacle in the first annual assessment of internal control over financial reporting in which we are required to include Pinnacle.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of and Board of Directors of
Penn National Gaming, Inc. and Subsidiaries

Opinion on Internal Control over Financial Reporting

We have audited the internal control over financial reporting of Penn National Gaming, Inc. and subsidiaries (the “Company”) as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework (2013) issued by COSO.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated financial statements of the Company as of and for the year ended December 31, 2018 and our report dated February 28, 2019 expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company’s adoption of a new accounting standard.

As described in Management’s Report on Internal Control Over Financial Reporting, management excluded from its assessment the internal control over financial reporting at Pinnacle Entertainment, Inc., which was acquired on October 15, 2018 and whose financial statements constitute approximately 56% of the Company’s total consolidated assets and 11% of the Company’s consolidated net revenues as of and for the year ended December 31, 2018 respectively. Accordingly, our audit did not include the internal control over financial reporting at Pinnacle Entertainment, Inc.

Basis for Opinion

The Company’s 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 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 are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control over Financial Reporting

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.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
February 28, 2019

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The remaining information required by this item concerning directors and corporate governance is hereby incorporated by reference to the Company's definitive proxy statement for its Annual Meeting of Shareholders (the "2019 Proxy Statement"), to be filed with the U.S. Securities and Exchange Commission within 120 days after December 31, 2018, 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 required by this item is hereby incorporated by reference to the 2019 Proxy Statement.

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

The information required by this item is hereby incorporated by reference to the 2019 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE

The information required by this item is hereby incorporated by reference to the 2019 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by this item is hereby incorporated by reference to the 2019 Proxy Statement.

PART IV**ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES**

(a) 1. Financial Statements.

The following is a list of the Consolidated Financial Statements of the Company and its subsidiaries and supplementary data included herein under Item 8 of Part II of this report, "Financial Statements and Supplementary Data":

| | Page |
|---|--------------------|
| Reports of Independent Registered Public Accounting Firms | 64 |
| Consolidated Balance Sheets as of December 31, 2018 and 2017 | 66 |
| Consolidated Statements of Operations for the years ended December 31, 2018, 2017 and 2016 | 67 |
| Consolidated Statements of Comprehensive Income for the years ended December 31, 2018, 2017 and 2016 | 68 |
| Consolidated Statements of Changes in Stockholders' Equity (Deficit) for the years ended December 31, 2018, 2017 and 2016 | 69 |
| Consolidated Statements of Cash Flows for the years ended December 31, 2018, 2017 and 2016 | 70 |
| Notes to Consolidated Financial Statements | 72 |

2. Financial Statement Schedules.

All schedules have been 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.

ITEM 16. FORM 10-K SUMMARY

We have elected not to disclose the optional summary information.

EXHIBIT INDEX

| Exhibit Number | Description of Exhibit |
|-----------------------|--|
| 2.1†† | Agreement and Plan of Merger by and among Pinnacle Entertainment, Inc., Penn National Gaming, Inc. and Franchise Merger Sub, Inc., dated as of December 17, 2017 is hereby incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on December 20, 2017. (SEC File No. 000-24206) |
| 2.2†† | Membership Interest Purchase Agreement by and among Boyd Gaming Corporation, Boyd TCIV, LLC, Penn National Gaming, Inc., Pinnacle Entertainment, Inc. and Pinnacle MLS, LLC, dated as of December 17, 2017 is hereby incorporated by reference to Exhibit 2.2 to the Company's Current Report on Form 8-K filed on December 20, 2017. (SEC File No. 000-24206) |
| 2.3†† | Consent Agreement by and among Gaming and Leisure Properties, Inc., Gold Merger Sub, LLC, PA Meadows, LLC, WTA II, Inc., CCR Pennsylvania Racing, Inc., Penn National Gaming, Inc., PNK Development 33, LLC, Pinnacle Entertainment, Inc. and Pinnacle MLS, LLC, dated as of December 17, 2017 is hereby incorporated by reference to Exhibit 2.3 to the Company's Current Report on Form 8-K filed on December 20, 2017. (SEC File No. 000-24206) |
| 2.4†† | Master Lease Commitment and Rent Allocation Agreement by and among Boyd Gaming Corporation, Boyd TCIV, LLC, Penn National Gaming, Inc., Gaming and Leisure Properties, Inc. and Gold Merger Sub, LLC, dated as of December 17, 2017 is hereby incorporated by reference to Exhibit 2.4 to the Company's Current Report on Form 8-K filed on December 20, 2017. (SEC File No. 000-24206) |
| 2.5†† | Purchase Agreement by and between Plainville Gaming and Redevelopment, LLC, Penn National Gaming, Inc. and Gold Merger Sub, LLC, dated as of December 17, 2017 is hereby incorporated by reference to Exhibit 2.5 to the Company's Current Report on Form 8-K filed on December 20, 2017. (SEC File No. 000-24206) |
| 2.6†† | Purchase Agreement by and between Penn National Gaming, Inc., Gold Merger Sub, LLC, and upon their execution and delivery of the joinder, PNK (Ohio), LLC and Pinnacle Entertainment, Inc., dated as of December 17, 2017 is hereby incorporated by reference to Exhibit 2.6 to the Company's Current Report on Form 8-K filed on December 20, 2017. (SEC File No. 000-24206) |
| 2.7†† | Agreement and Plan of Merger dated as of June 18, 2018, among VICI Properties Inc., Riverview Merger Sub Inc., Penn Tenant II, LLC, Penn National Gaming, Inc., Bossier Casino Venture (HoldCo), Inc. and Silver Slipper Gaming, LLC is hereby incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on June 19, 2018. (SEC File No. 000-24206) |
| 2.8†† | Transaction Agreement, dated as of November 13, 2018, among Penn Tenant III, LLC, VICI Properties L.P., and Greektown Mothership LLC is hereby incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on November 14, 2018. (SEC File No. 000-24206) |
| 3.1* | Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on October 15, 1996, as amended by the Articles of Amendments to the Amended and Restated Articles of Incorporation filed with the Pennsylvania Department of State on November 13, 1996, July 23, 2001 and December 28, 2007 and the Statement with Respect to Shares of Series C Convertible Preferred Stock of Penn National Gaming, Inc. dated as of January 17, 2013. |
| 3.2 | Third Amended and Restated Bylaws of Penn National Gaming, Inc., as amended on December 10, 2014 is hereby incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K filed on December 11, 2014. (SEC File No. 000-24206) |
| 4.1 | Specimen certificate for shares of Common Stock, par value of \$.01 per share, for Penn National Gaming, Inc. is hereby incorporated by reference to Exhibit 3.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2003. (SEC File No. 000-24206) |
| 4.2 | Indenture, dated as of January 19, 2017 between Penn National Gaming, Inc. and Wells Fargo Bank, N.A., as Trustee, relating to the 5.625% Senior Notes due 2027 is hereby incorporated by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed on January 20, 2017. (SEC File No. 000-24206) |
| 4.3 | Form of Note for 5.625% Senior Notes due 2027 is hereby Incorporated by reference to Exhibit 4.2 to the Company's Current Report on Form 8-K filed on January 20, 2017. (SEC File No. 000-24206) |

| Exhibit Number | Description of Exhibit |
|-----------------------|---|
| 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 is hereby incorporated by reference to the Company's Registration Statement on Form S-1, dated May 26, 1994. (SEC File No. 33-77758) |
| 10.1*† | Penn National Gaming, Inc. Deferred Compensation Plan (the "Plan"), as amended and restated effective April 4, 2013, as amended by that First Amendment, Second Amendment, Third Amendment and Fourth Amendment to the Plan, effective November 1, 2013, October 1, 2015, January 1, 2017 and January 1, 2017, respectively. |
| 10.2† | Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, as amended is hereby incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017. (SEC File No. 000-24206) |
| 10.3† | Penn National Gaming, Inc. 2018 Long Term Incentive Compensation Plan is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 13, 2018. (SEC File No. 000-24206) |
| 10.4† | Form of Non-Qualified Stock Option Certificate for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan is hereby incorporated by reference to Exhibit 10.33 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2008. (SEC File No. 000-24206) |
| 10.5† | Form of Restricted Stock Award for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan is hereby incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2009. (SEC File No. 000-24206) |
| 10.6† | Form of Notice of Award of Phantom Stock for Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan is hereby incorporated by reference to Exhibit 10.32 to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2011. (SEC File No. 000-24206) |
| 10.7† | Form of Stock Appreciation Rights for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan is hereby incorporated by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarterly report ended March 31, 2014. (SEC File No. 000-24206) |
| 10.8† | Penn National Gaming, Inc. Performance Share Program is hereby Incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 11, 2016). (SEC File No. 000-24206) |
| 10.9† | Form of Performance Shares Award Certificate for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, as amended is hereby incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017. (SEC File No. 000-24206) |
| 10.10† | Form of Notice of Restricted Stock for Performance Share Program for the Penn National Gaming, Inc. 2008 Long Term Incentive Compensation Plan, as amended is hereby incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2017. (SEC File No. 000-24206) |
| 10.11† | Form of Notice of Award of Restricted Stock for the Penn National Gaming, Inc. 2018 Long Term Incentive Compensation Plan is hereby incorporated by reference to Exhibit 10.2 to the Company's Registration Statement on Form S-8 filed on August 8, 2018. (SEC File No. 000-24206) |
| 10.12† | Form of Notice of Award of Phantom Stock Units for the Penn National Gaming, Inc. 2018 Long Term Incentive Compensation Plan is hereby incorporated by reference to Exhibit 10.3 to the Company's Registration Statement on Form S-8 filed on August 8, 2018. (SEC File No. 000-24206) |
| 10.13† | Form of Non-Qualified Stock Option Certificate for the Penn National Gaming, Inc. 2018 Long Term Incentive Compensation Plan is hereby incorporated by reference to Exhibit 10.4 to the Company's Registration Statement on Form S-8 filed on August 8, 2018. (SEC File No. 000-24206) |
| 10.14† | Form of Notice of Stock Appreciation Right Award for the Penn National Gaming, Inc. 2018 Long Term Incentive Compensation Plan is hereby by reference to Exhibit 10.5 to the Company's Registration Statement on Form S-8 filed on August 8, 2018. (SEC File No. 000-24206) |

**Exhibit
Number****Description of Exhibit**

-
- 10.15† [Penn National Gaming, Inc. Performance Share Program is hereby incorporated by reference to Exhibit 10.6 to the Company's Registration Statement on Form S-8 filed on August 8, 2018. \(SEC File No. 000-24206\)](#)
- 10.16† [Form of Notice of Award of Restricted Stock for Performance Share Program for the Penn National Gaming, Inc. 2018 Long Term Incentive Compensation Plan is hereby incorporated by reference to Exhibit 10.7 to the Company's Registration Statement on Form S-8 filed on August 8, 2018. \(SEC File No. 000-24206\)](#)
- 10.17† [Form of Performance Share Program Restricted Stock Award Certificate for the Penn National Gaming, Inc. 2018 Long Term Incentive Compensation Plan is hereby incorporated by reference to Exhibit 10.8 to the Company's Registration Statement on Form S-8 filed on August 8, 2018. \(SEC File No. 000-24206\)](#)
- 10.18† [Executive Agreement, dated August 28, 2018 and effective as of June 13, 2018, by and between Penn National Gaming, Inc. and Timothy J. Wilmott is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on August 29, 2018. \(SEC File No. 000-24206\)](#)
- 10.19† [Executive Agreement, dated June 21, 2017, by and between Penn National Gaming, Inc. and Jay A. Snowden is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 22, 2017. \(SEC File No. 000-24206\)](#)
- 10.20† [Executive Agreement, dated as of October 19, 2016 and effective as of January 1, 2017, by and between Penn National Gaming, Inc. and William J. Fair is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 20, 2016. \(SEC File No. 000-24206\)](#)
- 10.21† [Executive Agreement, dated as of December 10, 2018 and effective as of December 13, 2018, by and between Penn National Gaming, Inc. and Carl Sottosanti is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on December 13, 2018. \(SEC File No. 000-24206\)](#)
- 10.22† [Executive Agreement, dated as of January 29, 2019 and effective as of October 15, 2018, by and between Penn National Gaming, Inc. and Christine LaBombard is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on January 31, 2019. \(SEC File No. 000-24206\)](#)
- 10.23* [Lease Agreement, dated March 31, 1995 between Wyomissing Professional Center III, LP and Penn National Gaming, Inc., as amended by certain amendments dated April 15, 1997, October 30, 1997, April 23, 1998, November 16, 1999, August 21, 2000, April 5, 2005, November 20, 2007, and May 25, 2012, respectively.](#)
- 10.24* [Lease dated January 30, 2002 between Wyomissing Professional Center II, LP and Penn National Gaming, Inc. as amended by certain amendments dated May 23, 2002, December 4, 2002, January 29, 2003, October 19, 2010, May 25, 2012, and September 1, 2017, respectively.](#)
- 10.25* [Amended and Restated Lease dated April 5, 2005 between Wyomissing Professional Center III, Limited Partnership and Penn National Gaming, Inc. as amended by certain amendments dated April 20, 2006 and May 25, 2012, respectively.](#)
- 10.26† [Penn National Gaming, Inc. Performance Share Program II is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 21, 2019. \(SEC File No. 000-24206\)](#)
- 10.27† [Form of Combination Award Certificate for the Penn National Gaming, Inc. Performance Share Program II is hereby incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on February 21, 2019. \(SEC File No. 000-24206\)](#)
- 10.28†† [Master Lease between GLP Capital L.P. and Penn Tenant LLC dated November 1, 2013 \("Penn Master Lease"\) is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K, filed on November 7, 2013. \(SEC File No. 000-24206\)](#)
- 10.28(a) [First Amendment to the Master Lease is hereby incorporated by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2014. \(SEC File No. 000-24206\)](#)
- 10.28(b) [Second Amendment to the Penn Master Lease is hereby incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2014. \(SEC File No. 000-24206\)](#)

| Exhibit Number | Description of Exhibit |
|-----------------------|--|
| 10.28(c) | Third Amendment to the Penn Master Lease is hereby incorporated by reference to Exhibit 10.4 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016. (SEC File No. 000-24206) |
| 10.28(d) | Fourth Amendment to the Penn Master Lease is hereby incorporated by reference to Exhibit 10.6 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017. (SEC File No. 000-24206) |
| 10.28(e) | Fifth Amendment to the Penn Master Lease is hereby incorporated by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2018. (SEC File No. 000-24206) |
| 10.28(f) | Sixth Amendment to the Penn Master Lease is hereby incorporated by reference to Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended on September 30, 2018. (SEC File No. 000-24206) |
| 10.28(g) | Seventh Amendment to the Penn Master Lease is hereby incorporated by reference to Exhibit 10.17 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended on September 30, 2018. (SEC File No. 000-24206) |
| 10.28(h)* | Eighth Amendment to the Penn Master Lease |
| 10.29†† | Master Lease, dated April 28, 2016, by and between PNK Entertainment, Inc. and Pinnacle Entertainment, Inc. ("PNK Master Lease") is hereby incorporated by reference to Exhibit 2.2 to Pinnacle Entertainment, Inc.'s Current Report on Form 8-K filed on April 28, 2016. (SEC File No. 001-37666). |
| 10.29(a) | First Amendment to PNK Master Lease, dated August 29, 2016, by and between Pinnacle MLS, LLC and Gold Merger Sub, LLC is hereby incorporated by reference to Exhibit 2.3 to Pinnacle Entertainment, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016. (SEC File No. 001-37666) |
| 10.29(b) | Second Amendment to PNK Master Lease, dated October 25, 2016, by and between Pinnacle MLS, LLC and Gold Merger Sub, LLC is hereby incorporated by reference to Exhibit 2.4 to Pinnacle Entertainment, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2016. (SEC File No. 001-37666) |
| 10.29(c) | Third Amendment to PNK Master Lease, dated March 24, 2017, by and between Pinnacle MLS, LLC and Gold Merger Sub, LLC is hereby incorporated by reference to Exhibit 10.1 to Pinnacle Entertainment, Inc.'s Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2017. (SEC File No. 001-37666) |
| 10.29(d)†† | Fourth Amendment to PNK Master Lease, dated as of October 15, 2018, by and between Pinnacle MLS, LLC and Gold Merger Sub, LLC is hereby incorporated by reference to Exhibit 10.6 to the Company's Current Report on Form 8-K filed on October 15, 2018. (SEC File No. 000-24206) |
| 10.29(e) | Guarantee of PNK Master Lease, dated as of October 15, 2018, by Penn National Gaming, Inc. is hereby incorporated by reference to Exhibit 10.7 to the Company's Current Report on Form 8-K filed on October 15, 2018. (SEC File No. 000-24206) |
| 10.30 | Second Amendment and Refinancing Agreement, dated as of January 19, 2017, by and among Penn National Gaming, Inc., as borrower, the guarantors party thereto, the lenders party thereto, Bank of America, N.A., as swingline lender, Bank of America, N.A., as administrative agent and Bank of America, N.A., as collateral agent, is hereby incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on January 20, 2017. (SEC File No. 000-24206) |
| 10.31 | Amended and Restated Credit Agreement, dated as of January 19, 2017, by and among Penn National Gaming, Inc., as borrower, the guarantors from time to time party thereto, the lenders from time to time party thereto, Bank of America, N.A., as administrative agent, Bank of America, N.A., as collateral agent and the other parties thereto, is hereby incorporated by reference to Exhibit 10.3 to the Company's Current Report on Form 8-K, filed on January 20, 2017. (SEC File No. 000-24206) |

**Exhibit
Number****Description of Exhibit**

| | |
|----------|---|
| 10.32 | First Amendment to Amended and Restated Credit Agreement dated as of February 23, 2018, among Penn, certain subsidiaries of Penn party thereto as guarantors, each consenting lender and Bank of America, N.A., as letter of credit lender, swingline lender, administrative agent and collateral agent is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on February 28, 2018. (SEC File No. 000-24206) |
| 10.33†† | Incremental Joinder Agreement No. 1, dated as of October 15, 2018 by and among Penn National Gaming, Inc., certain subsidiaries of Penn National Gaming, Inc. party thereto as guarantors, Bank of America, N.A., as letter of credit lender, swingline lender, administrative agent and collateral agent and the lenders party thereto is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on October 15, 2018. (SEC File No. 000-24206) |
| 10.34*** | 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 is hereby incorporated by reference to Argosy Gaming Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1995. (SEC File No. 001-11853) |
| 10.34(a) | Second Amendment to Riverboat Gaming Development Agreement between City of Lawrenceburg, Indiana, and the Indiana Gaming Company, L.P. dated August 20, 1996 is hereby 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. (SEC File No. 000-24206) |
| 10.34(b) | Third Amendment to Riverboat Gaming Development Agreement between City of Lawrenceburg, Indiana, and the Indiana Gaming Company, L.P. dated June 24, 2004 is hereby incorporated by reference to Exhibit 10.2 of Argosy Gaming Company's Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2004. (SEC File No. 001-11853) |
| 10.35 | Lottery Gaming Facility Management Contract dated August 25, 2009 between the Kansas Lottery and Kansas Entertainment, LLC is hereby incorporated by reference to Exhibit 99.1 to the Company's Current Report on Form 8-K filed on February 19, 2010. (SEC File No. 000-24206) |
| 10.36 | Development Agreement dated as of September 8, 2009 by and between the Unified Government of Wyandotte County/Kansas City, Kansas and Kansas Entertainment, LLC is hereby incorporated by reference to Exhibit 99.2 to the Company's Current Report on Form 8-K filed on February 19, 2010. (SEC File No. 000-24206) |
| 10.37 | Commercial Lease dated September 9, 1996 by and between State of Louisiana, State Land Office and PNK (Bossier City), Inc. (f/k/a Casino Magic of Louisiana, Corp.) is hereby incorporated by reference to Exhibit 10.23 to the Company's Amendment No. 4 to Registration Statement on Form 10 filed on March 17, 2016. (SEC File No. 001-37666) |
| 10.38 | Separation and Distribution Agreement by and between Penn National Gaming, Inc. and Gaming and Leisure Properties, Inc. dated November 1, 2013 is hereby incorporated by reference to Exhibit 2.1 to the Company's Current Report on Form 8-K filed on November 7, 2013. (SEC File No. 000-24206) |
| 10.39 | Tax Matters Agreement between Penn National Gaming, Inc. and Gaming and Leisure Properties, Inc. dated as of November 1, 2013 is hereby incorporated by reference to Exhibit 10.2 to the Company's Current Report on Form 8-K filed on November 7, 2013. (SEC File No. 000-24206) |
| 10.40 | Separation and Distribution Agreement, dated April 28, 2016, by and among PNK Entertainment, Inc. and Pinnacle Entertainment, Inc., and, solely with respect to Article VIII, Gaming and Leisure Properties, Inc. is hereby incorporated by reference to Exhibit 2.1 to Pinnacle Entertainment, Inc.'s Current Report on Form 8-K filed on April 28, 2016. (SEC File No. 001-37666) |
| 10.41 | Tax Matters Agreement between Pinnacle Entertainment, Inc. and Gaming and Leisure Properties, Inc. dated as of July 20, 2015 is hereby incorporated by reference to Exhibit 10.2 to Pinnacle Entertainment, Inc.'s Registration Statement on Form 10 filed on December 22, 2015. (SEC File No. 001-37666) |

**Exhibit
Number****Description of Exhibit**

| | |
|---------|---|
| 10.42 | Second Amended and Restated Excursion Boat Sponsorship and Operations Agreement, dated November 18, 2004, between Iowa West Racing Association and Ameristar Casino Council Bluffs, Inc. is hereby incorporated by reference to Exhibit 10.25 to Pinnacle Entertainment, Inc.'s Amendment No. 4 to Registration Statement on Form 10 filed on March 17, 2016. (SEC File No. 001-37666) |
| 10.43 | Amendment to Second Amended and Restated Excursion Boat Sponsorship and Operations Agreement, dated February 16, 2010, between Iowa West Racing Association and Ameristar Casino Council Bluffs, Inc. is hereby incorporated by reference to Exhibit 10.26 to Pinnacle Entertainment, Inc.'s Amendment No. 4 to Registration Statement on Form 10 filed on March 17, 2016. (SEC File No. 001-37666) |
| 10.44 | Second Amendment to Second Amended and Restated Excursion Boat Sponsorship and Operations Agreement, dated May 16, 2017, between Iowa West Racing Association and Ameristar Casino Council Bluffs, LLC is hereby incorporated by reference to Exhibit 10.33 to Pinnacle Entertainment, Inc.'s Annual Report on Form 10-K for the fiscal year ended December 31, 2017. (SEC File No. 001-37666) |
| 10.45 | Modified Local Development Agreement with Ameristar Casino East Chicago, LLC, effective June 3, 2011, is hereby incorporated by reference to Exhibit 10.27 to Pinnacle Entertainment, Inc.'s Amendment No. 4 to Registration Statement on Form 10 filed on March 17, 2016. (SEC File No. 001-37666). |
| 10.46†† | Membership Interest Purchase Agreement dated as of June 18, 2018, among VICI Properties Inc., Riverview Merger Sub Inc., Penn Tenant II, LLC and Penn National Gaming, Inc. is hereby incorporated by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed on June 19, 2018. (SEC File No. 001-37666). |
| 21.1* | Subsidiaries of the Registrant. |
| 23.1* | Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm. |
| 23.2* | Consent of Ernst & Young LLP, Independent Registered Public Accounting Firm. |
| 23.3* | Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm. |
| 23.4* | 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. |
| 99.2* | Kansas Entertainment, LLC Financial Statements for the Years Ended June 30, 2018 and 2017. |
| 99.3* | Kansas Entertainment, LLC Financial Statements for the Years Ended June 30, 2016 and 2015. |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |

| Exhibit Number | Description of Exhibit |
|---------------------------|-------------------------------|
|---------------------------|-------------------------------|

| | |
|---------|---|
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
|---------|---|

| | |
|---------|--|
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |
|---------|--|

* Filed herewith.

** Furnished herewith.

*** Paper filing.

† Management contract or compensatory plan or arrangement.

†† Schedules and Exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. Penn National Gaming, Inc. hereby undertakes to furnish supplemental copies of any of the omitted schedules upon request by the SEC.

AMENDED AND RESTATED ARTICLES OF INCORPORATION

OF

PENN NATIONAL GAMING, INC.

In compliance with the provisions of Section 1915 (relating to Articles of Amendment) of the Pennsylvania Business Corporation Law of 1988, as amended, the undersigned business corporation, desiring to amend and restate in their entirety its Articles of Incorporation, hereby states that:

1. The name of the Corporation is: Penn National Gaming, Inc.
 2. The Corporation was incorporated under the provisions of the Act of May 5, 1933, as amended.
 3. The address of the Corporation's registered office in this Commonwealth is: Wyomissing Professional Center, 825 Berkshire Boulevard, Suite 203, Wyomissing, Berks County, Pennsylvania 19610.
 4. The aggregate number of shares which this Corporation shall have authority to issue is:
 - (a) Ten Million (10,000,000) shares of Common Stock with a par value of \$.01 per share; and
 - (b)
 - (i) One Million (1,000,000) shares of Preferred Stock with a par value of \$.01 per share.

(ii) The Preferred Stock may be issued from time to time in one or more series with such distinctive designations as may be stated in the resolution or resolutions providing for the issue of such stock adopted, from time to time, by the Board of Directors of this Corporation. The resolution or resolutions providing for the issue of shares of a particular series shall fix, subject to applicable laws and the provisions hereof, the designation, rights, preferences and limitations of the shares of each such series. The authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

 - (A) The number of shares constituting such series, including the authority to increase or decrease such number, and the distinctive designation of such series;
 - (B) The dividend rate of the shares of such series, whether the dividends shall be cumulative and, if so, the date from which they shall be cumulative, and the relative rights of priority, if any, of payment of dividends on shares of such series;
 - (C) The right, if any, of the Corporation to redeem shares of such series and the terms and conditions of such redemption;
-

(D) The rights of the shares in case of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of such series;

(E) The voting power, if any, of such series and the terms and conditions under which such voting power may be exercised;

(F) The obligation, if any, of the Corporation to retire shares of such series pursuant to a retirement or sinking fund or funds of a similar nature or otherwise and the terms and conditions of such obligations;

(G) The terms and conditions, if any, upon which shares of such series shall be convertible into or exchangeable for shares of stock of any other class or classes, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment if any; and

(H) Any other rights, preferences or limitations of the shares of such series.

5. In all elections for Directors, each shareholder entitled to vote shall be entitled to only one vote for each share held, it being intended hereby to deny to shareholders of this Corporation the right of cumulative voting in the election of Directors.

6. The amended and restated Articles of Incorporation of this corporation as set forth herein shall be effective upon the filing of these Amended and Restated Articles of Incorporation with the Department of State.

7. The amended and restated Articles of Incorporation were adopted by the shareholders of this corporation pursuant to 15 Pa. C.S.ss.1914 (a)(b).

8. The amended and restated Articles of Incorporation adopted by the Corporation is set forth in full as follows:

RESOLVED, that the Articles of Incorporation of this Corporation be, and they hereby are, amended and restated, in their entirety, to read as follows:

1. The name of the Corporation is: Penn National Gaming, Inc.

2. The Corporation was incorporated under the provisions of the Act of May 5, 1933, as amended.

3. The address of the Corporation's registered office in this Commonwealth is: Wyomissing Professional Center, 825 Berkshire Boulevard, Suite 203, Wyomissing, Berks County, Pennsylvania 19610.

4. The aggregate number of shares which this Corporation shall have authority to issue is:

(a) Ten Million (10,000,000) shares of Common Stock with a par value of \$.01 per share; and

(b) (i) One Million (1,000,000) shares of Preferred Stock with a par value of \$.01 per share.

(ii) The Preferred Stock may be issued from time to time in one or more series with such distinctive designations as may be stated in the resolution or resolutions providing for the issue of such stock adopted, from time to time, by the Board of Directors of this Corporation. The resolution or resolutions providing for the issue of shares of a particular series shall fix, subject to applicable laws and the provisions hereof, the designation, rights, preferences and limitations of the shares of each such series. The authority of the Board of Directors with respect to each series shall include, but not be limited to, determination of the following:

(A) The number of shares constituting such series, including the authority to increase or decrease such number, and the distinctive designation of such series;

(B) The dividend rate of the shares of such series, whether the dividends shall be cumulative and, if so, the date from which they shall be cumulative, and the relative rights of priority, if any, of payment of dividends on shares of such series;

(C) The right, if any, of the Corporation to redeem shares of such series and the terms and conditions of such redemption;

(D) The rights of the shares in case of a voluntary or involuntary liquidation, dissolution or winding up of the Corporation, and the relative rights of priority, if any, of payment of shares of such series;

(E) The voting power, if any, of such series and the terms and conditions under which such voting power may be exercised;

(F) The obligation, if any, of the Corporation to retire shares of such series pursuant to a retirement or sinking fund or funds of a similar nature or otherwise and the terms and conditions of such obligations;

(G) The terms and conditions, if any, upon which shares of such series shall be convertible into or exchangeable for shares of stock of any other class or classes, including the price or prices or the rate or rates of conversion or exchange and the terms of adjustment if any; and

(H) Any other rights, preferences or limitations of the shares of such series.

5. In all elections for Directors, each shareholder entitled to vote shall be entitled to only one vote for each share held, it being intended hereby to deny to shareholders of this Corporation the right of cumulative voting in the election of Directors.

6. (a) Except as otherwise fixed by or pursuant to the provisions of Article 6 hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, the number of Directors of the Corporation shall be fixed from time to time by or pursuant to the By-Laws of the Corporation. The Directors, other than those who may be elected by the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation, shall be classified, with respect to the time for which they severally hold office, into three classes, as nearly equal in number as possible, as shall be provided in the manner specified in the By-Laws of the Corporation, one class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1997, another class to be elected for a term expiring at the annual meeting of shareholders to be held in 1998, and another class to be originally elected for a term expiring at the annual meeting of shareholders to be held in 1999, with each director to hold office until his or her successors of the class of Directors whose term expires at that meeting shall be elected to hold office for a term expiring at the annual meeting of shareholders held in the third year following the year of election.

(b) Advance notice of shareholder nominations for the election of Directors and advance notice of business to be brought by shareholders before an annual meeting shall be given in the manner provided in the By-Laws of the Corporation.

(c) Except as otherwise provided for or fixed by or pursuant to the provisions of Article 6 hereof relating to the rights of the holders of any class or series of stock having a preference over the Common Stock as to dividends or upon liquidation to elect additional directors under specified circumstances, newly created directorships resulting from any increase in the number of Directors and any vacancies on the Board of Directors resulting from death, resignation, disqualification, removal or other case shall be filled only by the affirmative vote of a majority of the remaining Directors then in office, even though less than a quorum of the Board of Directors. Any Directors elected in accordance with the preceding sentence shall hold office for the remainder of the full term of the class of Directors in which the new directorship was created or the vacancy occurred and until such Director's successor shall have been duly elected and qualified. No decrease in the number of Directors constituting the Board of Directors shall shorten the term of any incumbent Director.

(d) Subject to the rights of any class or series of stock having preference over the Common Stock as to dividends or upon liquidation to elect Directors under specified circumstances, any Director may be removed from office, with or without cause, only by the affirmative vote of the holders of 75% of the voting power of all shares of the Corporation entitled to vote generally in the election of Directors, voting together as a single class.

(e) Notwithstanding anything contained in these Amended and Restated Articles of Incorporation to the contrary, the affirmative vote of the holders of at least 75% of the voting power of all shares of the Corporation entitled to vote generally in the election of Directors voting together as a single class, shall be required to alter, amend or repeal this Article 6.

IN TESTIMONY WHEREOF, the undersigned officers of this Corporation have executed and sealed these Amended and Restated Articles of Incorporation this 8th day of May, 1996.

PENN NATIONAL GAMING, INC.

By: /s/ Peter M. Carlino

Name: Peter M. Carlino

Title: President

Attest: /s/ Robert S. Ippolito

Name: Robert S. Ippolito

Title: Secretary

ARTICLES OF AMENDMENT - DOMESTIC BUSINSS CORPORATION

DSCS: 15 - 1915 (REV. 91)

In compliance with the requirements of 15 Pa. C.S. Section 1915 (relating to Articles of Amendment), the undersigned business corporation, desiring to amend its Articles, hereby states that:

1. The name of the corporation is: Penn National Gaming, Inc.

2. The address of this corporation's current registered office in this Commonwealth and the county of venue is: Wyomissing Professional Center, 825 Berkshire Boulevard, Suite 203, Wyomissing, Berks County, Pennsylvania 19610.

3. The statute by or under which it was incorporated is: Pennsylvania Business Corporation Law, as amended.

4. The date of its incorporation is: 12/16/82

5. The amendment shall be effective upon filing these Articles of Amendment in the Department of State.

6. A resolution setting forth the amendment was duly adopted by the Board of Directors at a meeting of such Board pursuant to 15 Pa. C.S. Sections 1914(c) and 1912.

7. The amendment adopted by the corporation, set forth in full, is as follows:

Article 4, subparagraph (a), of the Articles of Incorporation of this corporation be and it hereby is, amended to read as follows:

"4. The aggregate number of shares which this Corporation shall have authority to issue is:

(a) Twenty Million (20,000,000) shares of Common Stock with par value of \$.01 per share; and"

IN TESTIMONY WHEREOF, the undersigned corporation has caused these Articles of Amendment to be signed by a duly authorized officer thereof this 13 day of November, 1996.

PENN NATIONAL GAMING, INC.

By: /s/ Peter M. Carlino
Peter M. Carlino
Chairman of the Board and
Chief Executive Officer

Entity Number

SECRETARY OF THE COMMONWEALTH

ARTICLES OF AMENDMENT-DOMESTIC BUSINESS CORPORATION
DSCB:15-1915 (Rev 91)

In compliance with the requirements of 15 Pa.C.S. ss.1915 (relating to articles of amendment), the undersigned business corporation, desiring to amend its Articles, hereby states that:

- 1. The NAME of the corporation is: PENN NATIONAL GAMING, INC.
2. The (a) ADDRESS of this corporation's current registered office in this Commonwealth or (b) NAME of its commercial registered office provider and the county of venue is (the Department is hereby authorized to correct the following information to conform to the records of the Department):

(a) WYOMISSING PROFESSIONAL CENTER, 825 BERKSHIRE BOULEVARD, SUITE 203,
Number and Street

WYOMISSING, PA 19610 BERKS
City State Zip County

(b) Name of Commercial Registered Office Provider County

For a corporation represented by a commercial registered office provider, the county in (b) shall be deemed the county in which the corporation is located for venue and official publication purposes.

- 3. The STATUTE by or under which it was incorporated is:

PENNSYLVANIA BUSINESS CORPORATION LAW, AS AMENDED

- 4. The DATE of its incorporation is: DECEMBER 16, 1982
5. (CHECK, AND IF APPROPRIATE COMPLETE, ONE OF THE FOLLOWING):

- x The amendment shall be effective UPON FILING these Articles of Amendment in the Department of State.
o The amendment shall be effective on: at
Date Hour

- 6. (CHECK ONE OF THE FOLLOWING):
x The amendment was adopted by the shareholders (or members) pursuant to 15 Pa.C.S. ss.1914(a) and 1914(b).
o The amendment was adopted by the board of directors pursuant to 15 Pa.C.S. ss.1914(c).

- 7. (CHECK, AND IF APPROPRIATE COMPLETE, ONE OF THE FOLLOWING):

- x The amendment adopted by the corporation, set forth in full, is as follows:
"4. The aggregate number of shares which this Corporation shall have the authority to issue is:
(a) Two hundred million (200,000,000) shares of Common stock with a par value of \$.01 per share; and"
o The amendment adopted by the corporation as set forth in full in EXHIBIT A attached hereto and made a part hereof.

- 8. (CHECK IF THE AMENDMENT RESTATES THE ARTICLES):

- o The restated Articles of Incorporation supersede the original Articles and all amendments thereto.



IN TESTIMONY WHEREOF, the undersigned corporation has caused these Articles of Amendment to be signed by a duly authorized officer thereof this 23rd day of July 2001.

PENN NATIONAL GAMING, INC.

(Name of Corporation)

BY: /s/ ROBERT S. IPPOLITO

Robert S. Ippolito

Secretary and Treasurer

(CHANGES)
DOCKETING STATEMENT DSCB:15-134B (Rev 91)

BUREAU USE ONLY:
REVENUE LABOR & INDUSTRY
OTHER

FILING FEE: NONE

FILECODE
FILED DATE
MICROFILM NUMBER

This form (file in triplicate) and all accompanying documents shall be mailed to:

COMMONWEALTH OF PENNSYLVANIA
DEPARTMENT OF STATE
CORPORATION BUREAU
308 NORTH OFFICE BUILDING
HARRISBURG, PA 17120-0029

PART I. COMPLETE FOR EACH FILING:

Current name of entity or registrant affected by the submittal to which this statement relates: (survivor or new corporation if merger or consolidation) PENN NATIONAL GAMING, INC.

Entity number, if known: 2980352 NOTE: ENTITY NUMBER is the computer index number assigned to an entity upon initial filing in the Department of State.

Incorporation/qualification date in Pa.: 12/16/82 State of Incorporation: PA

Federal Identification Number: 23-2234473

Specified effective date, if any: UPON FILING

PART II. COMPLETE FOR EACH FILING: This statement is being submitted with (check proper box):

- ARTICLES OF AMENDMENT: complete Section A only
- AMENDED CERTIFICATE OF AUTHORITY: complete Section A only
- ARTICLES OF MERGER: complete Section B
- ARTICLES OF CONSOLIDATION: complete Section C
- ARTICLES OF DIVISION: complete Section D
- ARTICLES OF CONVERSION: complete Section A and E only
- STATEMENT OF MERGER, CONSOLIDATION OR DIVISION: complete Section B, C or D
- STATEMENT OF CORRECTION: complete Section A only
- STATEMENT OF TERMINATION: complete Section H
- STATEMENT OF REVIVAL: complete Section G
- DISSOLUTION BY SHAREHOLDERS OR INCORPORATORS BEFORE COMMENCEMENT OF BUSINESS: complete Section F only
- AMENDMENT OF CERTIFICATE OF LIMITED PARTNERSHIP: complete Section A only

PART III. COMPLETE IF APPROPRIATE: The delayed effective date of the accompanying submittal is:

Month day year hour, if any

x SECTION A. CHANGES TO BE MADE TO THE ENTITY NAMED IN PART I: (Check box/boxes which pertain)

o Name:

o Registered Office:

Number & street/RD number & box number

City

State

Zip

County

o Purpose:

x Stock: aggregate number of shares authorized

200,000,000 Common, par value \$.01

(attach additional provisions, if any)

o Term of Existence:

Other:

o SECTION B. MERGER (Complete Section A if any changes to survivor corporation):

MERGING CORPORATIONS ARE: (List ONLY the MERGING CORPORATIONS-SURVIVOR IS LISTED IN PART I)

1. Name:

Entity Number, if known: Inc./quali. date in Pa.:

State of Incorporation:

2. Name:

Entity Number, if known: Inc./quali. date in Pa.:

State of Incorporation:

Attach sheet containing above corporate information if there are additional merging corporations.

o SECTION C. CONSOLIDATION (NEW corporation information should be completed in Part I. Also, complete and attach DOCKETING STATEMENT DSCB:15-134A for the NEW corporation formed.)

CONSOLIDATING CORPORATIONS ARE:

1. Name:

Entity Number, if known: Inc./quali. date in Pa.:

State of Incorporation:

2. Name:

Entity Number, if known: Inc./quali. date in Pa.:

State of Incorporation:

Attach sheet containing above corporate information if there are additional consolidating corporations.

o SECTION D. DIVISION (Forming NEW corporation(s) named below. Also, complete and attach DOCKETING STATEMENT DSCB:15-134A for EACH new corporation formed by division.)

1. Name:

Entity Number

2. Name:

Entity Number

Attach sheet if there are additional corporations to be named.

CHECK ONE:

o Corporation named in Part I survives. (Any changes, complete Section A)

o Corporation named in Part I does not survive.

o SECTION E. CONVERSION (Complete Section A)

CHECK ONE:

o Converted from nonprofit to profit

o Converted from profit to nonprofit



o SECTION F. DISSOLVED BY SHAREHOLDERS OR INCORPORATORS BEFORE COMMENCEMENT OF BUSINESS

o SECTION G. STATEMENT OF REVIVAL Corporation named in Part I hereby revives its charter or articles which were forfeited by Proclamation or expired. (Complete Section A if any changes have been made to the revived corporation.)

o SECTION H. STATEMENT OF TERMINATION

filed in the Department of State on

(type of filing made) month day year hour, if any is/are hereby terminated.

If merger, consolidation or division, list all corporations involved, other than that listed in Part I:

- | | |
|---------------|----------|
| Entity Number | 1. Name: |
| Entity Number | 2. Name: |

Attach sheet containing above information if there are additional corporations involved.

PENNSYLVANIA DEPARTMENT OF STATE
CORPORATION BUREAU

Articles of Amendment-Domestic Corporation
(15 Pa.C.S.)

Entity Number
724866

- Business Corporation (§ 1915)
 Nonprofit Corporation (§ 5915)

Name
ESQUIRE ASSIST

**Document will be returned to the name and
address you enter to the left.**

Address
COUNTER PICK-UP

Ü

City State Zip Code

Fee: \$52

Filed in the Department of State on

Secretary of the Commonwealth

In compliance with the requirements of the applicable provisions (relating to articles of amendment), the undersigned, desiring to amend its articles, hereby states that:

1. The name of the corporation is:
PENN NATIONAL GAMING, INC.
2. The (a) address of this corporation's current registered office in this Commonwealth or (b) name of its commercial registered office provider and the county of venue is (the Department is hereby authorized to correct the following information to conform to the records of the Department):

(a) Number and Street City State Zip County

(b) Name of Commercial Registered Office Provider County
c/o CT CORPORATION SYSTEM

3. The statute by or under which it was incorporated: Pennsylvania Business Corporation Law

4. The date of its incorporation: DECEMBER 16, 1982

5. Check, and if appropriate complete, one of the following:

The amendment shall be effective upon filing these Articles of Amendment in the Department of State.

The amendment shall be effective on: at
Date Hour

6. *Check one of the following:*

- The amendment was adopted by the shareholders or members pursuant to 15 Pa.C.S. § 1914(a) and (b) or § 5914(a).
- The amendment was adopted by the board of directors pursuant to 15 Pa. C.S. § 1914(c) or § 5914(b).

7. *Check, and if appropriate, complete one of the following:*

- The amendment adopted by the corporation, set forth in full, is as follows:
- The amendment adopted by the corporation is set forth in full in Exhibit A attached hereto and made a part hereof.

8. *Check if the amendment restates the Articles:*

- The restated Articles of Incorporation supersede the original articles and all amendments thereto.

IN TESTIMONY WHEREOF, the undersigned corporation has caused these Articles of Amendment to be signed by a duly authorized officer thereof this 28th day of December, 2007.

PENN NATIONAL GAMING, INC.

Name of Corporation

/s/Robert S. Ippolito

ROBERT S. IPPOLITO

Signature

VICE PRESIDENT, SECRETARY & TREASURER

Title



**Department of State
Corporation Bureau
P.O. Box 8722
Harrisburg, PA 17105-8722
(717) 787-1057
web site: www.dos.state.pa.us/corp.htm**

Instructions for Completion of Form:

- A. Typewritten is preferred. If not, the form shall be completed in black or blue-black ink in order to permit reproduction. The filing fee for this form is \$52 made payable to the Department of State.
 - B. Under 15 Pa.C.S. § 135(c) (relating to addresses) an actual street or rural route box number must be used as an address, and the Department of State is required to refuse to receive or file any document that sets forth only a post office box address.
 - C. The following, in addition to the filing fee, shall accompany this form:
 - (1) Two copies of a completed form DSCB:15-134B (Docketing Statement-Changes).
 - (2) Any necessary copies of form DSCB:17.2.3 (Consent to Appropriation or Use of Similar Name) shall accompany Articles of Amendment effecting a change of name and the change in name shall contain a statement of the complete new name.
 - (3) Any necessary governmental approvals.
 - D. *Nonprofit Corporations:* If the action was authorized by a body other than the board of directors Paragraph 6 should be modified accordingly.
 - E. This form and all accompanying documents shall be mailed to the above stated address.
 - F. To receive confirmation of the file date prior to receiving the microfilmed original, send either a self-addressed, stamped postcard with the filing information noted or a self-addressed, stamped envelope with a copy of the filing document.
-

EXHIBIT A
TO
ARTICLES OF AMENDMENT
TO
ARTICLES OF INCORPORATION
OF
PENN NATIONAL GAMING, INC.

The amended and restated Articles of Incorporation, as amended, be further amended to add a new Article 7 to read in its entirety as follows:

7. Any or all classes and series of shares, or any part thereof, may be represented by certificates or may be uncertificated shares, provided, however, that any shares represented by a certificate that are issued and outstanding shall continue to be represented thereby until the certificate is surrendered to the Corporation. The rights and obligations of the holders of shares represented by certificates and the rights and obligations of the holders of uncertificated shares of the same class and series shall be identical.
-

**STATEMENT WITH RESPECT TO SHARES
OF SERIES C CONVERTIBLE PREFERRED STOCK
OF
PENN NATIONAL GAMING, INC.**

In compliance with the requirements of Section 1522 of the Business Corporation Law of 1988, P.L. 1444, No. 177 (15 Pa. Cons. Stat Section 1522(c)), the undersigned company, desiring to state the voting rights, designations, preferences, qualifications, privileges, limitations, options, conversion rights, and other special rights, if any, of a class or a series of a class of its shares, HEREBY CERTIFIES THAT:

(1) The name of the corporation is Penn National Gaming, Inc. (the "Company");

(2) The resolutions establishing and designating the class or series of shares and fixing and determining the relative rights and preferences thereof are set forth in full in Exhibit 1 attached hereto and made a part hereof;

(3) The aggregate number of shares of such class or series established and designated by (i) such resolutions, (ii) all prior statements, if any, filed under Section 1522 of the Business Corporation Law of 1988 or corresponding provisions of prior law with respect thereto, and (iii) any other provision of the Articles of Incorporation of the Company, is 31,000 shares; and

(4) The resolutions were adopted by the Board of Directors of the Company at a duly called meeting held on January 14, 2013, and shall be effective after the filing of this statement with respect to shares in the Department of State.

IN WITNESS WHEREOF, the Company has caused this statement to be duly executed in its corporate name on this 17th day of January, 2013.

PENN NATIONAL GAMING, INC.

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

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of the Company in accordance with the provisions of the Articles of Incorporation of the Company, as amended, the Board of Directors hereby creates a series of Preferred Stock, par value \$0.01 per share, of the Company (the "Preferred Stock"), and hereby states the designation and number of shares, and fixes the relative rights, preferences, and limitations thereof as follows:

Series C Convertible Preferred Stock:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series C Convertible Preferred Stock" (the "Series C Preferred Stock") and the number of shares constituting the Series C Preferred Stock shall be 18,500. Such number of shares may be increased or decreased by resolution of the Board of Directors and the requisite filing with the Department of State of the Commonwealth of Pennsylvania; provided, that any such increase shall be limited to the number of authorized and unissued shares of undesignated Preferred Stock; and provided, further, that no decrease shall reduce the number of shares of Series C Preferred Stock to a number less than the number of shares then outstanding plus the number of shares reserved for issuance upon the exercise of outstanding options, rights or warrants or upon the conversion of any outstanding securities issued by the Company, in each case, convertible into Series C Preferred Stock.

Section 2. Dividends and Distributions. The holders of record of the issued and outstanding shares of Series C Preferred Stock shall be entitled to receive, out of assets legally available for the payment of dividends, dividends on the terms described below:

(A) Holders of shares of Series C Preferred Stock shall be entitled to participate equally and ratably with the holders of shares of common stock of the Company ("Common Stock") in all dividends and distributions paid (whether in the form of cash, stock, other assets, or otherwise, and including, without limitation, any dividend or distribution of shares of stock or other equity, or evidences of indebtedness, of any person, including, without limitation, the Company or any subsidiary, but not including any repurchase of Common Stock or other equity interests in the Company) on the shares of Common Stock, in the amount that such holders would have received if, immediately prior to each record date in respect of which dividends or distributions are paid, each 1/1,000th of a share of Series C Preferred Stock were converted into one share of Common Stock. Dividends or distributions payable to the holders of shares of Series C Preferred Stock pursuant to this Section 2(A) shall be declared and paid on the same dates that such dividends or distributions are declared and paid, and in the same form payable, to holders of shares of Common Stock.

(B) Each dividend or distribution payable pursuant to Section 2(A) hereof shall be payable to the holders of record of shares of Series C Preferred Stock as they appear on the stock records of the Company at the close of business on the record date designated by the Board of Directors for such dividends or distributions, which shall be the same day as the record date for the payment of such dividends or distributions to holders

of shares of Common Stock. In the event the Company shall at any time effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series C Preferred Stock were entitled immediately prior to such event under Section 2(A) hereof shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 3. Voting Rights.

(A) Except as set forth below or as required by applicable law, the holders of Series C Preferred Stock shall not be entitled to vote at any meeting of the shareholders for election of members of the Board of Directors or for any other purpose or otherwise to participate in any action taken by the Company or the shareholders thereof, or to receive notice of any meeting of shareholders.

(B) So long as any Series C Preferred Stock remains outstanding, the Company will not, without the affirmative vote or consent of the holders of a majority of the shares of Series C Preferred Stock outstanding at the time, given in person or by proxy, either in writing or at a meeting (such series voting separately as a class) amend, alter or repeal the provisions of this Resolution, including by merger or consolidation (an "Event"), so as to adversely affect any right or privilege of the Series C Preferred Stock; provided, however, that no Event shall be deemed to adversely affect the rights and privileges of the Series C Preferred Stock, and the holders thereof shall have no right to vote with respect to such Event, if (x) following such Event, the Series C Preferred Stock remains outstanding with the terms thereof not adversely changed and represent an interest in the same issuer in which holders of Common Stock prior to such Event will hold their shares following such Event or (y) in connection with an Event in which the Company is not the surviving entity, the Series C Preferred Stock is exchanged for a security (a "Replacement Security") with rights, preferences, privileges and voting powers that are no less favorable than the rights, preferences, privileges and voting powers of the Series C Preferred Stock (it being understood that a Replacement Security shall not be deemed to have rights, preferences, privileges or voting power that are less favorable than the Series C Preferred Stock if the difference in the rights, preferences, privileges or voting power is caused solely by differences between the state law of the jurisdiction of incorporation of the Company and the jurisdiction of incorporation of the issuer of the Replacement Security).

(C) On each matter submitted to a vote of the holders of Series C Preferred Stock in accordance with this Resolution, or as otherwise required by applicable law, each share of Series C Preferred Stock shall be entitled to one vote. With respect to each share of Series C Preferred Stock, the holder thereof may designate a proxy, with each such proxy having the right to vote on behalf of such holder.

Section 4. Reacquired Shares. Any shares of Series C Preferred Stock duly converted in accordance with this Statement with Respect to Shares or otherwise reacquired by

the Company in any manner whatsoever shall be retired and cancelled promptly after the acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock subject to the conditions and restrictions on issuance set forth herein, in the Articles of Incorporation, or in any other Statement with Respect to Shares creating a series of Preferred Stock or any similar stock or as otherwise required by law.

Section 5. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Company, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series C Preferred Stock unless, prior thereto, the holders of shares of Series C Preferred Stock shall have received \$1.00 per share, plus an amount equal to declared and unpaid dividends and distributions thereon, to the date of such payment, provided that the holders of shares of Series C Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 1,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series C Preferred Stock, except distributions made ratably on the Series C Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Company shall at any time effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the aggregate amount to which holders of shares of Series C Preferred Stock were entitled immediately prior to such event under the proviso in clause (1) of the preceding sentence shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 6. Consolidation, Merger, etc. In case the Company shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series C Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment set forth in the following sentence, equal to 1,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Company shall at any time effect a subdivision or combination or consolidation of the outstanding shares of Common Stock, by reclassification or otherwise (except by payment of a dividend in shares of Common Stock), into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series C Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Mandatory Conversion. If, at any time (such date the “Conversion Date”), any share of Series C Preferred shall be Transferred to any person other than the Company or an Affiliate of the Initial Holder who held such share (such share a “Transferred Share”), each 1/1,000 of a Transferred Share shall automatically convert to one share of Common Stock, effective as of the close of business on the Conversion Date. In no event shall any Initial Holder or any of its Affiliates be permitted to own the shares of Common Stock issuable upon such conversion. In the event the Company shall at any time, on or prior to the Conversion Date, effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the first sentence of this Section 7 with respect to the number of shares of Common Stock to be issued upon conversion of Series C Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event. For purposes of this Resolution, “Affiliate” means, with respect to any person or entity, any other person or entity directly, or indirectly through one or more intermediaries, controlling, controlled by or under common control with such person or entity; the term “control” (and correlative terms “controlling,” “controlled by” and “under common control with”) means possession of the power, whether by contract, equity ownership or otherwise, to direct the policies or management of a person or entity, and “Transfer” means the sale, transfer, assignment or other disposition of any share of Series C Preferred Stock.

Section 8. Conversion Procedures.

(A) An Initial Holder shall immediately provide written notice to the Company of any Transfer by such Initial Holder of any share of Series C Preferred Stock to a person other than the Company or an Affiliate of such Initial Holder, which notice shall state the number of shares of Series C Preferred Stock subject to the Transfer, the person acquiring such shares and the Conversion Date.

(B) Effective immediately prior to the close of business on the Conversion Date with respect to any Transferred Share, but subject to the consummation of the Transfer of such share, dividends shall no longer be declared on such Transferred Share and such Transferred Share shall cease to be outstanding.

(C) Prior to the close of business on the Conversion Date with respect to any Transferred Share, shares of Common Stock issuable upon conversion thereof shall not be deemed outstanding for any purpose, and the holder of such Transferred Share shall have no rights with respect to Common Stock (including voting rights or rights to respond to tender offers for Common Stock) by virtue of holding such Transferred Share.

(D) The person or persons entitled to receive Common Stock issuable upon conversion of Transferred Shares shall be treated for all purposes as the record holder(s) of such shares of Common Stock as of the close of business on the Conversion Date with respect thereto. In the event that an Initial Holder fails to by written notice designate the name in which shares of Common Stock to be issued upon conversion of Transferred

Shares should be registered in the Company's transfer records or the manner in which such shares should be delivered, the Company shall not be obligated to register or deliver such shares, until such written notice is provided, and until such time, such shares of Common Stock shall be issued in the name of the Company, which will hold such shares and all distributions thereon in trust for the transferee, subject to reimbursement by the rightful owner for reasonable out-of-pocket expenses incurred in connection therewith.

(E) As soon as reasonably practicable following the Conversion Date with respect to any Transferred Share, certificates representing shares of Common Stock shall be issued and delivered to the holder thereof or such holder's designee upon presentation and surrender of the certificate evidencing the Transferred Share to the Company, or in the case of book-entry shares, a book-entry transfer and, if applicable, notice to the Company's transfer agent, will be made by the Company upon the furnishing of appropriate endorsements and transfer documents and the payment of all transfer and similar taxes, as applicable.

Section 9. No Redemption. The shares of Series C Preferred Stock shall not be redeemable.

Section 10. Rank. The Series C Preferred Stock shall rank junior to any other class of the Company's Preferred Stock with respect to the payment of dividends and the distribution of assets.

Section 11. Destroyed / Lost Certificates. If any Series C Preferred Stock certificate shall be mutilated, lost, stolen or destroyed, the Company will issue, in exchange and in substitution for and upon cancellation of the mutilated certificate, or in lieu of and substitution for the certificate lost, stolen or destroyed, a new Series C Preferred Stock certificate of like tenor and representing an equivalent amount of Series C Preferred Stock, upon receipt of evidence of such loss, theft or destruction of such certificate and, if requested by the Company, an indemnity on customary terms for such situations reasonably satisfactory to the Company

Section 12. Certain Tax Matters. The Company shall be entitled to deduct and withhold from any payment of cash, shares of Common Stock or other consideration payable to a holder of a share of Series C Preferred Stock, any amounts required to be deducted or withheld under applicable U.S. federal, state, local or foreign tax laws with respect to such payment. In the event the Company previously remitted withholding taxes to a governmental authority in respect of any amount treated as a distribution on a share of Series C Preferred Stock, the Company shall be entitled to offset any such taxes against any amounts otherwise payable in respect of such share of Series C Preferred Stock.



Deferred Compensation Plan

**Amended and Restated
Effective April 4, 2013**

TABLE OF CONTENTS

| | | Page |
|------------------|--|-------------|
| ARTICLE 1 | Definitions | 1 |
| ARTICLE 2 | Selection, Enrollment, Eligibility | 8 |
| | 2.1 Selection by Committee | 8 |
| | 2.2 Enrollment Requirements | 8 |
| | 2.3 Eligibility; Commencement of Participation | 8 |
| | 2.4 Termination of Participation and/or Deferrals | 9 |
| ARTICLE 3 | Deferral Commitments/Company Contribution/Crediting/Taxes | 9 |
| | 3.1 Minimum Deferrals | 9 |
| | 3.2 Maximum Deferral | 9 |
| | 3.3 Election to Defer; Effect of Election Form | 9 |
| | 3.4 Withholding of Annual Deferral Amounts | 10 |
| | 3.5 Annual Company Contribution Amount | 10 |
| | 3.6 Rollover Amount | 10 |
| | 3.7 Investment of Trust Assets | 11 |
| | 3.8 Vesting | 11 |
| | 3.9 Crediting/Debiting of Account Balances | 12 |
| | 3.10 FICA and Other Taxes | 14 |
| ARTICLE 4 | Unforeseeable Emergencies | 14 |
| | 4.1 Scheduled Distributions | 14 |
| | 4.2 Other Benefits Take Precedence Over Scheduled Distributions | 15 |
| | 4.3 Suspensions for Unforeseeable Emergencies | 15 |
| ARTICLE 5 | Retirement Benefit | 15 |
| | 5.1 Retirement Benefit | 15 |
| | 5.2 Payment of Retirement Benefit | 15 |
| | 5.3 Death Prior to Completion of Retirement Benefit | 16 |
| ARTICLE 6 | Pre-Retirement Survivor Benefit | 16 |
| | 6.1 Pre-Retirement Survivor Benefit | 16 |
| | 6.2 Payment of Pre-Retirement Survivor Benefit | 17 |
| ARTICLE 7 | Termination Benefit | 17 |
| | 7.1 Termination Benefit | 17 |
| | 7.2 Payment of Termination Benefit | 17 |

| | | |
|-------------------|---|----|
| ARTICLE 8 | Disability Waiver and Benefit | 17 |
| | 8.1 Disability Waiver | 17 |
| | 8.2 Disability; Continued Eligibility | 18 |
| ARTICLE 9 | Change In Control Benefit | 18 |
| | 9.1 Change In Control Benefit | 18 |
| | 9.2 Payment of Change In Control Benefit | 18 |
| ARTICLE 10 | Beneficiary Designation | 18 |
| | 10.1 Beneficiary | 18 |
| | 10.2 Beneficiary Designation; Change | 19 |
| | 10.3 Acknowledgment | 19 |
| | 10.4 No Beneficiary Designation | 19 |
| | 10.5 Doubt as to Beneficiary | 19 |
| | 10.6 Discharge of Obligations | 19 |
| ARTICLE 11 | Leave of Absence | 19 |
| | 11.1 Paid Leave of Absence | 19 |
| | 11.2 Unpaid Leave of Absence | 19 |
| ARTICLE 12 | Termination, Amendment or Modification | 20 |
| | 12.1 Termination | 20 |
| | 12.2 Amendment | 21 |
| | 12.3 Plan Agreement | 21 |
| | 12.4 Effect of Payment | 21 |
| ARTICLE 13 | Administration | 21 |
| | 13.1 Committee Duties | 21 |
| | 13.2 Administration Upon Change In Control | 21 |
| | 13.3 Agents | 22 |
| | 13.4 Binding Effect of Decisions | 22 |
| | 13.5 Indemnity of Committee | 22 |
| | 13.6 Employer Information | 22 |
| ARTICLE 14 | Other Benefits and Agreements | 23 |
| | 14.1 Coordination with Other Benefits | 23 |

| | | |
|-------------------|--|----|
| ARTICLE 15 | Claims Procedures | 23 |
| | 15.1 Presentation of Claim | 23 |
| | 15.2 Notification of Decision | 23 |
| | 15.3 Review of a Denied Claim | 24 |
| | 15.4 Decision on Review | 24 |
| | 15.5 Legal Action | 25 |
| ARTICLE 16 | Trust | 25 |
| | 16.1 Establishment of the Trust | 25 |
| | 16.2 Interrelationship of the Plan and the Trust | 25 |
| | 16.3 Distributions From the Trust | 25 |
| ARTICLE 17 | Miscellaneous | 25 |
| | 17.1 Status of Plan | 25 |
| | 17.2 Unsecured General Creditor | 26 |
| | 17.3 Employer's Liability | 26 |
| | 17.4 Nonassignability | 26 |
| | 17.5 Not a Contract of Employment | 26 |
| | 17.6 Furnishing Information | 26 |
| | 17.7 Terms | 26 |
| | 17.8 Captions | 27 |
| | 17.9 Governing Law | 27 |
| | 17.10 Notice | 27 |
| | 17.11 Successors | 27 |
| | 17.12 Spouse's Interest | 27 |
| | 17.13 Validity | 27 |
| | 17.14 Incompetent | 28 |
| | 17.15 Distribution in the Event of Taxation | 28 |
| | 17.16 Insurance | 29 |
| | 17.17 Legal Fees To Enforce Rights After Change in Control | 29 |
| | 17.18 Domestic Relations Orders | 29 |
| | 17.19 Section 409A of the Code | 29 |

PENN NATIONAL GAMING, INC.
Deferred Compensation Plan
Amended and Restated
Effective April 4, 2013

Purpose

The purpose of this Plan is to provide specified deferred compensation benefits to a select group of management and highly compensated Employees who contribute materially to the continued growth, development and future business success of Penn National Gaming, Inc., a Pennsylvania corporation, and its subsidiaries and affiliates, if any, that participate in this Plan. This Plan is unfunded for tax purposes and for purposes of Title I of ERISA.

ARTICLE 1
Definitions

For purposes of this Plan, unless otherwise clearly apparent from the context, the following phrases or terms have the following indicated meanings:

- 1.1 “Account” means the account established for each Participant in the Plan.
 - 1.2 “Account Balance” means, with respect to a Participant, a credit on the records of the Employer equal to the sum of (a) the Deferral Account balance, (b) the Company Contribution Account balance and (c) the Rollover Account balance. The Account Balance will be a bookkeeping entry only and will be used solely to measure and determine the amounts to be paid to a Participant, or his or her designated Beneficiary, pursuant to this Plan.
 - 1.3 “Annual Bonus” means any compensation, in addition to Base Annual Salary, relating to services performed during any calendar year, whether or not paid in that calendar year or included on the Federal Income Tax Form W-2 for that calendar year, payable to a Participant as an Employee under any Employer’s annual bonus and cash incentive plans, excluding Stock options, restricted Stock or any other Stock awards.
 - 1.4 “Annual Company Contribution Amount” means, for any one Plan Year, the amount determined in accordance with Section 3.5.
 - 1.5 “Annual Deferral Amount” means that portion of a Participant’s Base Annual Salary and Annual Bonus that a Participant elects to defer, and is deferred, in accordance with Article
-

3, for any one Plan Year. In the event of a Participant's Retirement, Disability (if deferrals cease in accordance with Section 8.1), death, or a Separation from Service before the end of a Plan Year, that year's Annual Deferral Amount will be the actual amount withheld prior to that event.

- 1.6 "Annual Installment Method" means annual installment payments over the number of years selected by the Participant in accordance with this Plan. The Account Balance of the Participant will be calculated as of the close of business on or around the Participant's Benefit Distribution Date. The annual installment will be calculated by multiplying this balance by a fraction, the numerator of which is one, and the denominator of which is the remaining number of annual payments due the Participant. By way of example, if the Participant elects a 10-year Annual Installment Method, the first payment will be 1/10 of the Account Balance, calculated as described in this definition. The following year, the payment will be 1/9 of the Account Balance, calculated as described in this definition. Each annual installment shall be calculated and paid on or around the anniversary of the Participant's Benefit Distribution Date.
- 1.7 "Base Annual Salary" means the annual cash compensation relating to services performed during any calendar year, whether or not paid in that calendar year or included on the Federal Income Tax Form W-2 for that calendar year, excluding bonuses, commissions, overtime, fringe benefits, Stock options or other Stock awards, relocation expenses, incentive payments, non-monetary awards, directors fees and other fees, automobile and other allowances paid to a Participant for employment services rendered (whether or not such allowances are included in the Employee's gross income). Base Annual Salary will be calculated before reduction for compensation voluntarily deferred or contributed by the Participant pursuant to any qualified or non-qualified plans of any Employer and will be calculated to include amounts not otherwise included in the Participant's gross income under Code Sections 125, 402(e)(3), 402(h) and 132(f)(4), pursuant to plans established by any Employer; provided, however, that all such amounts will be included in compensation only to the extent that, had there been no such plan, the amount would have been payable in cash to the Employee.
- 1.8 "Beneficiary" means, with respect to a Participant, one or more persons, trusts, estates or other entities, designated in accordance with Article 10, that are entitled to receive benefits under this Plan upon the Participant's death.
- 1.9 "Beneficiary Designation Form" means the form established from time to time by the Committee that a Participant completes, signs, and returns to the Committee to designate one or more Beneficiaries.
- 1.10 "Benefit Distribution Date" means the date upon which all or an objectively determinable portion of a Participant's vested benefits will become eligible for distribution. Except as otherwise provided in the Plan, a Participant's Benefit Distribution Date shall be

determined based on the earliest to occur of an event or scheduled date set forth in Articles 4 through 9, as applicable.

1.11 “Board” means the board of directors of the Company.

1.12 “Change in Control” means any of the following events:

- (a) The acquisition by any individual, entity or group (within the meaning of Section 13(d)(3) or 14(d)(2) of the Securities Exchange Act of 1934, as amended, 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 (1) the then outstanding shares of the Company (the “Outstanding Company Shares”) or (2) 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 (a), the following acquisitions shall not constitute a Change in Control: (A) any acquisition directly from the Company; (B) any acquisition by the Company; (C) any acquisition by any employee benefit plan (or related trust) sponsored or maintained by the Company or any corporation controlled by the Company; or (D) any acquisition pursuant to a transaction which complies with clauses (1), (2) and (3) of Subsection (c) below; or
- (b) Approval by the shareholders of the Company of a complete liquidation or dissolution of the Company; or
- (c) 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, (1) 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, (2) 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 (3) 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

- (d) 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.

Each of the foregoing events shall only be deemed to be a Change in Control for purposes of Article 9 of the Plan to the extent such event qualifies as a “change in control event” for purposes of Section 409A of the Code and the regulations issued thereunder.

1.13 “Claimant” has the meaning set forth in Section 15.1.

1.14 “Code” means the Internal Revenue Code of 1986, as amended from time to time.

1.15 “Committee” means the committee described in Article 13.

1.16 “Company” means Penn National Gaming, Inc., a Pennsylvania corporation, and any successor to all or substantially all of the Company’s assets or business.

1.17 “Company Contribution Account” means (a) the sum of the Participant’s Annual Company Contribution Amounts, plus (b) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant’s Company Contribution Account, less (c) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant’s Company Contribution Account.

- 1.18 “Compensation” means all cash remuneration paid to the Employee by the Company which is required to be reported as compensation on the Employee’s Form W-2 and shall also include compensation which is not currently includible in gross income by reason of the application of Code Sections 125, 402(e)(3), 132(f)(4) and 402(h)(1)(B); provided, however, that Compensation shall not include any income recognized as a result of an Employee exercising a nonqualified Stock option.
- 1.19 “Deduction Limitation” means the following described limitation on a benefit that may otherwise be distributable pursuant to the provisions of this Plan. Except as otherwise provided herein, this limitation will be applied to all distributions that are “subject to the Deduction Limitation” under this Plan. If an Employer determines in good faith prior to a Change in Control that there is a reasonable likelihood that any compensation paid to a Participant for a taxable year of the Employer would not be deductible by the Employer solely by reason of the limitation under Code Section 162(m), then to the extent deemed necessary by the Employer to ensure that the entire amount of any distribution to the Participant pursuant to this Plan prior to the Change in Control is deductible, to the extent permitted by Treas. Reg. § 1.409A-2(b)(7)(i), the Employer may defer all or any portion of a distribution under this Plan. Any amounts deferred pursuant to this limitation will continue to be credited/debited with additional amounts in accordance with Section 3.9 even if the amount is being paid out in installments. The amounts so deferred and amounts credited thereon shall be distributed to the Participant or his or her Beneficiary (in the event of the Participant’s death) at the earliest possible date, as determined by the Employer in good faith, on which the deductibility of compensation paid or payable to the Participant for the taxable year of the Employer during which the distribution is made will not be limited by Section 162(m), or if earlier, the effective date of a Change in Control. Notwithstanding anything to the contrary in this Plan, the Deduction Limitation will not apply to any distributions made after a Change in Control.
- 1.20 “Deferral Account” means (a) the sum of all of a Participant’s Annual Deferral Amounts, plus (b) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant’s Deferral Account, less (c) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to his or her Deferral Account.
- 1.21 “Disability” means that a Participant is either (a) unable to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, or (b) by reason of any medically determinable physical or mental impairment that can be expected to result in death or can be expected to last for a continuous period of not less than 12 months, receiving income replacement benefits for a period of not less than 3 months under an accident or health plan covering employees of the Company. A Participant shall be deemed to have a Disability if determined to be disabled in accordance with the terms of the applicable long-term disability insurance

program maintained by the Participant's Employer, provided that the definition of "disability" applied under such long-term disability insurance program complies with the requirements of this Section. Determinations relating to the existence of a Disability shall be made by the Committee, in its sole discretion.

- 1.22 "Disability Benefit" means the benefit described in Article 8.
- 1.23 "Effective Date" means April 4, 2013. The Plan was originally effective as of January 1, 2005.
- 1.24 "Election Form" means the form established from time to time by the Committee that a Participant completes, signs, and returns to the Committee to make an election under the Plan.
- 1.25 "Employee" means a person who is an employee of any Employer.
- 1.26 "Employer(s)" means the Company and any of its subsidiaries or affiliates (now in existence or subsequently formed or acquired) that have been selected by the Board to participate in the Plan and that have adopted the Plan as a participating Employer. A list of the Employers is set forth in Appendix A hereto.
- 1.27 "ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.
- 1.28 "Measurement Fund" means those certain mutual funds selected by the Committee for the purpose of determining the value of a Participant's Account Balance.
- 1.29 "Participant" means any Employee (a) who is selected to participate in the Plan, (b) who elects to participate in the Plan; (c) who signs a Plan Agreement, an Election Form, and a Beneficiary Designation Form; (d) whose signed Plan Agreement, Election Form and Beneficiary Designation Form are accepted by the Committee; (e) who commences participation in the Plan; and (f) whose Plan Agreement has not terminated.
- 1.30 "Plan" means the Penn National Gaming, Inc. Deferred Compensation Plan, as evidenced by this instrument and by each Plan Agreement, as they may be amended from time to time.
- 1.31 "Plan Agreement" means a written agreement, as amended from time to time, that is entered into by and between an Employer and a Participant. Each Plan Agreement executed by a Participant and the Participant's Employer will provide for the entire benefit to which the Participant is entitled under the Plan. If there is more than one Plan Agreement, the Plan Agreement bearing the latest date of acceptance by the Employer will supersede all previous Plan Agreements in their entirety and will govern the Participant's entitlement to benefits under the Plan. The terms of any Plan Agreement may be different for any

Participant, and any Plan Agreement may provide additional benefits not set forth in the Plan or limit the benefits otherwise provided under the Plan; provided, however, that any such additional benefits or benefit limitations must be agreed to by both the Employer and the Participant.

- 1.32 “Plan Year” means, except as provided in Section 1.46, the calendar year.
- 1.33 “Pre-Retirement Survivor Benefit” means the benefit set described in Article 6.
- 1.34 “Retirement,” “Retire(s)” or “Retired” means, with respect to an Employee, termination of employment from all Employers for any reason other than a leave of absence, death, or Disability on or after the attainment of age sixty-five (65).
- 1.35 “Retirement Benefit” means the benefit in Article 5.
- 1.36 “Rollover Account” means (a) the sum of a Participant’s Rollover Amount, plus (b) amounts credited in accordance with all the applicable crediting provisions of this Plan that relate to the Participant’s Rollover Account, less (c) all distributions made to the Participant or his or her Beneficiary pursuant to this Plan that relate to the Participant’s Rollover Account.
- 1.37 “Rollover Amount” means the amount described in Section 3.6.
- 1.38 “Separation from Service” means a termination of services provided by a Participant to his Employer, whether voluntary or involuntary, other than by reason of Retirement, death or Disability, as determined by the Committee in accordance with the Treas. Reg. § 1.409A-1(h).
- 1.39 “Specified Employee” means any Participant who has determined to be a “key employee” (as defined under Code Section 416(i) without regard to paragraph (5) thereof) for the applicable period, as determined annually by the Committee in accordance with Treas. Reg. §1.409A-1(i). As of the Effective Date and until such time as the Committee determines to utilize another methodology, a Specified Employee must be classified by the Company as a member of one of the following categories of Employees: (i) a Level One Employee, (ii) a Level Two Employee or (iii) a General Manager of a wholly owned subsidiary of the Company.
- 1.40 “Stock” means Company common stock or any other equity securities of the Company designated by the Committee.
- 1.41 “Termination Benefit” means the benefit described in Article 7.
- 1.42 “Trust” means one or more trusts established pursuant to the Trust Agreement.

- 1.43 “Trust Agreement” means the Trust Agreement between the Trustee and the Company, as amended from time to time.
- 1.44 “Trustee” means the trustee of the Trust and any successor trustee.
- 1.45 “Unforeseeable Emergency” means a severe financial hardship of the Participant resulting from (a) an illness or accident of the Participant, the Participant’s spouse, the Participant’s Beneficiary or the Participant’s dependent (as defined in Code Section 152 without regard to paragraphs (b)(1), (b)(2) and (d)(1)(B) thereof), (b) the loss of a Participant’s property due to casualty, or (c) such other similar extraordinary and unforeseeable circumstances arising as a result of the events beyond the control of the Participant, all is determined by the Committee, in its sole discretion, based on the relevant facts and circumstances.
- 1.46 “Year of Service” means a Year of Service as determined pursuant to the terms of the Penn National Gaming, Inc. 401(k) Plan; provided, however, that the term “Plan Year” as utilized therein shall mean the 12-month period commencing on November 1 and ending on October 31.

ARTICLE 2
Selection, Enrollment, Eligibility

- 2.1 **Selection by Committee.** Participation in the Plan will be limited to a select group of management and highly compensated Employees of the Employers, as determined by the Committee, in its sole discretion.
- 2.2 **Enrollment Requirements.** As a condition of participation, each selected Employee will complete, execute, and return to the Committee a Plan Agreement, an Election Form and a Beneficiary Designation Form by the deadline(s) established by the Committee in accordance with the applicable provisions of the Plan. In addition, the Committee will establish from time to time such other enrollment requirements as it determines, in its sole discretion, are necessary.
- 2.3 **Eligibility; Commencement of Participation.** Provided that an Employee selected to participate in the Plan has met all enrollment requirements set forth in this Plan and required by the Committee, including returning all required documents to the Committee within the specified time period, that Employee will commence participation in the Plan on the first day of the month following the month in which the Employee completes all enrollment requirements. If an Employee fails to meet all such requirements within the period required, in accordance with Section 2.2, that Employee will not be eligible to participate in the Plan until the first day of the Plan Year following the delivery to and acceptance by the Committee of the required documents.

- 2.4 **Termination of Participation and/or Deferrals.** If the Committee determines in good faith that a Participant no longer qualifies as a member of a select group of management or highly compensated employees, as membership in that group is determined in accordance with Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA, the Committee will have the right, in its sole discretion, to (a) terminate any deferral election the Participant has made for the remainder of the Plan Year in which the Participant's membership status changes and (b) prevent the Participant from making future deferral elections.

ARTICLE 3

Deferral Commitments/Company Contribution/Crediting/Taxes

3.1 **Minimum Deferrals.**

- (a) Base Annual Salary and Annual Bonus. For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, a percentage of Base Annual Salary and/or Annual Bonus; provided, however, that a Participant must elect to defer a sum of Base Annual Salary and/or Annual Bonus of at least \$3,000.
- (b) If an election is made for less than stated minimum amounts, or if no election is made, the amount deferred will be zero.
- (c) Short Plan Year. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the minimum deferral shall be an amount equal to the minimum set forth above, multiplied by a fraction, the numerator of which is the number of complete months remaining in the Plan Year and the denominator of which is 12.

- 3.2 **Maximum Deferral.** For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount up to 90% of his Base Annual Salary and/or Annual Bonus. Notwithstanding the foregoing, if a Participant first becomes a Participant after the first day of a Plan Year, the maximum Annual Deferral Amount will be limited to the amount of Compensation not yet earned by the Participant as of the date the Participant submits a Plan Agreement and Election Form to the Committee for acceptance.

3.3 **Election to Defer; Effect of Election Form.**

- (a) First Plan Year. In connection with a Participant's commencement of participation in the Plan, the Participant will make an irrevocable deferral election for the Plan Year in which the Participant commences participation in the Plan, along with such other elections as the Committee deems necessary or desirable under the Plan. For these elections to be valid, the Election Form must be completed and signed by the Participant, timely delivered to the Committee (in accordance with Section 2.2

above, but in no event later than the December 31st preceding the Plan Year in which such compensation shall be earned), and accepted by the Committee.

- (b) Subsequent Plan Years. For each succeeding Plan Year, a Participant may make an irrevocable deferral election for that Plan Year, and such other elections as the Committee deems necessary or desirable under the Plan, by timely delivering to the Committee, in accordance with its rules and procedures, before the end of the Plan Year preceding the Plan Year for which the election is made and in which such compensation shall be earned, a new Election Form. If the Participant does not timely deliver an Election Form for a Plan Year, the Participant's Annual Deferral Amount will be zero for that Plan Year.
- (c) New Participants. An eligible Employee who first becomes eligible to participate in the Plan on or after the beginning of a Plan Year may be permitted to make an election to defer a portion of his Base Annual Salary and/or Annual Bonus attributable to his services to be performed after such election, provided that the Participant submits an Election Form to the Committee on or before the deadline established by the Committee, which in no event shall be later than 30 days after the Participant first becomes eligible to participate in the Plan.

3.4 **Withholding of Annual Deferral Amounts.** For each Plan Year, the Base Annual Salary portion of the Annual Deferral Amount will be withheld from each regularly scheduled Base Annual Salary payroll in equal amounts, as adjusted from time to time for increases and decreases in Base Annual Salary. The Annual Bonus portion of the Annual Deferral Amount will be withheld at the time the Annual Bonus is or otherwise would be paid to the Participant, whether or not this occurs during the Plan Year itself.

3.5 **Annual Company Contribution Amount.** The Company shall credit to the Account of each Participant an amount equal to 50% of the Participant's Annual Deferral Amounts up to a maximum credit of 5%. For each Plan Year, the Company, in its sole discretion, may, but is not required to, credit any amount it desires to any Participant's Company Contribution Account under this Plan. The amount so credited to a Participant may be smaller or larger than the amount credited to any other Participant, and the amount credited to any Participant for a Plan Year may be zero, even though one or more other Participants receive an Annual Company Contribution Amount for that Plan Year. All discretionary contributions to a Participant's Company Contribution Account shall be subject to the approval of the Board.

3.6 **Rollover Amount.** Upon the effective date of his participation in the Plan, a Participant may elect to have his account balance or accrued benefit in any other nonqualified deferred compensation or nonqualified retirement plan maintained by an Employer transferred to this Plan and credited to his Account hereunder.

3.7 **Investment of Trust Assets.** The Trustee of the Trust will be authorized, upon written instructions received from the Committee or an investment manager appointed by the Committee, to invest and reinvest the assets of the Trust in accordance with the Trust Agreement, including the disposition of Stock and reinvestment of the proceeds in one or more investment vehicles designated by the Committee.

3.8 **Vesting.**

- (a) A Participant will be 100% vested at all times in his or her Deferral Account.
- (b) Except as otherwise provided herein, a Participant will become vested in his or her Company Contribution Account in accordance with the following schedule:

| Years of Service on Date of Termination of Employment | Vested Percentage of Company Contribution Account |
|--|--|
| Less than 1 year | 0% |
| 1 year | 20% |
| 2 years | 40% |
| 3 years | 60% |
| 4 years | 80% |
| 5 years or more | 100% |

- (c) Notwithstanding anything to the contrary contained in this Section 3.8, in the event of a Participant's death or Retirement, or in the event of a Change in Control, a Participant's Company Contribution Account will immediately become 100% vested (if it is not already 100% vested in accordance with the above vesting schedule).
- (d) Notwithstanding subsection (c), the vesting schedule for a Participant's Company Contribution Account will not be accelerated to the extent that the Committee determines that acceleration would cause the deduction limitations of Code Section 280G to become effective. In the event that all of a Participant's Company Contribution Account is not vested pursuant to such a determination, the Participant may request independent verification of the Committee's calculations with respect to the application of Code Section 280G. In that case, the Committee must provide to the Participant within 30 business days of receipt such a request an opinion from a nationally recognized accounting firm selected by the Participant (the "Accounting Firm"). The opinion will state the Accounting Firm's opinion that any limitation in the vested percentage under this Plan is necessary to avoid the limits of Code Section 280G and contain supporting calculations. The Company will pay the cost of obtaining the opinion. If the vesting schedule for a Participant's Company Contribution Account is not accelerated due to the application of this

Section 3.8(d) and the Participant's employment with the Employer is involuntarily terminated subsequent to the Change in Control that would have resulted in the acceleration of the vesting schedule but for the application of this Section 3.8(d), the Participant's Company Contribution Account will immediately become 100% vested (if it is not already 100% vested in accordance with the vesting schedule set forth in Section 3.8(b)).

- (e) Notwithstanding anything to the contrary herein, no Participant will be eligible to receive benefits under the Plan that are credited to his or her Company Contribution Account if he or she violates the terms and conditions of any agreement or Company policy relating to matters of confidentiality or trade secrets of the Company, competition with the Company, solicitation of employees or customers of the Company, or engages in embezzlement, theft, fraud or any felony or any other act that is materially injurious to the Company. The determination as to whether a Participant has engaged in any such impermissible activity shall be made by the Committee, in its sole discretion.
- (f) In the event that any portion of a Participant's Account is forfeited by reason of it not being fully vested or as a result of a divestiture pursuant to Section 3.8(e), any such forfeiture shall remain the property of the Company. The Committee may, however, in its sole discretion, elect to allocate all or a portion of any such forfeiture to the Accounts of any other Participants in the Plan in such manner and at such time as the Committee may determine.
- (g) In the event of a Participant's Disability or involuntary termination of employment (except as is described in Section 3.8(d)), the Committee may, in its sole discretion, accelerate the vesting schedule for a Participant's Company Contribution Account.

3.9 **Crediting/Debiting of Account Balances.** In accordance with, and subject to, the rules and procedures that are established from time to time by the Committee, in its sole discretion, amounts shall be credited or debited to a Participant's Account in accordance with the following rules:

- (a) **Election of Measurement Funds.** A Participant, in connection with his or her initial deferral election under Section 3.3(a) above, will elect, on the Election Form, the Measurement Fund to be used to determine the additional amounts to be credited to his or her Account for the first day in which the Participant commences participation in the Plan, and continuing thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the next sentence. Commencing with the first business day that follows the Participant's commencement of participation in the Plan and continuing thereafter for each subsequent day in which the Participant participates in the Plan, the Participant may (but is not required to) elect, by submitting an Election Form to the Committee that

is accepted by the Committee, to add or delete one or more Measurement Fund(s) to be used to determine the additional amounts to be credited to his or her Account or to change the portion of his or her Account allocated to each previously or newly elected Measurement Fund. If an election is made in accordance with the previous sentence, it will apply to the next business day and continue thereafter for each subsequent day in which the Participant participates in the Plan, unless changed in accordance with the previous sentence.

- (b) **Proportionate Allocation.** In making any election described in Section 3.8 (a) above, the Participant must specify on the Election Form, in increments of one percentage point (1%), the percentage of his or her Account to be allocated to a Measurement Fund (as if the Participant was making an investment in that Measurement Fund with that portion of his or her Account).
- (c) **Crediting or Debiting Method.** The performance of each elected Measurement Fund (either positive or negative) will be determined by the Committee, in its sole discretion, based on the performance of the Measurement Funds themselves. A Participant's Account will be credited or debited on a daily basis based on the performance of each Measurement Fund selected by the Participant, as determined by the Committee, in its sole discretion, as though (1) a Participant's Account were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to that day, at the closing price on that date; (2) the portion of the Annual Deferral Amount that was actually deferred during any business day were invested in the Measurement Fund(s) selected by the Participant, in the percentages applicable to that day, no later than the close of business on the first business day after the day on which the amounts are actually deferred from the Participant's Base Annual Salary through reductions in his or her payroll, at the closing price on that date; and (3) any distribution made to a Participant that decreases the Participant's Account ceased being invested in the Measurement Fund(s), in the percentages applicable to the day, no earlier than one business day prior to the distribution, at the closing price on that date. The Participant's Rollover Amount will be credited to his or her Account for purposes of this Section 3.9 (c) as of the close of business on the Effective Date or, if later, the first day of the Participant's participation in the Plan. The Participant's Annual Company Contribution Amount will be credited to his or her Company Contribution Account for purposes of this Section 3.9 (c) as of the close of business on the date selected by the Committee, in its sole discretion.
- (d) **No Actual Investment.** Notwithstanding any other provision of this Plan that may be interpreted to the contrary, the Measurement Funds are to be used for measurement purposes only, and a Participant's election of any Measurement Fund, the allocation to his or her Account Balance to any Measurement Fund, the calculation of additional amounts, and the crediting or debiting of those amounts to a Participant's Account will not be considered or construed in any manner as an

actual investment of his or her Account Balance in any Measurement Fund. In the event that the Company or the Trustee, in its own discretion, decides to invest funds in any or all of the Measurement Funds, no Participant will have any rights in or to the investments themselves. Without limiting the foregoing, a Participant's Account Balance will at all times be a bookkeeping entry only and will not represent any investment made on his or her behalf by the Company or the Trust; the Participant will at all times remain an unsecured creditor of the Company.

3.10 **FICA and Other Taxes.**

- (a) **Annual Deferral Amounts.** For each Plan Year in which an Annual Deferral Amount is being withheld from a Participant, the Participant's Employer(s) will withhold from that portion of the Participant's Base Annual Salary and Annual Bonus that is not being deferred, in a manner determined by the Employers, the Participant's share of FICA and other employment taxes on the Annual Deferral Amount. If necessary, the Committee may reduce the Annual Deferral Amount in order to comply with this Section 3.10(a).
- (b) **Company Contribution Account.** When a Participant becomes vested in a portion of his or her Company Contribution Account, the Participant's Employer will withhold from the Participant's Base Annual Salary and/or Annual Bonus that is not deferred, in a manner determined by the Employer, the Participant's share of FICA and other employment taxes. If necessary, the Committee may reduce the vested portion of the Participant's Company Contribution Account to comply with this Section 3.10(b).
- (c) **Distributions.** The Participant's Employer, or the Trustee of the Trust, will withhold from any payments made to a Participant under this Plan all federal, state, and local income, employment, and other taxes required to be withheld by the Employer or the Trustee, in connection with those payments, in amounts and in a manner to be determined in the sole discretion of the Employer and the Trustee.

ARTICLE 4

Scheduled Distributions; Unforeseeable Emergencies

- 4.1 **Scheduled Distributions.** In connection with each election to defer an Annual Deferral Amount, a Participant may elect to receive a scheduled distribution from the Plan with respect to the Annual Deferral Amount. Subject to the Deduction Limitation, the distribution will be a lump sum payment in an amount that is equal to the Annual Deferral Amount plus amounts credited or debited in the manner provided in Section 3.9 above on that amount, determined at the time that the distribution becomes payable (rather than the date of a Separation from Service). The Benefit Distribution Date for the amount subject to a scheduled distribution election shall be the within 30 days after the last day of any Plan

Year designated by the Participant, which may be no sooner than three Plan Years after the end of the Plan Year to which the Participant's deferral election relates, unless otherwise provided on an Election Form approved by the Committee. Subject to the Deduction Limitation and the other terms and conditions of this Plan, each scheduled distribution elected will be paid out during a thirty (30)-day period commencing immediately after the last day of any Plan Year designated by the Participant.

- 4.2 **Other Benefits Take Precedence Over Scheduled Distributions.** If an event occurs that triggers a benefit under Article 5, 6, 7, 8 or 9, any Annual Deferral Amount, plus amounts credited or debited on them, that is subject to a scheduled distribution election under Section 4.1 will not be paid in accordance with Section 4.1 but will be paid in accordance with the other applicable Article.
- 4.3 **Suspensions for Unforeseeable Emergencies.** If a Participant (or, after a Participant's death, his or her Beneficiary) experiences an Unforeseeable Emergency, the Participant (or Beneficiary) may petition the Committee to (a) suspend any deferrals required to be made by a Participant and/or (b) receive a partial or full payout from the Plan. The payout will not exceed the lesser of the Participant's vested Account Balance, calculated as if the Participant were receiving a Termination Benefit, or the amount reasonably needed to satisfy the Unforeseeable Emergency, plus amounts necessary to pay Federal, State, or local income taxes or penalties reasonable anticipated as a result of the distribution. A Participant shall not be eligible to receive a payout from the Plan to the extent that the Unforeseeable Emergency is or may be relieved (a) through reimbursement or compensation by insurance or otherwise, (b) by liquidation of the Participant's assets, to the extent that the liquidation of such assets would not itself cause a severe financial hardship or (c) by cessation of deferrals under the Plan. If, subject to the sole discretion of the Committee, the petition for a suspension and/or payout is approved, suspension will take effect upon the date of approval, and any payout will be made within 30 days of the date of approval. The payment of any amount under this Section 4.3 will not be subject to the Deduction Limitation.

ARTICLE 5 Retirement Benefit

- 5.1 **Retirement Benefit.** Subject to the Deduction Limitation, a Participant who Retires will receive, as a Retirement Benefit, his or her Account Balance.
- 5.2 **Payment of Retirement Benefit.**
- (a) A Participant, in connection with his or her commencement of participation in the Plan, will elect on an Election Form to receive the Retirement Benefit in a lump sum or pursuant to an Annual Installment Method of 5 or 10 years. On the Election Form, the Participant may also elect to defer commencement of the Retirement

Benefit to a later date, not later than five (5) years after the date on which the Participant retires. If a Participant does not make any election with respect to the payment of the Retirement Benefit, then that benefit will be payable in a lump sum. Unless the Participant has effectively elected a deferred payment commencement date, a lump sum payment will be made, or installment payments will commence, on the later of (i) the first day after the end of the six (6)-month period immediately following the date on which the Participant Retires if the Participant is a Specified Employee or (ii) within thirty (30) days after the last day of the Plan Year in which the Participant Retires. Any payment made will be subject to the Deduction Limitation.

- (b) A Participant may change the form of payment for the Retirement Benefit by submitting an Election Form to the Committee in accordance with the following criteria:
- (i) the election shall not take effect until at least 12 months after the date on which the election is made;
 - (ii) the new Benefit Distribution Date for the Participant's Retirement Benefit shall be at least five (5) years after the Benefit Distribution Date that would have otherwise been applicable to such benefits; and
 - (iii) the election must be made at least 12 months prior to the Benefit Distribution Date that would have otherwise been applicable to the Participant's Retirement Benefit.

- 5.3 **Death Prior to Completion of Retirement Benefit.** If a Participant dies after Retirement but before the Retirement Benefit is paid in full, the Participant's unpaid Retirement Benefit payments will continue and will be paid to the Participant's Beneficiary over the remaining number of years and in the same amounts as that benefit would have been paid to the Participant had the Participant survived. Despite the foregoing, if the Participant's Account Balance at the time of his or her death is less than the dollar limitation set forth in Code Section 402(g)(1)(B) then in effect, the Committee may determine, in its sole discretion, to distribute the benefit in the form of a lump sum. The lump sum payment will be made within 30 days after the last day of the Plan Year in which the Committee is provided with proof, satisfactory to the Committee, of the Participant's death.

ARTICLE 6

Pre-Retirement Survivor Benefit

- 6.1 **Pre-Retirement Survivor Benefit.** Subject to the Deduction Limitation, the Participant's Beneficiary will receive a Pre-Retirement Survivor Benefit equal to the Participant's

Account Balance if the Participant dies before he or she Retires, experiences a Separation from Service, or suffers a Disability.

- 6.2 **Payment of Pre-Retirement Survivor Benefit.** A Participant, in connection with his or her commencement of participation in the Plan, will elect on an Election Form whether his or her Beneficiary will receive the Pre-Retirement Survivor Benefit in a lump sum or pursuant to an Annual Installment Method of 5 or 10 years. If a Participant does not make any election with respect to the payment of the Pre-Retirement Survivor Benefit, then the benefit will be paid in a lump sum. Despite the foregoing, if the Participant's Account Balance at the time of his or her death is less than the dollar limitation set forth in Code Section 402(g)(1)(B) then in effect, payment of the Pre-Retirement Survivor Benefit will be made in a lump sum payment. The lump sum payment will be made within 30 days after the last day of the Plan Year in which the Committee is provided with proof, satisfactory to the Committee, of the Participant's death. Any payment made will be subject to the Deduction Limitation.

ARTICLE 7

Termination Benefit

- 7.1 **Termination Benefit.** Except as provided in Section 3.8(e) and subject to the Deduction Limitation, the Participant will receive a Termination Benefit, which will be equal to the Participant's vested Account Balance, if a Participant experiences a Separation from Service prior to his or her Retirement, death, or Disability.
- 7.2 **Payment of Termination Benefit.** The Termination Benefit shall be paid in a lump sum. The lump sum payment shall be made on the later of (i) the first day after the end of the six (6)-month period immediately following the date on which the Participant experiences the Separation from Service if the Participant is a Specified Employee or (ii) within sixty (60) days after the last day of the Plan Year in which the Participant experiences the Separation from Service. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 8

Disability Waiver and Benefit

- 8.1 **Disability Waiver.**
- (a) Waiver of Deferral. A Participant who is determined by the Committee to be suffering from a Disability may be excused from fulfilling that portion of the Annual Deferral Amount commitment that would otherwise have been withheld from a Participant's Base Annual Salary and/or Annual Bonus for the Plan Year during which the Participant first suffers a Disability. During the period of Disability, the Participant will not be allowed to make any additional deferral elections (unless otherwise determined by the Committee, in its sole discretion) but

will continue to be considered a Participant for all other purposes of this Plan, including, but not limited to, the vesting provisions set forth in Section 3.8.

- (b) **Return to Work.** If a Participant returns to employment with an Employer after a Disability ceases, the Participant may elect to defer an Annual Deferral Amount for the Plan Year following his or her return to employment or service and for every Plan Year thereafter while a Participant in the Plan, provided that the deferral elections are otherwise allowed under the Plan and an Election Form is delivered to and accepted by the Committee for each such election in accordance with Section 3.3 above.

- 8.2 **Disability; Continued Eligibility.** For benefit purposes under this Plan, a Participant suffering a Disability will continue to be considered to be employed and will be eligible for the benefits provided for in Articles 4, 5, 6, 7 or 9, in accordance with the provisions of those Articles. If the Participant's employment with the Employer is actually terminated, the Participant will be deemed to have Retired as of the date the Participant's termination of employment. In that case, the Participant will receive a Retirement Benefit in accordance with Article 5; provided, however, that if the Participant is not otherwise 100% vested in his Company Contribution Account on such date, the extent to which the vesting of his Company Contribution Account will be accelerated (if any) shall be determined by the Committee, in its sole discretion. Any payment made shall be subject to the Deduction Limitation.

ARTICLE 9

Change In Control Benefit

- 9.1 **Change In Control Benefit.** In the event of a Change in Control, a Participant will receive his or her Account Balance (the "Change In Control Benefit").
- 9.2 **Payment of Change In Control Benefit.** The Change In Control Benefit, if any, shall be calculated as of the close of business on or around a Participant's Benefit Distribution Date, as determined by the Committee, and paid to the Participant within sixty (60) days after the date of the Change in Control.

ARTICLE 10

Beneficiary Designation

- 10.1 **Beneficiary.** Each Participant will have the right, at any time, to designate his or her Beneficiary(ies) (both primary as well as contingent) to receive any benefits payable under the Plan upon the Participant's death. The Beneficiary designated under this Plan may be the same as or different from the beneficiary designation under any other plan of an Employer in which the Participant participates.

- 10.2 **Beneficiary Designation; Change.** A Participant will designate his or her Beneficiary by completing and signing the Beneficiary Designation Form and returning it to the Committee or its designated agent. A Participant will have the right to change a Beneficiary by completing, signing, and otherwise complying with the terms of the Beneficiary Designation Form and the Committee's rules and procedures, as in effect from time to time. Upon the Committee's acceptance of a new Beneficiary Designation Form, all Beneficiary designations previously filed will be canceled. The Committee will be entitled to rely on the last Beneficiary Designation Form filed by the Participant and accepted by the Committee prior to his or her death.
- 10.3 **Acknowledgment.** No designation or change in designation of a Beneficiary will be effective until received and acknowledged in writing by the Committee or its designated agent.
- 10.4 **No Beneficiary Designation.** If a Participant fails to designate a Beneficiary as provided in Sections 10.1, 10.2 and 10.3 above, or if all designated Beneficiaries predecease the Participant or die prior to complete distribution of the Participant's benefits, then the Participant's surviving spouse will be deemed to be his or her designated Beneficiary. If the Participant has no surviving spouse, the benefits remaining under the Plan to be paid to a Beneficiary will be payable to the executor or personal representative of the Participant's estate.
- 10.5 **Doubt as to Beneficiary.** If the Committee has any doubt as to the proper Beneficiary to receive payments pursuant to this Plan, the Committee will have the right, exercisable in its sole discretion, to cause the Participant's Employer to withhold the payments until this matter is resolved to the Committee's satisfaction.
- 10.6 **Discharge of Obligations.** The payment of benefits under the Plan to a Beneficiary will fully and completely discharge all Employers and the Committee from all further obligations under this Plan with respect to the Participant and his or her Beneficiary, and that Participant's Plan Agreement will terminate upon such full payment of benefits.

ARTICLE 11
Leave of Absence

- 11.1 **Paid Leave of Absence.** If a Participant is authorized by the Participant's Employer for any reason to take a paid leave of absence from the employment of the Employer, the Participant will continue to be considered employed by the Employer and the Annual Deferral Amount will continue to be withheld during the paid leave of absence in accordance with Section 3.3.
- 11.2 **Unpaid Leave of Absence.** If a Participant is authorized by the Participant's Employer for any reason to take an unpaid leave of absence from the employment of the Employer, the

Participant will continue to be considered employed by the Employer, and the Participant will be excused from making deferrals until the earlier of the date the leave of absence expires or the date the Participant returns to a paid employment status. Upon that expiration or return, deferrals will resume for the remaining portion of the Plan Year in which the expiration or return occurs, based on the deferral election, if any, made for that Plan Year. If no election was made for that Plan Year, no deferral will be withheld.

ARTICLE 12

Termination, Amendment or Modification

12.1 **Termination.** Although each Employer anticipates that it will continue to participate in the Plan for an indefinite period of time, there is no guarantee that the Company will continue the Plan, or that any Employer will continue to participate in the Plan, or that the Company will not terminate the Plan at any time in the future. Accordingly, each Employer reserves the right to discontinue its participation in the Plan at any time, and the Company reserves the right to terminate the Plan at any time by action of Board. A participating Employer may terminate its participation in the Plan at any time with respect to any or all of its participating Employees by action of its board of directors. Upon the termination of the Plan with respect to any Employer, the Plan Agreements of the affected Participants who are employed by that Employer will terminate, and their Account Balances, determined as if they had experienced a Separation from Service on the date of Plan termination, will be paid to the Participants in a lump sum. The termination of the Plan will not adversely affect any Participant or Beneficiary who has become entitled to the payment of any benefits under the Plan as of the date of termination. Any distributions pursuant to this Section 12.1, will be subject to the following conditions:

- (a) the termination of Plan does not occur proximate to a downturn in the financial health of the Company;
- (b) the Company terminates and liquidates all agreements, methods, programs and other arrangements sponsored by the Company that would be aggregated with any terminated and liquidated agreements, methods, programs and other arrangements under Treas. Reg. § 1.409A-1(c) if the same Participant had deferrals of compensation under all such agreements, methods, programs and other arrangements that are terminated and liquidated;
- (c) no payments from the Plan are made within 12 months of the date the Company takes all necessary action to irrevocably terminate and liquidate the Plan other than payments that would be payable under the terms of the Plan if action to terminate and liquidate the Plan had not occurred;
- (d) all payments under the Plan are made within 24 months of the date the Company takes all necessary action to irrevocably terminate and liquidate the Plan; and

- (e) the Company does not adopt a new Plan that would be aggregated with any terminated Plan under Treas. Reg. § 1.409A-1(c) any time within three years following the date that the Company takes all necessary action to irrevocably terminate and liquidate the Plan.
- 12.2 **Amendment.** The Company may, at any time, amend or modify the Plan in whole or in part by the action of its Board; provided, however, that: (a) no amendment or modification will be effective to decrease or restrict the value of a Participant's Account Balance in existence at the time the amendment or modification is made, calculated as if the Participant had experienced a Separation from Service as of the effective date of the amendment or modification or, if the amendment or modification occurs after the date upon which the Participant was eligible to Retire, the Participant had Retired as of the effective date of the amendment or modification, and (b) no amendment or modification of this Section 12.2 or Section 13.2 of the Plan will be effective. The amendment or modification of the Plan will not affect any Participant or Beneficiary who has become entitled to the payment of benefits under the Plan as of the date of the amendment or modification; provided, however, that, in the event of a Change in Control, the Employer will accelerate installment payments by paying the Account Balance in a lump sum pursuant to Section 9.2.
- 12.3 **Plan Agreement.** Despite the provisions of Sections 12.1 and 12.2 above, if a Participant's Plan Agreement contains benefits or limitations that are not in this Plan document, the Employer may only amend or terminate those provisions with the consent of the Participant.
- 12.4 **Effect of Payment.** The full payment of the applicable benefit under Articles 4, 5, 6, 7, 8 or 9 of the Plan will completely discharge all obligations to a Participant and his or her designated Beneficiaries under this Plan, and the Participant's Plan Agreement will terminate.

ARTICLE 13 Administration

- 13.1 **Committee Duties.** Except as otherwise provided in this Article 13, this Plan will be administered by the Committee. The Committee will have the discretion and authority to (a) make, amend, interpret, and enforce all appropriate rules and regulations for the administration of this Plan and (b) decide or resolve any and all questions, including interpretations of this Plan that arise in connection with the Plan. When making a determination or calculation, the Committee will be entitled to rely on information furnished by a Participant or an Employer.
- 13.2 **Administration Upon Change In Control.** For purposes of this Plan, the Committee will be the "Administrator" at all times prior to the occurrence of a Change in Control. Upon

and after the occurrence of a Change in Control, the “Administrator” will be an independent third party selected by the Trustee and approved by the individual who, immediately prior to that event, was the Company’s Chief Executive Officer or, if not so identified, the Company’s highest ranking officer (the “Ex-CEO”). The Administrator will have the discretionary power to determine all questions arising in connection with the administration of the Plan and the interpretation of the Plan and Trust including, but not limited to, benefit entitlement determinations; provided, however, that upon and after the occurrence of a Change in Control, the Administrator will have no power to direct the investment of Plan or Trust assets or select any investment manager or custodial firm for the Plan or Trust. Upon and after the occurrence of a Change in Control, the Company must: (a) pay all reasonable administrative expenses and fees of the Administrator; (b) indemnify the Administrator against any costs, expenses and liabilities including, without limitation, attorney’s fees and expenses arising in connection with the performance of the Administrator under this Plan, except with respect to matters resulting from the negligence or willful misconduct of the Administrator or its employees or agents; and (c) supply full and timely information to the Administrator on all matters relating to the Plan, the Trust, the Participants, and their Beneficiaries, the Account Balances of the Participants, the date and circumstances of the Retirement, Disability, death, or Separation from Service of the Participants, and such other pertinent information as the Administrator may reasonably require. Upon and after a Change in Control, the Administrator may be terminated (and a replacement appointed) by the Trustee only with the approval of the Ex-CEO. Upon and after a Change in Control, the Administrator may not be terminated by the Company.

- 13.3 **Agents.** In the administration of this Plan, the Committee may, from time to time, employ agents and delegate to them such administrative duties as it sees fit (including acting through a duly appointed representative) and may from time to time consult with counsel who may be counsel to any Employer.
- 13.4 **Binding Effect of Decisions.** The decision or action of the Administrator with respect to any question arising out of or in connection with the administration, interpretation, and application of the Plan and the rules and regulations promulgated under the Plan will be final and conclusive and binding upon all persons having any interest in the Plan.
- 13.5 **Indemnity of Committee.** All Employers will indemnify and hold harmless the members of the Committee, any Employee to whom the duties of the Committee may be delegated, and the Administrator, against any and all claims, losses, damages, expenses or liabilities arising from any action or failure to act with respect to this Plan, except in the case of willful misconduct by the Committee, any of its members, any such Employee, or the Administrator.
- 13.6 **Employer Information.** To enable the Committee and the Administrator to perform their functions, the Company and each Employer will supply full and timely information to the Committee or Administrator, as the case may be, on all matters relating to the

compensation of its Participants, the date and circumstances of the Retirement, Disability, death, or circumstances of the Retirement, Disability, death, or Separation from Service of its Participants, and such other pertinent information as the Committee or Administrator may reasonably require.

ARTICLE 14
Other Benefits and Agreements

- 14.1 **Coordination with Other Benefits.** The benefits provided for a Participant and Participant's Beneficiary under the Plan are in addition to any other benefits available to that Participant or Beneficiary under any other plan or program for employees of the Participant's Employer. The Plan will supplement and will not supersede, modify or amend any other such plan or program except as may otherwise be expressly provided.

ARTICLE 15
Claims Procedures

- 15.1 **Presentation of Claim.** Any Participant or Beneficiary of a deceased Participant (such Participant or Beneficiary being referred to below as a "Claimant") may deliver to the Committee a written claim for a determination with respect to the amounts distributable to such Claimant from the Plan. If such a claim relates to the contents of a notice received by the Claimant, the claim must be made within sixty (60) days after such notice was received by the Claimant. All other claims must be made within 180 days of the date on which the event that caused the claim to arise occurred. The claim must state with particularity the determination desired by the Claimant.
- 15.2 **Notification of Decision.** The Committee shall consider a Claimant's claim within a reasonable time, but no later than ninety (90) days after receiving the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial ninety (90)-day period. In no event shall such extension exceed a period of ninety (90) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. The Committee shall notify the Claimant in writing:
- (a) that the Claimant's requested determination has been made, and that the claim has been allowed in full; or
 - (b) that the Committee has reached a conclusion contrary, in whole or in part, to the Claimant's requested determination, and such notice must set forth in a manner calculated to be understood by the Claimant:

- (1) the specific reason(s) for the denial of the claim, or any part of it;
- (2) specific reference(s) to pertinent provisions of the Plan upon which such denial was based;
- (3) a description of any additional material or information necessary for the Claimant to perfect the claim, and an explanation of why such material or information is necessary;
- (4) an explanation of the claim review procedure set forth in Section 15.3 below; and
- (5) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a) following an adverse benefit determination on review.

15.3 **Review of a Denied Claim.** On or before sixty (60) days after receiving a notice from the Committee that a claim has been denied, in whole or in part, a Claimant (or the Claimant's duly authorized representative) may file with the Committee a written request for a review of the denial of the claim. The Claimant (or the Claimant's duly authorized representative):

- (a) may, upon request and free of charge, have reasonable access to, and copies of, all documents, records and other information relevant to the claim for benefits;
- (b) may submit written comments or other documents; and/or
- (c) may request a hearing, which the Committee, in its sole discretion, may grant.

15.4 **Decision on Review.** The Committee shall render its decision on review promptly, and no later than sixty (60) days after the Committee receives the Claimant's written request for a review of the denial of the claim. If the Committee determines that special circumstances require an extension of time for processing the claim, written notice of the extension shall be furnished to the Claimant prior to the termination of the initial sixty (60)-day period. In no event shall such extension exceed a period of sixty (60) days from the end of the initial period. The extension notice shall indicate the special circumstances requiring an extension of time and the date by which the Committee expects to render the benefit determination. In rendering its decision, the Committee shall take into account all comments, documents, records and other information submitted by the Claimant relating to the claim, without regard to whether such information was submitted or considered in the initial benefit determination. The decision must be written in a manner calculated to be understood by the Claimant, and it must contain:

- (a) specific reasons for the decision;

- (b) specific reference(s) to the pertinent Plan provisions upon which the decision was based;
- (c) a statement that the Claimant is entitled to receive, upon request and free of charge, reasonable access to and copies of, all documents, records and other information relevant (as defined in applicable ERISA regulations) to the Claimant's claim for benefits; and
- (d) a statement of the Claimant's right to bring a civil action under ERISA Section 502(a).

15.5 **Legal Action.** A Claimant's compliance with the foregoing provisions of this Article 15 is a mandatory prerequisite to a Claimant's right to commence any legal action with respect to any claim for benefits under this Plan.

ARTICLE 16

Trust

16.1 **Establishment of the Trust.** The Company may choose to establish a Trust, and, if the Trust is established, each Employer will, at least annually, transfer to the Trust such assets as the Employer determines, in its sole discretion, are necessary or desirable to provide, on a present value basis, for its respective future liabilities created with respect to the Annual Deferral Amounts, Annual Company Contribution Amounts, and Rollover Amounts for the Employer's Employees who are Participants.

16.2 **Interrelationship of the Plan and the Trust.** The provisions of the Plan and the Plan Agreement will govern the rights of a Participant to receive distributions pursuant to the Plan. The provisions of the Trust will govern the rights of the Employers, Participants, and the creditors of the Employers to the assets transferred to the Trust. Each Employer will at all times remain liable to carry out its obligations under the Plan.

16.3 **Distributions From the Trust.** Each Employer's obligations under the Plan may be satisfied with Trust assets distributed pursuant to the terms of the Trust, and any such distribution will reduce the Employer's obligations under this Plan.

ARTICLE 17

Miscellaneous

17.1 **Status of Plan.** The Plan is intended to be a plan that is not qualified within the meaning of Code Section 401(a) and that "is unfunded and is maintained by an employer primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employee" within the meaning of ERISA Sections 201(2), 301(a)(3)

and 401(a)(1). The Plan will be administered and interpreted to the extent possible in a manner consistent with that intent.

- 17.2 **Unsecured General Creditor.** Participants and their Beneficiaries, heirs, successors, and assigns will have no legal or equitable rights, interests, or claims in any property or assets of an Employer. For purposes of the payment of benefits under this Plan, any and all of an Employer's assets will be, and remain, the general, unpledged, and unrestricted assets of the Employer. An Employer's obligation under the Plan will be merely that of an unfunded and unsecured promise to pay money in the future.
- 17.3 **Employer's Liability.** An Employer's liability for the payment of benefits will be defined only by the Plan and the Plan Agreement, as entered into between the Employer and a Participant. An Employer will have no obligation to a Participant under the Plan except as expressly provided in the Plan and his or her Plan Agreement.
- 17.4 **Nonassignability.** Neither a Participant nor any other person will have any right to commute, sell, assign, transfer, pledge, anticipate, mortgage, or otherwise encumber, transfer, hypothecate, alienate, or convey in advance of actual receipt, the amounts, if any, payable under the Plan, or any part of those amounts, which are, and all rights to which are expressly declared to be, unassignable and non-transferable. No part of the amounts payable will, prior to actual payment, be subject to seizure, attachment, garnishment, or sequestration for the payment of any debts, judgments, alimony, or separate maintenance owed by a Participant or any other person; be transferable by operation of law in the event of a Participant's or any other person's bankruptcy or insolvency; or be transferable to a spouse as a result of a property settlement or otherwise.
- 17.5 **Not a Contract of Employment.** The terms and conditions of this Plan will not be deemed to constitute a contract of employment between any Employer and the Participant. Such employment is hereby acknowledged to be an "at will" employment relationship that can be terminated at any time for any reason, or no reason, with or without cause, and with or without notice, unless expressly provided otherwise in a written employment agreement. Nothing in this Plan will be deemed to give a Participant the right to be retained in the service of any Employer as an Employee or to interfere with the right of any Employer to discipline or discharge the Participant at any time.
- 17.6 **Furnishing Information.** A Participant or his or her Beneficiary will cooperate with the Committee by furnishing any and all information requested by the Committee and take such other actions as may be requested in order to facilitate the administration of the Plan and the payments of benefits under the Plan, including but not limited to taking such physical examinations as the Committee may deem necessary.
- 17.7 **Terms.** Whenever any words are used in the Plan in the masculine, they will be construed as though they were in the feminine in all cases where they would so apply; and whenever

any words are used in the Plan in the singular or in the plural, they will be construed as though they were used in the plural or the singular, as the case may be, in all cases where they would so apply.

- 17.8 **Captions.** The captions of the articles, sections, and paragraphs of this Plan are for convenience only and will not control or affect the meaning or construction of any of its provisions.
- 17.9 **Governing Law.** Subject to ERISA, the provisions of this Plan will be construed and interpreted according to the internal laws of the Commonwealth of Pennsylvania without regard to its conflicts of laws principles.
- 17.10 **Notice.** Any notice or filing required or permitted to be given to the Committee under this Plan will be sufficient if in writing and hand-delivered, or sent by registered or certified mail, to the address below:

Gail L. Gonzales
Corporate Director, Human Resources
Penn National Gaming, Inc.
825 Berkshire Boulevard
Wyomissing, PA 19610

The notice will be deemed given as of the date of delivery or, if delivery is made by mail, as of the date shown on the postmark on the receipt for registration or certification.

Any notice or filing required or permitted to be given to a Participant under this Plan will be sufficient if in writing and hand-delivered, or sent by mail, to the Participant's last known address.

- 17.11 **Successors.** The provisions of this Plan will bind and inure to the benefit of the Participant's Employer and its successors and assigns and the Participant and the Participant's designated Beneficiaries.
- 17.12 **Spouse's Interest.** Any interest in the Plan benefits of a Participant's spouse who has predeceased the Participant will automatically pass to the Participant and will not be transferable by the spouse in any manner, including, but not limited to, the spouse's will, nor will the interest pass under the laws of intestate succession.
- 17.13 **Validity.** In case any provision of this Plan is declared illegal or invalid for any reason, the illegality or invalidity will not affect the remaining parts of the Plan, but the Plan will be construed and enforced as if the illegal or invalid provision had never been inserted in the Plan.

17.14 **Incompetent.** If the Committee determines, in its sole discretion, that a benefit under this Plan is to be paid to a minor, a person declared incompetent, or a person incapable of handling the disposition of that person's property, the Committee may direct payment of that benefit to the guardian, legal representative, or person having the care and custody of the minor, incompetent, or incapable person. The Committee may require proof of minority, incompetence, incapacity or guardianship, as it may deem appropriate prior to distribution of the benefit. Any payment of a benefit will be a payment for the account of the Participant or the Participant's Beneficiary, as the case may be, and will be a complete discharge of any liability under the Plan for that payment amount.

17.15 **Distribution in the Event of Taxation.**

- (a) In General. If, for any reason, all or any portion of a Participant's benefits under this Plan becomes taxable to the Participant prior to receipt, a Participant may petition the Committee before a Change in Control, or the Trustee of the Trust after a Change in Control, for a distribution of that portion of his or her benefit that has become taxable. Upon the grant of such a petition, which grant will not be unreasonably withheld (and, after a Change in Control, will be granted), a Participant's Employer will distribute to the Participant immediately available funds in an amount equal to the tax attributable to his or her benefit (which amount will not exceed a Participant's unpaid Account Balance under the Plan). Additionally, the Committee may cause distribution to be made hereunder to pay the income tax at the source and wages imposed under Code Section 3401 where the corresponding withholding provisions of applicable state, local or foreign tax laws as a result of the payment of the preceding amount. If the petition is granted, the tax liability distribution will be made within 90 days of the date when the Participant's petition is granted. Such a distribution will affect and reduce the benefits to be paid under this Plan. Distributions hereunder may be made for the following reasons:
- (i) payment of employment taxes; and
 - (ii) payment of state, local or foreign taxes; and
 - (iii) payment of income inclusion under Code Section 409A (with respect to which the entire amount required to be included into income as a result of such failure may be distributed).
- (b) Trust. If the Trust terminates in accordance with its terms and benefits are distributed from the Trust to a Participant in accordance with those terms, the Participant's benefits under this Plan will be reduced to the extent of those distributions.

- 17.16 **Insurance**. The Employers, on their own behalf or on behalf of the Trustee and, in their sole discretion, may apply for and procure insurance on the life of a Participant, in such amounts and in such forms as the Employers may choose. The Employers or the Trustee, as the case may be, will be the sole owner and beneficiary of any such insurance. The Participant will not have any interest whatsoever in any such policy or policies, and at the request of the Employers will submit to medical examinations and supply such information and execute such documents as may be required by the insurance company or companies to which the Employers have applied for insurance.
- 17.17 **Legal Fees To Enforce Rights After Change in Control**. The Company and each Employer is aware that upon the occurrence of a Change in Control, the Board or the board of directors of a Participant's Employer (which might then be composed of new members) or a shareholder of the Company or the Participant's Employer, or of any successor corporation might then cause or attempt to cause the Company, the Participant's Employer, or the successor to refuse to comply with its obligations under the Plan and might cause or attempt to cause the Company or the Participant's Employer to institute, or may institute, litigation seeking to deny Participants the benefits intended under the Plan. In these circumstances, the purpose of the Plan could be frustrated. Accordingly, if, following a Change in Control, it should appear to any Participant that the Company, the Participant's Employer, or any successor corporation has failed to comply with any of its obligations under the Plan or any agreement thereunder or, if the Company, an Employer, or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny, diminish, or to recover from any Participant the benefits intended to be provided, then the Company and the Participant's Employer irrevocably authorize the Participant to retain counsel of his or her choice at the expense of the Company and the Participant's Employer (who will be jointly and severally liable) to represent the Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, the Participant's Employer, or any director, officer, shareholder or other person affiliated with the Company, the Participant's Employer, or any successor to either of them in any jurisdiction.
- 17.18 **Domestic Relations Orders**. If necessary to comply with a domestic relations order, as defined in Code Section 414(p)(1)(B), pursuant to which a court has determined that a spouse or former spouse of a Participant has an interest in the Participant's benefits under the Plan, the Committee shall have the right to immediately distribute the spouse's or former spouse's interest in the Participant's benefits under the Plan to such spouse or former spouse.
- 17.19 **Section 409A of the Code**. The terms of the Plan and its operation are intended to comply with Section 409A of the Code. The Plan shall be administered, interpreted and construed in a manner consistent with Section 409A of the Code. Notwithstanding anything in the Plan to the contrary, distributions under the Plan may only be made upon an event and in a manner consistent with Section 409A of the Code. Should any provision of the Plan, or

any other agreement or arrangement contemplated by the Plan or used in conjunction with the Plan be found not to comply with, or otherwise be exempt from, the provisions of Section 409A of the Code, such requirements shall be modified and given effect (retroactively if necessary), in the sole discretion of the Committee, in such manner as the Committee determines to be necessary or appropriate to comply with, or to effectuate an exemption from, Section 409A of the Code. If such modification is not possible, any such provision that is not in compliance with Section 409A of the Code shall be deemed ineffective if its application would result in a violation of the requirements set forth in

IN WITNESS WHEREOF, the Company has executed this Plan document on this 5th day of April, 2013, to be effective as of April 4, 2013.

ATTEST:

PENN NATIONAL GAMING, INC.

By: /s/ Jordan B. Savitch

By: /s/ Robert S. Ippolito

Title: Vice President, Secretary and Treasurer

APPENDIX A

DBA

Legal Entity Name

| | |
|-------------------------------------|---|
| Argosy Casino Alton | Alton Gaming Company |
| Argosy Casino Riverside | The Missouri Gaming Company Iowa Gaming Company |
| Argosy Casino Sioux City | Penn Bullwhackers, Inc. |
| Bullwhackers Casino | PHK Staffing, LLC |
| Hollywood Casino at Kansas Speedway | Louisiana Casino Cruises, Inc. |
| Hollywood Casino Baton Rouge | Central Ohio Gaming Ventures, LLC |
| Hollywood Casino Columbus | St Louis Gaming Ventures, LLC |
| Hollywood Casino St. Louis | Toledo Gaming Ventures, Inc. |
| Hollywood Casino Toledo | Hollywood Casino Tunica, Inc. |
| Hollywood Casino Tunica | Bangor Historic Track, Inc. |
| Hollywood Slots at Bangor | Raceway Park, Inc. |
| Raceway Park | Beulah Park Gaming Ventures, Inc. |
| Beulah Park | Boomtown Casino Biloxi |
| Boomtown Casino Biloxi | PNGI CharlesTown Gaming, LLC |
| Hollywood Casino at Charles Town | Mountainview T.R.A., Inc. |
| Hollywood Casino at PNRC | Hollywood Casino Aurora |
| Hollywood Casino Aurora | Hollywood Casino Bay St. Louis |
| Hollywood Casino Bay St. Louis | Empress Casino Joliet Corporation |
| Hollywood Casino Joliet | Indiana Gaming Company, L.P. |
| Hollywood Casino Lawrenceburg | Penn Cecil Maryland Inc. |
| Hollywood Casino Perryville | Penn National Gaming, Inc. |
| Penn National Gaming, Inc. | Prince Georges Racing Ventures LLC |
| Rosecroft Raceway | Sanford Orlando Kennel Club |
| Sanford Orlando Kennel Club | Zia Park, LLC |
| Zia Park | LV Gaming Ventures, Inc. |
| The M Resort | |

FIRST AMENDMENT
TO THE
PENN NATIONAL GAMING, INC.
DEFERRED COMPENSATION PLAN

WHEREAS, Penn National Gaming, Inc. (the "Company") maintains the Penn National Gaming, Inc. Deferred Compensation Plan (the "Plan"); and

WHEREAS, Section 12.2 of the Plan provides that the Company may amend the Plan at any time by action of the Board; and

WHEREAS, the Company wishes to amend the Plan to address the eligibility of certain employees to participate in the Plan.

NOW, THEREFORE, the Plan is hereby amended effective November 1, 2013 as follows:

1. Section 2.1 is amended by adding the following to the end thereof:

"Any Employee who becomes an Employee during the 24-month period commencing on November 1, 2013 and who had been a participant in the Gaming and Leisure Properties, Inc. Deferred Compensation Plan shall be eligible to participate in the Plan as soon as practicable following the date he becomes an Employee."

2. In all other respects, the Plan shall remain as previously written.

IN WITNESS WHEREOF, this First Amendment has been adopted this 6th day of January, 2014.

ATTEST:

PENN NATIONAL GAMING, I NC.

/s/ Tammy Albrecht

By: /s/ Robert S. Ippolito

SECOND AMENDMENT TO THE
PENN NATIONAL GAMING, INC.
DEFERRED COMPENSATION PLAN

WHEREAS, Penn National Gaming, Inc. (the "Company") maintains the Penn National Gaming, Inc. Deferred Compensation Plan (the "Plan"); and

WHEREAS, Section 12.2 of the Plan provides that the Company may amend the Plan at any time by action of the Board; and

WHEREAS, the Company wishes to amend the Plan to revise the provisions governing retirement distributions.

NOW, THEREFORE, the Plan is hereby amended, effective October 1, 2015, as follows:

1. Section 1.34 is amended by adding the following to the end thereof:

"Effective January 1, 2017, with respect to amounts credited to a Participant's Account relating to periods of service with an Employer beginning on or after January 1, 2017, 'Retirement,' 'Retire(s)' or 'Retired' means, with respect to an Employee, termination of employment from all Employers for any reason other than a leave of absence, death, or Disability (i) on or after the attainment of age 55 with at least ten (10) Years of Service or (ii) on or after the attainment of age 65. For purposes of this Plan, any 'termination of employment' shall be construed in accordance with the requirements for a 'separation from service' under Treas. Reg. §1.409A-1(h)."

2. Section 1.46 is amended by adding the following to the end thereof:

"In addition, for purposes of determining whether a Participant has been credited with at least ten (10) Years of Service for purposes of determining his eligibility for a Retirement distribution, if a Participant incurs a Separation from Service with an Employer and is subsequently reemployed more than thirty (30) days after the effective date of such Separation from Service, all Years of Service credited prior to such Separation from Service shall be disregarded."

3. Section 3.5 is amended by adding the following to the end thereof:

"Effective October 1, 2015, all discretionary contributions to a Participant's Company Contribution Account shall be subject to the approval of the Chief Executive Officer of the Company (the "CEO") or the executive officer of the Company designated by the CEO. A discretionary contribution to a Participant may not be in excess of Twenty Thousand and no/100 Dollars (\$20,000.00) in a Plan Year and the total discretionary contributions to Participants in a Plan Year may not exceed One Hundred Thousand and no/100 Dollars (\$100,000.00). In addition, in no event may a discretionary contribution be allocated to the Company Contribution Account of any Participant who is a named executive officer of the Company."

4. Section 5.2(a) is amended by adding the following after the first sentence therein:
-

“Effective January 1, 2017, with respect to amounts credited to a Participant’s Account relating to periods of service with an Employer beginning on or after January 1, 2017, a Participant will elect on an Election Form to receive the Retirement Benefit in a lump sum or pursuant to an Annual installment Method of five (5) or ten (10) years with respect to amounts credited to his Account for each calendar year period for which he is making a deferral election pursuant to Section 3.3.”

5. A new Section 7.3 is added to read, in its entirety, as follows:

“7.3 **Termination Benefit Election.** With respect to amounts credited to a Participant’s Account relating to periods of service with an Employer prior to January 1, 2017, a Participant may change the form or timing of the payment of his Termination Benefit from a lump sum distribution to (i) an annual installment method of five (5) or ten (10) years or (ii) a lump sum that is payable at least five (5) years after his Separation from Service with the Employer. The change may be made by submitting an Election Form to the Committee in accordance with the following criteria:

- (i) The election shall not take effect until at least twelve (12) months after date on which the election is made;
- (ii) The new Benefit Distribution Date for the Participant’s

Termination Benefit shall be at least five (5) years after the Benefit Distribution Date that would have been otherwise applicable to such benefits;

(iii) The election must be made at least twelve (12) months prior to the Benefit Distribution Date that would have otherwise been applicable to the Participant’s Termination Benefit; and

(iv) The Participant must have attained age fifty-five (55) with at least ten (10) Years of Service as of the date of his Separation from Service giving rise to the Participant’s Termination Benefit.

This election opportunity will first be made available to a Participant following the Participant’s attainment of age fifty-three (53) with at least eight (8) Years of Service.”

6. Section 17.10 is amended by replacing “Gail L. Gonzales, Corporate Director, Human Resources” with “Corporate Director of Benefits.”

7. In all other respects, the Plan shall remain as previously written.

IN WITNESS WHEREOF, this Second Amendment has been adopted this 28th day of December 2015.

ATTEST:

PENN NATIONAL GAMING, I NC.

/s/ Lori Heyer

By: /s/ Saul V. Reibstein

THIRD AMENDMENT TO THE
PENN NATIONAL GAMING, INC.
DEFERRED COMPENSATION PLAN

WHEREAS, Penn National Gaming, Inc. (the "Company") maintains the Penn National Gaming, Inc. Deferred Compensation Plan (the "Plan"); and

WHEREAS, Section 12.2 of the Plan provides that the Company may amend the Plan at any time by action of the Board; and

WHEREAS, the Company wishes to amend the Plan to clarify the annual deferral provision; and

WHEREAS, the Board approved these amendments at its meeting on December 2, 2016. NOW, THEREFORE, the Plan is hereby amended, effective January 1, 2017, as follows:

1. Section 3.1 is amended to read, in its entirety, as follows:

"3.1 **Annual Deferrals.** For each Plan Year, a Participant may elect to defer, as his or her Annual Deferral Amount, a percentage of Base Annual Salary and/or Annual Bonus. If no election is made, the amount deferred will be deemed to be zero."

2. Section 12.2 is amended by adding the following to the end thereof

"Effective January 1, 2017, the Plan may be amended by action of the Compensation Committee of the Board (the "Compensation Committee") with respect to significant Plan design changes and/or any changes having a significant economic impact on the Company or on senior executives of the Company. The Compensation Committee shall notify the Board of any actions taken with respect to the Plan. All other administrative and/or mandatory legal amendments may be adopted by action of the CEO. The CEO shall notify the Compensation Committee of any action taken with respect to the Plan."

3. In all other respects, the Plan shall remain as previously written.

IN WITNESS WHEREOF, this Third Amendment has been adopted this 9th day of June, 2017.

ATTEST:

PENN NATIONAL GAMING, INC.

/s/ Rebecca A. Fink

By: /s/ Carl Sottosanti
Executive Vice President and General
Counsel

FOURTH AMENDMENT TO THE
PENN NATIONAL GAMING, INC.
DEFERRED COMPENSATION PLAN

WHEREAS, Penn National Gaming, Inc. (the "Company") maintains the Penn National Gaming, Inc. Deferred Compensation Plan (the "Plan"); and

WHEREAS, Section 12.2 of the Plan provides that the CEO may adopt administrative amendments to the Plan; and

WHEREAS, the Company wishes to amend the Plan to clarify the annual company contribution provision.

NOW, THEREFORE, the Plan is hereby amended, effective as of January 1, 2017, as follows:

1. The first sentence of Section 3.5 is amended to read, in its entirety, as follows:

"The Company shall credit to the Account of each Participant an amount equal to the sum of (i) 50% of the Participant's Annual Deferral Amount attributable to Base Annual Salary (but only with respect to a maximum deferral of 10%) and (ii) 50% of the Participant's Annual Deferral Amount attributable to Annual Bonus (but only with respect to a maximum deferral of 10%)."

2. In all other respects, the Plan shall remain as previously written.

IN WITNESS WHEREOF, this Fourth Amendment has been adopted this 30th day of October, 2017.

ATTEST:

TIMOTHY J. WILMOTT,
CHIEF EXECUTIVE OFFICER

/s/ Carl Sottosanti

/s/ Timothy J. Wilmott

COMMERCIAL LEASE AGREEMENT

THIS LEASE AGREEMENT (the "Lease") made the 31st day of March, 1995, by and between WYOMISSING PROFESSIONAL CENTER III, LIMITED PARTNERSHIP, a Pennsylvania limited partnership (the "Landlord"), having an address of 825 Berkshire Boulevard, Suite 203, Wyomissing, Pennsylvania 19610 and PENN NATIONAL GAMING, INC. (the "Tenant"), having an address of 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610.

IN CONSIDERATION of the mutual promises contained herein, and intending to be legally bound hereby, Landlord and Tenant agree as follows:

1. PREMISES. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord 2,120 square feet of rentable floor area, substantially as shown on the floor plan attached hereto as Exhibit "A" and made a part hereof (the "Premises"). The Premises are on the second floor of the building having an address of 825 Berkshire Boulevard, Wyomissing, Pennsylvania (the "Building"), located on a parcel of land containing approximately 11 acres (the "Land"). In connection with its use of the Premises, Tenant shall have the right to use for its employees twelve undesignated parking spaces in the parking area adjacent to the Building and such other undesignated parking spaces as may be reasonably required for the conduct of its business.

2. TERM.

(a) The term of the Lease shall be five (5) years, commencing on April 1, 1995.

(b) If Tenant, without the consent of Landlord, remains in possession of the Premises beyond the expiration of this Lease or any extension or renewal hereof, such holding over shall be deemed a tenancy at sufferance at one and one-half (1-1/2) times the rent as was in effect at the time such holding over commenced.

3. RENT.

(a) During the first year of the term of this Lease, Tenant shall pay Landlord annual minimum rent in the amount of Twenty Three Thousand Three Hundred Twenty Dollars (\$23,320), payable in twelve (12) equal monthly installments of One Thousand Nine Hundred Forty Three Dollars and Thirty Three Cents (\$1,943.33). Such annual minimum rent is calculated on the basis of \$11.00 per square foot of the rentable floor area of the Premises.

(b) During the second lease year and each lease year thereafter during the term of this Lease, the annual minimum rent shall be increased by three percent (3%) over the prior year's annual minimum rent.

(c) All rent shall be payable in advance, without demand, on the first day of each calendar month during the term of this Lease, except that the first full monthly installment shall be paid upon the signing of this Lease. The first and last monthly payments shall be prorated on a per diem basis for any period less than a full calendar month.

(d) All rent shall be payable without any deduction, offset or counterclaim. All rent due hereunder shall be payable in immediately available funds at Landlord's address set forth in the introductory paragraph of this Lease or at such other place as may be designated by Landlord.

(e) Tenant shall pay a late charge at the rate of five percent (5%) on each dollar of rent, or any other sum collectible as rent under this Lease, which is not paid within fifteen (15) days after the same is due.

4. TENANT'S SHARE OF EXPENSES.

(a) In addition to the payment of annual minimum rent as provided herein, Tenant shall pay as additional rent hereunder its proportionate share (as defined in subparagraph 4(c)) of all Expenses as herein defined. Expenses shall include all real estate taxes assessed against the Building, janitorial services (if any) provided to Tenant, insurance premiums (other than Tenant's liability insurance) on the Building, water and sewer costs of the Building as metered, trash removal costs pertaining to the Building, repair and maintenance of HVAC equipment relating to Premises, grass cutting and landscape bed maintenance of the area delineated on plan as Exhibit "A", snow removal and parking lot repair, maintenance, repaving, cleaning and striping of the same defined area on Exhibit "A", parking lot electric as determined by the "house meter" on the Building, and all other costs and Expenses incurred by Landlord in operating and maintaining the Building. Expenses shall also include expenses imposed or assessed against the Building and its owner(s) by The Owner's Association of Wyomissing Professional Center, West Campus, Inc. consisting of costs of maintaining and repairing the main roadway through the Land. The Expenses shall be pre-paid on a monthly basis during each calendar year of the term of this Lease as provided herein. Attached hereto as Exhibit "B" and made a part hereof is the current budget estimate and operating expense description for the operation of the Building and the Land. All items on the budget shall be included as Expenses, but other Expenses may be incurred from time to time.

(b) For purposes hereof, "Expenses" shall not include:

(i) Costs for which Landlord is reimbursed or indemnified (either by an insurer, condemnor, tenant, warrantor or otherwise) or, in the event Landlord fails to properly insure the Building, then Expenses shall not include expenses for which Landlord would have been reimbursed if

Landlord had adequately insured the Building.

(ii) Expenses incurred in leasing or procuring tenants (including lease commissions, advertising expenses, management and leasing offices, lease negotiation and review, expenses of renovating space for tenants, and legal expenses incurred in enforcing the terms of any tenant leases).

(iii) Interest or amortization payments on any mortgages.

(iv) Costs representing an amount paid to an affiliate of Landlord which is in excess of the amount which would have been paid in the absence of such relationship.

(v) Costs specially billed to and paid by specific tenants, including without limitation, expenses for work performed for other tenants in the Building and expenses to be billed to other tenants for excess utility use or other services that are beyond normal office use. There shall be no duplication of costs or reimbursement.

(vi) Depreciation and costs incurred by Landlord for alterations that are considered capital improvements and replacements under generally accepted accounting principles consistently applied except that the annual amortization of these costs shall be included in the following two instances:

(A) The annual amortization over its useful life (not to be less than ten (10) years) with a reasonable salvage value on a straight line basis of the cost of any improvement made by Landlord and required by any changes in applicable laws, rules, or regulations of any governmental authority enacted after the Building was fully assessed as a completed and occupied unit and the Lease was signed.

(B) The annual amortization over its useful life (not to be less than ten (10) years) with a reasonable salvage value on a straight line basis of the cost of any equipment or capital improvements made by Landlord after the Building was fully assessed as a completed and occupied unit and the Lease was signed, as a labor-saving measure or to accomplish other savings in operating, repairing, managing, or maintaining of the Building or Land, but only to the extent of the savings realized.

(vii) Salaries other than salary for a building manager.

(viii) Landlord's personal property and Landlord's own occupancy costs, if any, in the Building.

(c) The portion of Expenses which are applicable to the Premises (the "Premises Expenses") shall be determined by multiplying the Expenses by a fraction, the numerator of which is the rentable floor area of the Premises (presently assumed to be 2,120 square feet), and the denominator of which is the aggregate number of rentable floor area in the Building (presently assumed to be 21,100 square feet), unless a direct billing relating to a cost of operating the Premises not the entire Building occurs, such as

with janitorial or HVAC repair and maintenance, where Tenant would have responsibility for the entire amount.

(d) During the first lease year of the term of this Lease, the Premises Expenses shall be an amount not greater than \$3.25 per square foot of rentable floor area of the Premises, which shall equal Six Thousand Eight Hundred Ninety Dollars (\$6,890) annually, and Five Hundred Seventy Four Dollars and Sixteen Cents (\$574.16) monthly. After the first year of the term of this Lease Tenant shall pay actual Premises Expenses as defined above in 4(a), 4(b) and 4(c).

(e) Tenant shall pay Landlord monthly, in advance, on the first day of each calendar month during the term of this Lease, and pro rata for the fraction of any month, the sum estimated by Landlord to be one-twelfth (1/12th) of Tenant's share of all Premises Expenses. If at any time and from time to time it is determined by Landlord that Tenant's estimated payments will be insufficient to pay Tenant's share of such Premises Expenses, the Landlord shall have the right to adjust the amount of Tenant's estimated payments upon thirty (30) days prior written notice, and Tenant agrees to thereafter pay the adjusted estimated payment on a monthly basis.

(f) Within ninety (90) days after the end of each calendar year, Landlord shall deliver to Tenant (i) a written itemization of Expenses for the prior Lease year and (ii) an estimate of the then current Lease year's Expenses and Tenant's share of the Premises Expenses. An adjustment shall be made between the aggregate total of Tenant's share of estimated Premises Expenses actually paid by Tenant during the prior Lease year, and Tenant's share of Premises Expenses actually incurred during the prior Lease year, so that Landlord shall reimburse Tenant for any excess paid by Tenant, and Tenant shall pay any deficiency to Landlord within ten (10) days of demand. If Tenant disagrees with the accuracy of the Expenses as set forth in Landlord's itemization statement, Tenant shall give written notice to Landlord to that effect, but shall nevertheless make payment in accordance with the terms of this Paragraph.

(g) Landlord shall permit Tenant to inspect its records with respect to the Expenses at a mutually convenient time and place. Any information obtained by Tenant pursuant to the provisions of this Paragraph shall be treated as confidential, except in any litigation between the parties.

(h) If due to a change in the laws presently governing taxation, any franchise tax or tax on income, profit, rentals or occupancies from or of the Premises shall be levied or imposed against the Landlord in lieu of any tax or assessment that would otherwise constitute a real estate tax, such franchise, income, profit tax or tax on rentals shall be deemed to be a real estate tax and included as part of the Expenses.

5. USE. The Premises shall be used only for the purpose of operating a general business office. Tenant will not use, and will not permit the use of, the Premises for any purpose which is unlawful or in violation of any statute, ordinance, rule, regulation or restriction governing the use of the Premises.

employees and visitors to park their cars only in those portions of the parking area as may be designated for that purpose by Landlord, and not use or permit the use of any more designated parking spaces in the parking area than are permitted in Paragraph 1 herein.

(h) Promptly upon request of Landlord's Lender, deliver to Landlord's lender copies of Tenant's annual financial statements for the past two (2) years.

8. NEGATIVE COVENANTS OF TENANT. Tenant covenants and agrees that it will do none of the following without the prior written consent of Landlord, such consent not to be unreasonably withheld or delayed:

(a) Place or allow to be placed any sign, projection or device upon the Premises or on the inside or outside of the Building, which is visible from the exterior of the Premises;

(b) Make any alterations, improvements or additions to the Premises without consent of Landlord. All alterations, improvements, additions or fixtures, whether installed before or after the execution of this Lease, shall remain upon the Premises at the expiration or sooner termination of this Lease and become the property of Landlord, Landlord should have the right to cause Tenant to remove improvements beyond fit-up at termination of Lease, unless Landlord, at the time of its approval of same, shall have given written notice to Tenant to remove the same, in which event Tenant shall remove such alterations, improvements and additions or fixtures, and restore the Premises to the same good order and condition in which they were upon initial occupancy, reasonable wear and tear and damage by casualty excepted; and

(c) Do or suffer to be done any act objectionable to any insurance company whereby the insurance or any other insurance now in force or hereafter placed on the Premises or the Building shall become void or suspended, or whereby the same shall be rated as a more hazardous risk than at the date of signing of this Lease. In case of a breach of this covenant (in addition to all other remedies herein given to Landlord) Tenant agrees to pay Landlord as additional rent any and all increases of premiums on insurance reasonably carried by Landlord on the Premises or the Building caused in any way by the use or occupancy of the Premises by the Tenant.

9. LANDLORD'S RIGHT TO ENTER. Tenant shall permit, after written notice except in cases of emergency, Landlord, Landlord's agents, servants, employees, and prospective buyers or any other persons authorized by Landlord, to inspect the Premises at any reasonable time, and to enter the Premises for the Purposes of cleaning and, if Landlord shall so elect, for making reasonable alterations, improvements or repairs to the Building, for any reasonable purpose in connection with the operation and maintenance of the Building, and, during the last six (6) months of the term of this Lease, for the purpose of exhibiting the same for sale or lease.

10. RELEASE OF LANDLORD. Tenant shall be responsible for and hereby relieves Landlord from any and all liability by reason of any injury, loss, damage, to any person or property in the Premises, whether the same be due to fire, breakage, leakage, water flow, gas, use, misuse, or defects therein, or condition anywhere

in the Premises, failure of water supply or light or power or electricity, wind, lightning, storm, or any other cause whatsoever, whether the loss, injury or damage be to the person or property of Tenant or any other persons, unless such loss, injury or damage is caused by the negligence or willful misconduct of Landlord, its agents or employees.

11. ASSIGNMENT AND SUBLETTING. Except as otherwise provided in the immediately following sentence, Tenant shall not assign, mortgage or pledge this Lease, or sublet the Premises or any part thereof, or permit any other person or occupy the Premises or any part thereof, without the prior written consent of Landlord, such consent not to be unreasonably withheld or delayed. Such prior consent shall not be required of Tenant makes an assignment or sublease to a subsidiary or affiliate or other corporation or partnership which is controlled by Tenant or Tenant's principals, provided that prior to taking possession of any part of the Premises, such assignee or sublessee shall sign an assumption agreement in form satisfactory to Landlord, whereby such assignee or sublessee agrees to be bound by the terms and conditions of this Lease. Any such assignment or subletting, even with the consent of Landlord, shall not release Tenant from liability for payment of rent or any other charges hereunder or from any of the other obligations under this Lease, and any additional consideration resulting from an assignment or subletting requiring Landlord's prior consent in excess of the rent specified herein shall be additional rent hereunder due and payable to Landlord. The acceptance of rent from any other obligations under this Lease, and any additional consideration resulting from an assignment or subletting requiring Landlord prior consent in excess of the rent specified herein shall be additional rent hereunder due and payable to Landlord. The acceptance of rent from any other person shall not be deemed to be a waiver of any of the provisions of this Lease or to be a consent to an assignment or subletting. Upon any assignment of this Lease or subletting of the Premises, a change in any respect of the use of the Premises from the use actually employed by the original Tenant shall require the prior written consent of Landlord.

12. ENVIRONMENTAL COMPLIANCE. Tenant shall not cause or permit any hazardous substance, material or waste (as defined in any applicable environmental law, rule or regulation) to be brought upon or used in or about the Premises. Tenant shall cause the Premises to be used in compliance with all applicable environmental laws, rules and regulations. Any failure of Tenant to comply with the covenants contained in this paragraph shall be covered by the indemnification provisions of Paragraph 14 herein and shall be subject to all other rights and remedies available to Landlord.

13. INDEMNIFICATION.

(a) Tenant agrees to indemnify Landlord against loss and save Landlord harmless from and against (a) any breach or default in the performance of any covenant or agreement to be performed by Tenant under the terms of this Lease, (b) any and all claims arising from anything done in or about The Premises during the term of this Lease by Tenant or any or its agents, contractors, servants, employees, invitees or license,(c) any act or negligence

of Tenant or any of its agents, contractors, servants, employees, invitees or licensees, including any accident, injury or damage whatsoever caused to any person, in or about the Premises. and (d) all costs, reasonable counsel fees, expenses and liabilities incurred in connection with any such claim for which indemnification has been provided under this paragraph. In case any action or proceeding shall be brought against Landlord by reason of any such claim, Tenant, upon notice from Landlord, shall provide Landlord with counsel to defend such action or proceeding. Tenant shall, within ten (10) days following notice to it of any claim of a third party relating to tenant's use or occupancy of the Premises or to the performance or non-performance by tenant of its obligations under this Lease, give written notice to the Landlord of such claim. The provisions of this paragraph shall survive the expiration or termination of this lease.

(b) Landlord agrees to indemnify Tenant against loss and save Tenant harmless from and against (i) any breach or default in the performance of any covenant or agreement to be performed by Landlord under the terms of this Lease, (ii) any claims arising from anything done on or about the Land (other than the Premises) during the term of this Lease by Landlord or any of its agents, contractors, servants, employees, invitees or licensees, (iii) any act or negligence of Landlord or any of its agents, contractors, servants, employees, invitees or licensees, including any accident, injury or damage whatsoever caused to any person in or about the Land (other than the Premises), and (iv) all costs, reasonable counsel fees, expenses and liabilities incurred in connection with any such claim for which indemnification has been provided under this paragraph. In case any action or proceeding shall be brought against Tenant by reason of any such claim, Landlord, upon notice from Tenant, shall provide Tenant with counsel to defend such action or proceeding. Landlord shall, within ten (10) days following notice to it of any claim of a third party relating to the Land (other than the Premises) or the performance or non-performance by Landlord of its obligations under this Lease, give written notice to Tenant of such claim. The provisions of this paragraph shall survive the expiration or termination of this Lease.

14. LIABILITY INSURANCE.

(a) Tenant, at its own cost and expense, shall obtain during the term of this Lease, and any renewals or extensions thereof, comprehensive public liability insurance in companies acceptable to Landlord, naming Landlord and Tenant as the insureds, in an amount not less than One Million Dollars (\$1,000,000.00), and providing for at least thirty (30) days' prior written notice to Landlord of cancellation, nonrenewal, or modification.

(b) Prior to its occupancy of the Premises, Tenant shall deliver to Landlord a certificate evidencing such insurance policy. At least thirty (30) days before the expirations of such policy and any renewal policies, Tenant shall deliver to Landlord certificates evidencing such renewal policies.

15. FIRE OR OTHER CASUALTY.

(a) If during the term of this Lease or any renewal or extension thereof, the Premises or the building is substantially destroyed or is so damaged by fire or other casualty (whether or

not the Premises are damaged) that the same cannot be repaired or restored within one hundred twenty (120) regular working days from the date of the happening of such damage, or if such damage or casualty is not included in the risks covered by Landlord's fire insurance with the usual extended coverage, then this Lease shall absolutely cease and terminate and the rent shall abate for the balance of the term. In such case, Tenant shall pay the rent apportioned to the date of damage and Landlord may enter upon and repossess the Premises without further notice.

(b) If the damage caused as above renders twenty-five (25%) or more of the Premises unfit for occupancy, but such damage can be repaired or restored within one hundred twenty (120) regular working days and said damage and the cost of repairs and restoration are fully covered by the Landlord's insurance, Landlord may exercise either of the following options:

(i) Landlord shall have the option to restore the Premises in which event the rent shall be apportioned during the time Landlord is in possession, taking into account the proportion of the Premises rendered untenable and the duration of Landlord's possession.

(ii) Landlord shall have the option to terminate this Lease by giving written notice of such termination to Tenant within thirty (30) days after said partial destruction; and upon the giving of such notice, the Lease shall expire by lapse of time after thirty (30) days and the Tenant shall vacate the Premises.

(c) If the damage caused as above renders less than twenty-five percent (25%) of the Premises unfit for occupancy, Landlord shall repair whatever portion of the Premises that may have been damaged by fire or other casualty insured as aforesaid, and the rent shall be apportioned as set forth in subparagraph (b) (i) above.

(d) In the event Landlord elects to restore the Premises as set forth in this paragraph 15, and fails to complete such restoration within one hundred and twenty (120) days from the date of the happening of such damage, Tenant shall have the right, upon thirty (30) days prior notice to Landlord, to terminate this Lease. Should Landlord complete said restoration prior to said termination date, termination shall be null and void.

16. WAIVER OF SUBROGATION. Landlord and Tenant shall each endeavor to procure an appropriate clause in, or endorsement on, any fire and extended coverage insurance covering the Premises and buildings and personal property, fixtures, and equipment located thereon or therein, pursuant to which the insurance companies waive subrogation or consent to a waiver of right of recovery. Each party hereto hereby agrees that it will not make any claim against or seek to recover from the other for any loss or damage to its property or the property of others resulting from fire or other hazards covered by such fire and extended coverage insurance except as expressly provided in this Lease; provided, however, that the release, discharge, exoneration, and covenant not to sue herein contained shall be limited by the terms and provisions of the waiver of subrogation clauses and/or endorsements consenting to a waiver of right of recovery and shall be coextensive therewith.

17. NO IMPLIED EVICTION. Notwithstanding any inference to the contrary herein contained, it is understood that, the exercise by

Landlord of any of its rights hereunder shall never be deemed an eviction (constructive or otherwise) of Tenant, of a disturbance of its use of the Premises, and shall in no event render Landlord liable to tenant or any other person, so long as such exercise of rights is in accordance with the foregoing terms and conditions.

18. CONDEMNATION. If the whole of the Premises shall be acquired or condemned by eminent domain, then the term of this Lease shall cease and terminate sixty (60) days prior to the date on which possession of the Premises is required to be surrendered to the condemning authority. All rent shall be paid up to the date of termination. A partial condemnation shall not be cause for termination of this Lease, but rent shall be abated to an equitable amount. Tenant hereby expressly waives any right or claim to any part of an condemnation award or damages and hereby assigns to Landlord any such right or claim to which Tenant might become entitled.

19. LANDLORD'S RIGHT TO PAY TENANT EXPENSES. If Tenant shall at any time fail to pay any utility or other charges or to take out, pay for, maintain or deliver any of the insurance policies provided for herein, or shall fail to make any other payment or perform any under this Lease, then without waiving, or releasing Tenant from, any obligations of Tenant contained in this Lease, Landlord may, upon ten (10) days prior written notice to Tenant (except in the event of an emergency) but shall not be obligated to pay any such charge, effect any such insurance coverage and pay premiums manner and to such extent as shall be necessary. In exercising any such rights, Landlord may pay necessary and incidental costs and expenses, employ counsel and incur and pay reasonable attorney's fee. All sums so paid by Landlord and all necessary and incidental costs and expenses in connection with the performance of any such act by Landlord, together with interest thereon at the rate of nine percent (9%) per annum from the date of the making of such expenditure by Landlord, shall be deemed additional rent hereunder and, except as otherwise expressly provided in this Lease, shall be payable to Landlord after five (5) days' written notice thereof. Tenant covenants to pay any such sum or sums with interest as aforesaid and Landlord shall have (in addition to any other right or remedy of the Landlord) the same rights and remedies in the event of nonpayment thereof by Tenant as in the case if default by Tenant in the payment of rent.

20. EVENTS OF DEFAULT. The occurrence of each of the following events shall be an "Event of Default" hereunder:

(a) Tenant does not pay in full when due any installment of rent, additional rent, or any other charges, expenses or costs herein agreed to be paid by Tenant for a period of five (5) days after receipt of notice that same has not been paid when due; provided that in the event Tenant shall have received three (3) such written notices within any period of twelve (12) consecutive months, then during the remainder of the twelve (12) consecutive month period after Tenant shall have received its first written notice from Landlord, Tenant shall thereafter be in default hereunder whenever Tenant shall fail to pay any sum owing under this Lease when due, without the necessity of sending any written notice on nonpayment;

(b) Tenant violates or fails to perform or comply with any other term, covenant, condition, or agreement herein contained

and fails to cure such default within thirty (30) days of receipt of notice thereof from Landlord, provided, however, if such default cannot be cured with reasonable diligence within such thirty (30) day period, the time for cure of same shall be deemed extended for such additional time as is reasonably necessary to cure same with due diligence.

(c) Tenant vacates the Premises;

(d) Tenant shall file a voluntary petition in bankruptcy or shall be adjudicated a bankrupt or insolvent or shall file any petition or answer seeking any reorganization, arrangement, recapitalization, readjustment, liquidation or dissolution or similar relief under any present or future bankruptcy laws of the United States or any other country or political subdivision thereof, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver, or liquidator of all or any substantial part of Tenant's properties, or shall make an assignment for the benefit of creditors, or shall admit in writing Tenant's inability to pay Tenant's debts generally as they become due; or

(e) If an involuntary petition in bankruptcy shall be filed against Tenant seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future bankruptcy laws of the United States or any other state or political subdivision thereof, and if within ninety (90) days after the commencement of any such proceeding against Tenant, such proceedings shall not have been dismissed, or if, within ninety (90) days after the appointment, without the consent or acquiescence of Tenant, or any trustee, receiver or liquidator of the Tenant or of all or any substantial part of Tenant's property, such appointment shall not have been vacated or stayed on appeal or otherwise, or if, within sixty (60) days after the expiration of any such stay, such appointment shall not have been vacated.

21. LANDLORD'S REMEDIES.

(a) Upon the occurrence of any Event of Default, Landlord may, at its option, terminate this Lease, whereupon the estate hereby vested in Tenant shall cease and any and all other right, title and interest of Tenant hereunder shall likewise cease without notice or lapse of time, as fully and with like effect as if the entire term of this Lease had elapsed, but Tenant shall continue to be liable to Landlord as hereinafter provided.

(b) Upon the occurrence of any Event of Default, or at any time thereafter, Landlord, in addition to and without prejudice to any other rights and remedies Landlord shall have at law or in equity, shall have the right to re-enter the Premises, and recover possession thereof and dispossess any or all occupants of the Premises in the manner prescribed by the statute relating to summary proceedings, or similar statutes, but Tenant in such case shall remain liable to Landlord as hereinafter provided.

(c) In case of any Event of Default, re-entry, expiration and/or dispossession by summary proceedings, whether or not this Lease shall have been terminated as aforesaid:

(i) All delinquent rent and additional rent shall become payable thereupon and be paid up to the time of such re-entry, expiration and/or dispossession;

(ii) Landlord shall have the right, but not the obligation, to relet the Premises or any part or parts thereof for the account of Tenant, either in the name of Landlord or otherwise,

for a term or terms which may, at Landlord's option, be less than or exceed the period which would otherwise have constituted the balance of the term of this Lease and to grant reasonable concessions for rent, costs, brokerage fees and attorneys' fees;

(iii) Tenant shall reimburse Landlord for any expenses that Landlord may incur in connection with recovering possession of the Premises and any reletting thereof, such as court costs, attorneys' fees, brokerage fees, and the costs of advertising and the costs of any alteration, repairs, replacements and/or decorations in or to the Premises as Landlord, in Landlord's sole judgment, considers advisable and necessary for the purpose of such reletting of the Premises; and the making of such alterations, repairs, replacements and/or decorations shall not operate or be construed to release Tenant from liability hereunder as aforesaid; and

(iv) Tenant or the legal representatives of Tenant, at Landlord's options, shall pay Landlord, either (1) in monthly installments, the difference between the rent and the additional rent reserved hereunder and the rent, if any, received by Landlord pursuant to any reletting, or (2) liquidated damages and not a penalty in an amount equal to the rent which should have become due during the remainder of the term of this Lease and an estimate of the additional rent which would have become due during the remainder of the term of this Lease (calculated by using the additional rent paid by Tenant for the immediately preceding Lease year), reduced to present value at the rate of nine (9%) percent per annum.

(d) If Tenant defaults (after the expiration of applicable notice and/or cure periods) on any payment of additional rent required to be made by it under this Lease, or fails (after the expiration of applicable notice and/or cure periods) to furnish evidence of such payments at the times in this Lease required, Landlord may make such payment for Tenant without notice. If Tenant defaults (after the expiration of applicable notice and/or cure periods) in the performance or observance of any non-monetary term, covenant or condition to be performed or observed by it under this Lease, Landlord may take action to rectify such non-monetary default on Tenant's behalf. Landlord may rectify such default (after the expiration of applicable notice and/or cure periods) on Tenant's behalf immediately and without such notice of immediate action is reasonably believed to be required in order to avoid injury or damage to other persons or property (including Landlord's property). Landlord may enter the Premises to rectify such defaults. All money advanced and expenses incurred by Landlord in rectifying any defaults (after the expiration of applicable notice and/or cure periods) (including Landlord's attorneys' fees) together with interest thereon at 9% per annum from the date advanced until the date paid by Tenant, shall be repaid by Tenant to Landlord on demand.

(e) In the event Tenant commits a default, or suffers a default to exist, Tenant shall reimburse Landlord for Landlord's reasonable attorneys' fees incurred by Landlord in the enforcement of this Lease, within fifteen (15) days after written demand.

(f) Landlord shall use commercially reasonable efforts to mitigate its damages.

22. **RIGHT OF ASSIGNEE OF LANDLORD.** The right to enforce all of the provisions of this Lease may be exercised by any assignee of the Landlord's right, title and interest in this Lease in its, his,

her or their own name, and Tenant hereby expressly waives the requirements of any and all laws regulating the manner and/or form in which such assignments shall be executed and witnessed.

23. REMEDIES CUMULATIVE. All remedies given to Landlord herein and all rights and remedies given to Landlord by law and equity shall be cumulative and concurrent. No termination of this Lease, or taking or recovering of possession of the Premises, or entry of any judgment either for possession or for any money claimed to be due Landlord, shall deprive Landlord of any other action against Tenant for possession, or for any money due Landlord hereunder, or for damages hereunder. The exercise of or failure to exercise any remedy shall not bar or delay the exercise of any other remedy.

24. TENANT'S WAIVERS.

(a) If proceedings shall be commenced by Landlord to recover possession of the Premises, either at the end of the term hereof or by reason of an Event of Default or otherwise, Tenant expressly waives all rights to notice in excess of five days required by any Act of Assembly, including the Act of April 6, 1951, P.L. 69, Art. V, Sec. 501 and agrees that in either or any such case five (5) days' notice shall be sufficient. Without limitation of or by the foregoing, Tenant hereby waives any and all demands, notices of intention, and notice of action or proceedings which may be required by law to be given or taken prior to any entry or re-entry by summary proceedings, ejectment or otherwise, by Landlord, except as hereinbefore expressly provided with respect to five (5) days' notice.

(b) Any notice to quit required by law previous to proceedings to recover possession of the Premises or any notice of demand for rent on the day when such is due and the benefit of all laws granting stay of execution, appeal, inquisition and exemption are hereby waived by Tenant; provided, however, that nothing in this paragraph shall be construed as a waiver of any notice specifically mentioned or required by any other part of this Lease.

(c) In the event of a termination of this Lease prior to the date of expiration herein originally fixed, Tenant hereby waives all right to recover or regain possession of the Premises, to save forfeiture by payment of rent due or by other performance of the conditions, terms or provisions hereof, and, without limitation of or by the foregoing, Tenant waives all right to reinstate or redeem this Lease notwithstanding any provisions of any statute, law or decision now or hereafter in force or effect and Tenant waives all right to any second or further trial in summary proceedings, ejectment or in any other action provided by any statute or decision now or hereafter in force or effect.

25. ATTORNMENT. In the event of the sale or assignment of Landlord's interest in the Building or in the event of exercise of the power of sale under any mortgage made by Landlord covering the Building, Tenant shall attorn to the purchaser and recognize such purchaser as Landlord under this Lease.

26. SUBORDINATION. At the option of Landlord or Landlord's lender, or both of them, this Lease and the Tenant's interest hereunder shall be subject and subordinate at all times to any mortgage or mortgages, deed or deeds of trust, or such other security instrument or instruments, including all renewals,

extensions, consolidations, assignments and refinances of the same, as well as all advances made upon the security thereof, which now or hereafter become liens upon the Landlord's fee and/or leasehold interest in the Premises, and/or any and all of the buildings now or hereafter erected or to be erected and/or any and all of the Land, provided, however, that in such case, the holder of such other security, the trustee of such deed of trust or holder of such other security instrument shall agree that this Lease shall not be divested or in any way affected by foreclosure or other default proceedings under said mortgage, deed or trust, or other instrument or other obligations secured thereby, so long as no Event of Default occurs by Tenant under the terms of this Lease; and agrees that this Lease shall remain in full force and effect notwithstanding any such default proceedings.

27. EXECUTION OF DOCUMENTS. The above subordination shall be self-executing, but Tenant agrees within twenty (20) days after demand to execute such other reasonable document or documents as may be required by mortgagee, trustee under any deed of trust, or holder of a similar security interest, or any party to the types of documents enumerated herein for the purpose of subordinating this Lease in accordance with the forgoing. Additionally, Landlord agrees to execute a Landlord waiver, for furnishings and equipment only, in favor of any Lender of the Tenant or Owner of furnishings and equipment.

28. ESTOPPEL AGREEMENTS. Tenant shall execute an estoppel agreement in favor of any mortgagee or purchaser of Landlord's interest herein, within ten (10) business days after requested to do so by Landlord or any such mortgagee or purchaser. Such estoppel agreement shall be in the form reasonably requested by Landlord or such mortgagee or purchaser.

29. NOTICES. All notices required to be given by either party to the other shall be in writing. All such notices shall be deemed to have been given upon delivery in person, or two (2) business days after depositing in the United States mail, by certified mail, return receipt requested, postage prepaid, or by delivery by telefax, facsimile or telegraph, or by Federal Express or other nationally recognized overnight delivery service, addressed to Landlord at 825 Berkshire Boulevard, Suite 203, Wyomissing, Pennsylvania 19610 and addressed to Tenant at the Premises or to such other address which either party may hereafter designate in writing by notice given in a like manner.

30. BINDING EFFECT. All rights and liabilities herein given to, or imposed upon the respective parties hereto, shall extend to and bind the several and respective heirs, executors, administrators, successors and permitted assigns of said parties.

31. SURVIVAL OF VALID TERMS. If any provision of the Lease shall be invalid or unenforceable, the remainder of the provisions of this Lease shall not be affected thereby and each and every provision of this Lease shall be enforceable to the fullest extent permitted by law.

32. ENTIRE AGREEMENT. This Lease and any exhibit, rider or addendum that may be attached hereto set forth all the promises, agreements, conditions and understandings, between Landlord and

Tenant relative to the Premises, and there are no promises, agreements, conditions or understandings either oral or written between them other than are herein set forth. Except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and signed by them.

33. PROHIBITION AGAINST RECORDING. This Lease shall not be recorded and any attempted recording of this Lease shall constitute an Event of Default hereunder.

34. INTERPRETATION. As used in this Lease and when required by context, each number (singular or plural) shall include all numbers, and each gender shall include all genders. Time is and shall be of essence of each term and provision of this Lease. The term "person" as used herein means person, firm, association or corporation, as the case may be. If Tenant is more than one person, all agreements, conditions, obligations, covenants, warrants of attorney, waivers and releases made by Tenant shall be joint and several, and shall bind and affect all persons who are defined as "Tenant" herein.

35. LIABILITY OF LANDLORD. The term "Landlord" as used herein means the fee owner of the Premises from time to time. In the event of the voluntary or involuntary transfer of such ownership to a successor-in-interest of the Landlord, the Landlord shall be automatically discharged and relieved of and from all liability and obligations hereunder which shall thereafter accrue, and Tenant shall look solely to such successor-in-interest for the performance and obligations of the Landlord hereunder which shall thereafter accrue. The liability of Landlord and its successors-in-interest under or with respect to this Lease shall be strictly limited to and enforceable solely out of its or their interest in the Premises and shall not be enforceable out of any other assets.

36. CAPTIONS AND HEADINGS. The captions and headings of the paragraphs contained herein are for convenience of reference only and in no way defining, limit, describe, modify or amplify the interpretation, construction or meaning of any provisions of or the scope or intent of this Lease nor in any way affect this Lease. All Exhibits are an integral part of this Lease and are attached hereto.

37. QUIET ENJOYMENT. Upon Tenant's compliance with the provisions of this Lease, including the payment of all rent and additional rent hereunder, Tenant shall peaceably hold and enjoy the Premises during the term hereof without hinderance or interruption by Landlord or any person claiming under Landlord.

38. DISCLAIMER. The obligations under this Lease are the obligations of the Lessee personally and not that of any company with which Lessee may be affiliated. Lessor agrees that this Agreement is solely between itself and the Lessee personally and Lessor hereby waives any claims, rights of action, or liabilities whatsoever against any companies with which Lessee may be affiliated which may arise out of this Lease.

39. TERMINATION BY LANDLORD. Landlord shall have an option to terminate this Lease at any time upon exercise by Marathon Business

Systems of its option to expand into Premises. Landlord shall require Peter Carlino Company to vacate its offices in part or whole prior to exercising this option with Tenant.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound to the terms of this Lease, have caused this Lease to be executed the day and year first above written.

WYOMISSING PROFESSIONAL CENTER, III, LIMITED PARTNERSHIP, a Pennsylvania limited partnership, by its General Partner:

WYOMISSING PROFESSIONAL CENTER, III, INC.

By: _____ /s/ Stephen J. Najarian
Vice President

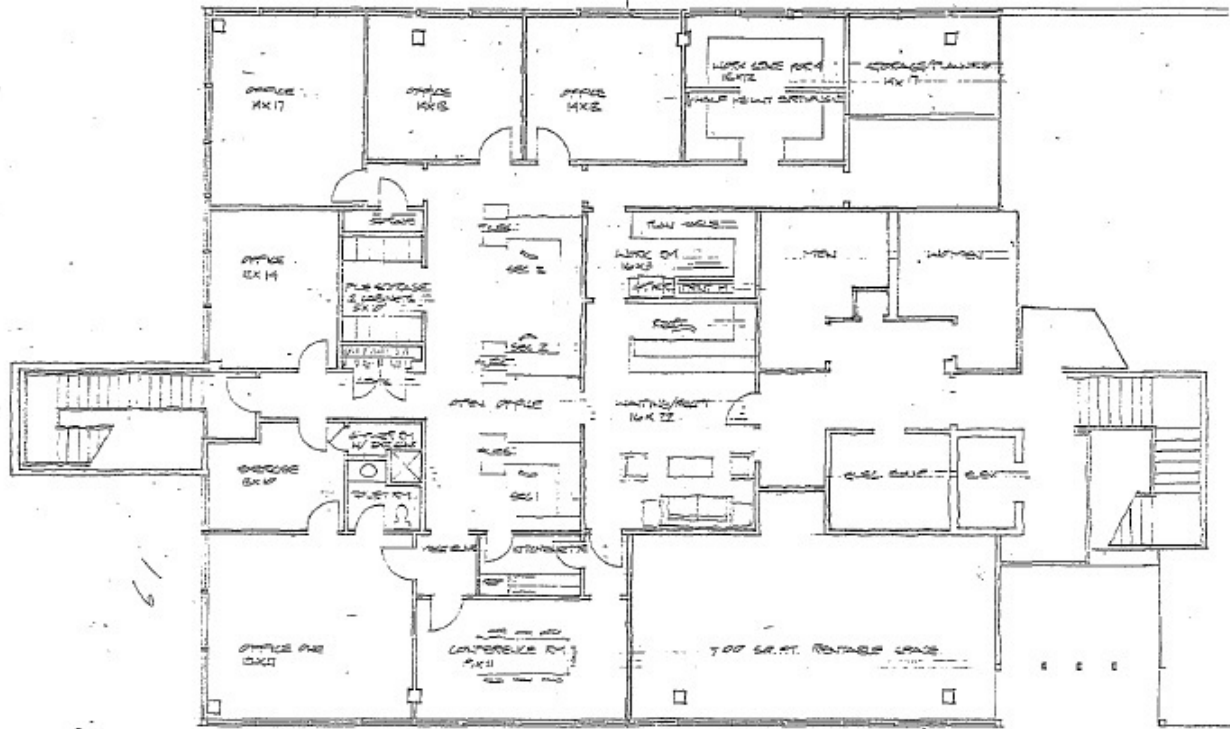
Attest: _____
(Asst.) Secretary
“Landlord”

PENN NATIONAL GAMING, INC.

By: _____ /s/ Robert S. Ippolito
(Vice) President

Attest: _____ Robert S. Ippolito
Secretary (or Asst. Secretary)
“Tenant”

Exhibit "A"



PROPOSED OFFICE LAYOUT FOR:



REVISION:
RECORD FLOOR PLAN
INTERMISSING PROFESSIONAL CENTER
SCALE: 1/8" = 1'-0"
M. MASALI/PRES. ARCHITECTS

EXHIBIT "B"

OPERATING EXPENSE BUDGET

| CATEGORY | P.S.F. |
|--------------------------------------|---------|
| Real estate taxes | \$ 1.30 |
| Janitorial | .75 |
| Insurance | .18 |
| Sewer & water | .09 |
| Trash removal | .10 |
| HVAC & building repair & maintenance | .08 |
| Management | .30 |
| Lawn & bed maintenance | .22 |
| Snow removal | .10 |
| Parking electric | .13 |
| TOTAL: | \$ 3.25 |

PETER CARLINO COMPANY & RELATED DEVELOPMENT COMPANIES

CASH SOURCES & USES

DATE: 04-Apr-95

I. OFFICE CAMPUSES/ COMMERCIAL

A. WYOMISSING PROF. CENTER

A3. WYO. PROF. CENTER III, LP
825 BERKSHIRE BLVD.

SOURCES:

| TENANTS | USABLE | RENTABLE | 1994 LEASE RATE | 1994 LEASE REVENUE | 1995 LEASE RATE | 1995 LEASE REVENUE |
|-------------------|--------|----------|--------------------|-----------------------|--------------------|-----------------------|
| SMITH BARNEY | 7,456 | 8,772 | \$ 18.50 | \$ 162,282 | \$ 18.50 | \$ 162,282 |
| FIRST VALLEY BANK | 1,400 | 1,610 | \$ 13.00 | \$ 20,930 | \$ 14.00 | \$ 22,540 |
| MARATHON BUSINES | 3,130 | 3,683 | \$ 12.75 | \$ 46,958 | \$ 14.15 | \$ 52,114 |
| ALLSTATE INS. | 600 | 700 | \$ 12.86 | \$ 9,002 | \$ 13.11 5/15 | \$ 9,111 |
| FOX THEATRES | 1,780 | 2,095 | \$ 17.57 | \$ 36,809 | \$ 17.57 | \$ 36,809 |
| OCCUPIED | 14,366 | 16,860 | 80% \$ 14.94AVG | \$ 275,981 | \$ 15.47AVG | \$ 282,857 |
| VACANCY ADJ. | 0 | 0 | | \$ (6,782) | | \$ 0 |
| TOTAL BLDG. | 17,970 | 21,100 | | \$ 269,199 | | \$ 282,857 |

PETER CARLINO COMPANY & RELATED DEVELOPMENT COMPANIES

CASH SOURCES & USES

DATE: 04-Apr-95

I. OFFICE CAMPUSES/ COMMERCIAL

A. WYOMISSING PROF. CENTER

A3. WYO. PROF. CENTER III, LP
825 BERKSHIRE BLVD.

SOURCES:

| TENANTS | USABLE | RENTABLE | 1994 LEASE RATE | 1994 LEASE REVENUE | 1995 LEASE RATE | 1995 LEASE REVENUE |
|---------------|--------|----------|--------------------|-----------------------|--------------------|-----------------------|
| SMITH BARNEY | 7,456 | 8,772 | \$ 18.50 | \$ 162,282 | \$ 18.50 | \$ 162,282 |
| FIRST VALLEY | | | | | | |
| BANK | 1,400 | 1,610 | \$ 13.00 | \$ 20,930 | \$ 14.00 | \$ 22,540 |
| MARATHON | | | | | | |
| BUSINES | 3,130 | 3,683 | \$ 12.75 | \$ 46,958 | \$ 14.15 | \$ 52,114 |
| ALLSTATE INS. | 600 | 700 | \$ 12.86 | \$ 9,002 | \$ 13.11 5/15 | \$ 9,111 |
| FOX THEATRES | 1,780 | 2,095 | \$ 17.57 | \$ 36,809 | \$ 17.57 | \$ 36,809 |
| OCCUPIED | 14,366 | 16,860 | 80% \$ 14.94AVG | \$ 275,981 | \$ 15.47AVG | \$ 282,857 |
| VACANCY ADJ. | 0 | 0 | | \$ (6,782) | | \$ 0 |
| TOTAL BLDG. | 17,970 | 21,100 | | \$ 269,199 | | \$ 282,857 |

FIRST AMENDMENT TO COMMERCIAL LEASE AGREEMENT

THIS FIRST AMENDMENT TO COMMERCIAL LEASE AGREEMENT (the "First Amendment"), made the 15th day of April, 1997, by and between WYOMISSING PROFESSIONAL CENTER III, LIMITED PARTNERSHIP, a Pennsylvania limited partnership (the "Landlord"), having an address at 825 Berkshire Boulevard, Suite 203, Wyomissing, PA 19610, and PENN NATIONAL GAMING, INC. (the "Tenant"), having an address at 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610.

BACKGROUND

On or about April 1, 1995, Tenant and Wyomissing Professional Center III, Limited Partnership ("Landlord") entered into a Lease Agreement (the "Lease") pertaining to 2,120 square feet of rentable area in the building constructed at 825 Berkshire Boulevard, Wyomissing, Pennsylvania. This Amendment will adjust area of the Premises.

NOW, THEREFORE, in consideration of the foregoing Background, and each party intending to be legally bound hereby, Landlord and Tenant covenant and agree as follows:

AGREEMENT

1. Paragraph 1 of the Lease is amended to read as follows:

1. **PREMISES.** Landlord hereby leases to Tenant and Tenant hereby leases from Landlord 2,644 square feet of rentable floor area (the "Premises") in the building identified as in Exhibit "A" of this First Amendment and made a part hereof. The Premises are on the second floor of a building having an address of 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610 (the "Building"), located on a parcel of land containing approximately 11 acres (the "Land"). In connection with its use of the Premises, Tenant shall have the right to use for its employees twelve undesignated and two designated parking spaces in the parking area adjacent to the Building and such other undesignated parking spaces as may be reasonably required for the conduct of its business.

All other references to the area of the Premises in the Lease are hereby amended to mean the square footage figures as stated hereinabove.

3. Effective October 1, 1996, Paragraph 3(a) of the Lease shall be amended to read as follows:

(b) During the remainder of the second year of the term of this Lease, Tenant shall pay Landlord annual minimum rent in the amount of Twenty Nine Thousand Nine Hundred Fifty Six Dollars and Fifty Two Cents (\$29,956.52), payable in twelve (12) equal monthly installments of Two Thousand Four Hundred Ninety Six Dollars and Thirty Seven Cents (\$2,496.37). Such annual minimum rent is calculated on the basis of \$11.33 per square foot of the rentable floor area of the Premises. Each lease year thereafter during the term of this Lease, the annual minimum rent shall be increased by three percent (3%) over the prior year's annual minimum rent

4. Effective October 1, 1996, Paragraph 4(c) of the Lease shall be amended to read as follows:

The portion of Expenses which are applicable to the Premises (the "Premises Expenses") shall be determined by multiplying the Expenses by a fraction, the numerator of which is the rentable floor area of the Premises (presently assumed to be 2,644 square feet), and the denominator of which is the aggregate number of rentable floor area in the Building (presently assumed to be 21,100 square feet), except that Tenant specific Expenses, including janitorial services, shall be allocated directly to each tenant in the building.

5. Effective October 1, 1996, Paragraph 4(d) of the Lease shall be amended to read as follows:

Tenant agrees to pay Landlord as additional rent hereunder all Premises Expenses incurred during the term of this Lease. Tenant shall pay \$3.25 per square foot of rentable floor area for Premises Expenses. This amount shall equal Eight Thousand Five Hundred Ninety Three Dollars (\$8,593.00) each year payable in twelve (12) equal monthly installments of Seven Hundred Sixteen Dollars and Eight Cents (\$716.08) each. After the first year of the term of this Lease Tenant shall pay actual Premises Expenses as defined above in 4(a), 4(b) and 4(c).

6. The Tenant shall pay to Landlord, as billed, an amount of Twenty Five Thousand Four Hundred Sixty Seven Dollars and Fifty One Cents (\$25,467.51) based on the attached costs for additional interior improvements.

7. Except as hereby amended, the Lease is hereby ratified and confirmed.

8. This First Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant, and their respective successors and assigns.

IN WITNESS WHEREOF, Landlord and Tenant have caused this First Amendment to be duly executed by their authorized officers the day and year first above written.

**WYOMISSING PROFESSIONAL CENTER III, LIMITED
PARTNERSHIP, a Pennsylvania limited partnership by its General
Partner:**

WYOMISSING PROFESSIONAL CENTER III, INC.

By: _____ **/s/ Stephen J. Najarian**
Vice President

Attest: _____ **Stephen J. Najarian**
Asst. Secretary
“Landlord”

PENN NATIONAL GAMING, INC.

By: _____ **/s/ William J. Bork**
President

Attest: _____ **/s/ Robert S. Ippolito**
Secretary
“Tenant”

PNG, INC
Expansion Costs

JOB NAME PENN NATIONAL FIT UP 14167

JOB DESCRIPTION FOX SPACE

DATE 2/12/97

JOB NUMBER 95 **SQ FT**

| <u>DESCRIPTION</u> | <u>CATEGORY</u> | <u>COMMENTS</u> | <u>SUBCONTRACTOR</u> | <u>TOTAL COST</u> |
|---------------------------|-----------------|--------------------------------------|----------------------|-------------------|
| TAKE OUT WALLS | 1140 | | | 850.00 |
| FINISH CLEANING | 1146 | | | 250.00 |
| INT PARTITIONS | | MOVE DOOR & PARTITIONS BACK AT LOBBY | | 825.00 |
| | 7010 | | | |
| WINDOWS & GLASS | 8010 | 2 - GLASS DOORS AT ENTRANCE | | 2,844.50 |
| DOORS | 8020 | | | 2,239.78 |
| DRYWALL | 9010 | | | 4,281.00 |
| PAINTING | 9020 | | | 3,140.00 |
| WALLPAPER | 9020A | | | 1,000.00 |
| SPEC - FIRE EXT | 10060 | | | 60.00 |
| CARPETING | 12012 | | | 1,450.00 |
| PLUMBING | 15025 | | | 977.00 |
| HVAC | 15050 | | | 2,450.00 |
| SPRINKLER | 15060 | | | 475.00 |
| ELECTRICAL | 16025 | | | 2,310.00 |
| CONST ADMINISTRATION | 17000 | | | 2,315.23 |
| TOTAL PROJECT COST | | | | 25,467.51 |

SECOND AMENDMENT TO COMMERCIAL LEASE AGREEMENT

THIS SECOND AMENDMENT TO COMMERCIAL LEASE AGREEMENT (the "SECOND AMENDMENT"), made the 30 day of October, 1997, by and between WYOMISSING PROFESSIONAL CENTER III, LIMITED PARTNERSHIP, a Pennsylvania limited partnership (the "Landlord"), having an address at 825 Berkshire Boulevard, Suite 203, Wyomissing, PA 19610, and PENN NATIONAL GAMING, INC. (the "Tenant"), having an address at 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610.

BACKGROUND

On or about April 1, 1995, Tenant and Wyomissing Professional Center III, Limited Partnership ("Landlord") entered into a Lease Agreement (the "Lease") pertaining to 2,120 square feet of rentable area in the building constructed at 825 Berkshire Boulevard, Wyomissing, Pennsylvania. On or about April 15, 1997 Tenant and Landlord entered into a First Amendment which increased the rentable square feet to 2,644. This Second Amendment shall increase the rentable and usable square footage.

NOW, THEREFORE, in consideration of the foregoing Background, and each party intending to be legally bound hereby, Landlord and Tenant covenant and agree as follows:

AGREEMENT

1. Paragraph 1 of the Lease is amended to read as follows:

1. **PREMISES.** Landlord hereby leases to Tenant and Tenant hereby leases from Landlord 6,183 square feet of rentable floor area (the "Premises") in the building identified as in Exhibit "A" of this Second Amendment and made a part hereof. The Premises are on the second floor of a building having an address of 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610 (the "Building"), located on a parcel of land containing approximately 11 acres (the "Land"). In connection with its use of the Premises, Tenant shall have the right to use for its employees twenty five (25) undesignated and two designated parking spaces in the parking area adjacent to the Building and such other undesignated parking spaces as may be reasonably required for the conduct of its business.

All other references to the area of the Premises in the Lease are hereby amended to mean the square footage figures as stated hereinabove.

2. Paragraph 2 of the Lease is amended to read as follows:

2. TERM. (a) The term of the Lease shall be ten (10) years, commencing on April 1, 1995.

All other references to the term of the Lease are hereby amended.

3. Effective October 1, 1997, Paragraph 3(a) of the Lease shall be amended to read as follows:

(b) During the remainder of the third year of the term of this Lease, Tenant shall pay Landlord equal monthly installments of Five Thousand Nine Hundred Twenty Five Dollars and Thirty Seven Cents (\$5,925.37). Such rent is calculated on the basis of \$11.50 per square foot of the rentable floor area of the Premises, which is calculated at 6,183 rentable square feet. Each lease year thereafter during the term of this Lease, the annual minimum rent shall be increased by three percent (3%) over the prior year's annual minimum rent.

4. Effective October 1, 1997, Paragraph 4(c) of the Lease shall be amended to read as follows:

The portion of Expenses which are applicable to the Premises (the "Premises Expenses") shall be determined by multiplying the Expenses by a fraction, the numerator of which is the rentable floor area of the Premises (presently assumed to be 6,183 rentable square feet), and the denominator of which is the aggregate number of rentable floor area in the Building (presently assumed to be 21,100 square feet), except that Tenant specific Expenses, including janitorial services, shall be allocated directly to each tenant in the building.

5. Effective October 1, 1997, Paragraph 4(d) of the Lease shall be amended to read as follows:

Tenant agrees to pay Landlord as additional rent hereunder all Premises Expenses incurred during the term of this Lease. Tenant shall pay \$4.00 per square foot of rentable floor area for Premises Expenses. This amount shall be paid in equal monthly installments of Two Thousand Sixty One Dollars (\$2,061) each. After the first year of the term of this Lease Tenant shall pay actual Premises Expenses as defined above in 4(a), 4(b) and 4(c).

6. The Tenant shall pay to Landlord, as billed, an amount of Ninety Thousand Fifty Two Dollars and Thirty Cents (\$90,052.30), based on the attached costs for additional interior improvements.

7. Except as hereby amended, the Lease is hereby ratified and confirmed.

8. This Second Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant, and their respective successors and assigns.

IN WITNESS WHEREOF, Landlord and Tenant have caused this Second Amendment to be duly executed by their authorized officers the day and year first above written.

**WYOMISSING PROFESSIONAL CENTER III, LIMITED
PARTNERSHIP, a Pennsylvania limited partnership by its General
Partner:**

WYOMISSING PROFESSIONAL CENTER III, INC.

By: _____ */s/ Stephen J. Najarian*
Vice President

Attest: _____ **Stephen J. Najarian**
Secretary
“Landlord”

PENN NATIONAL GAMING, INC.

By: _____ */s/ William J. Bork*
President

Attest: _____ **Robert S. Ippolito**
Secretary
“Tenant”

THIRD AMENDMENT TO COMMERCIAL LEASE AGREEMENT

THIS THIRD AMENDMENT TO COMMERCIAL LEASE AGREEMENT (the "THIRD AMENDMENT"), made the 23 day of April, 1998, by and between WYOMISSING PROFESSIONAL CENTER III, LIMITED PARTNERSHIP, a Pennsylvania limited partnership (the "Landlord"), having an address at 825 Berkshire Boulevard, Suite 203, Wyomissing, PA 19610, and PENN NATIONAL GAMING, INC. (the "Tenant"), having an address at 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610.

BACKGROUND

On or about April 1, 1995, Tenant and Wyomissing Professional Center III, Limited Partnership ("Landlord") entered into a Lease Agreement (the "Lease") pertaining to 2,120 square feet of rentable area in the building constructed at 825 Berkshire Boulevard, Wyomissing, Pennsylvania. On or about April 15, 1997 Tenant and Landlord entered into a First Amendment which increased the rentable square feet to 2,644. On or about October 30, 1997 Tenant and Landlord entered into a Second Amendment which increased the rentable square feet to 6,183. This THIRD Amendment shall decrease the rentable square footage.

NOW, THEREFORE, in consideration of the foregoing Background, and each party intending to be legally bound hereby, Landlord and Tenant covenant and agree as follows:

AGREEMENT

1. Paragraph 1 of the Lease is amended to read as follows:

1. **PREMISES.** Landlord hereby leases to Tenant and Tenant hereby leases from Landlord 5,974 square feet of rentable floor area (the "Premises") in the building identified as in Exhibit "A" of this THIRD Amendment and made a part hereof. The Premises are on the second floor of a building having an address of 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610 (the "Building"), located on a parcel of land containing approximately 11 acres (the "Land"). In connection with its use of the Premises, Tenant shall have the right to use for its employees twenty five (25) undesignated and two designated parking spaces in the parking area adjacent to the Building and such other undesignated parking spaces as may be reasonably required for the conduct of its business.

All other references to the area of the Premises in the Lease are hereby amended to mean the square footage figures as stated hereinabove.

2. Effective February 1, 1998, Paragraph 3(a) of the Lease shall be amended to read as follows:

(b) During the remainder of the third year of the term of this Lease, Tenant shall pay Landlord equal monthly installments of Five Thousand Seven Hundred Twenty Five Dollars and Eight Cents (\$5,725.08). Such rent is calculated on the basis of \$11.50 per square foot of the rentable floor area of the Premises, which is calculated at 5,974 rentable square feet. Each lease year thereafter during the term of this Lease, the annual minimum rent shall be increased by three percent (3%) over the prior year's annual minimum rent.

3. Effective February 1, 1998, Paragraph 4(c) of the Lease shall be amended to read as follows:

The portion of Expenses which are applicable to the Premises (the "Premises Expenses") shall be determined by multiplying the Expenses by a fraction, the numerator of which is the rentable floor area of the Premises (presently assumed to be 5,974 rentable square feet), and the denominator of which is the aggregate number of rentable floor area in the Building (presently assumed to be 21,100 square feet), except that Tenant specific Expenses, including janitorial services, shall be allocated directly to each tenant in the building.

4. Effective February 1, 1998, Paragraph 4(d) of the Lease shall be amended to read as follows:

Tenant agrees to pay Landlord as additional rent hereunder all Premises Expenses incurred during the term of this Lease. Tenant shall pay \$4.00 per square foot of rentable floor area for Premises Expenses. This amount shall be paid in equal monthly installments of One Thousand Nine Hundred Ninety One Dollars and Thirty Three Cents (\$1,991.33) each. After the first year of the term of this Lease Tenant shall pay actual Premises Expenses as defined above in 4(a), 4(b) and 4(c).

5. Except as hereby amended, the Lease is hereby ratified and confirmed.

6. This THIRD Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant, and their respective successors and assigns.

IN WITNESS WHEREOF, Landlord and Tenant have caused this THIRD Amendment to be duly executed by their authorized officers the day and year first above written.

**WYOMISSING PROFESSIONAL CENTER III, LIMITED
PARTNERSHIP, a Pennsylvania limited partnership by its General
Partner:**

WYOMISSING PROFESSIONAL CENTER III, INC.

By: _____ /s/ Stephen J. Najarian
Vice President

Attest: _____
Secretary
“Landlord”

PENN NATIONAL GAMING, INC.

By: _____ /s/ William J. Bork
President

Attest: _____ /s/ Robert S. Ippolito
Secretary
“Tenant”

LEASE AMENDMENT

THIS LEASE AMENDMENT (the "Amendment") made this 16th day of November, 1999, between **Penn National Gaming**, hereinafter, called "Tenant", having its principal place of business at 825 Berkshire Blvd., Suite 200 and **Wyomissing Professional Center III, LIMITED PARTNERSHIP** hereinafter called "Landlord", having its principal place of business at 825 Berkshire Blvd. Suite 203 Wyomissing, Pennsylvania 19610.

WITNESETH:

The Tenant and the Landlord have executed a Lease Agreement which includes Exhibits "A", "B", and "C", relating to the Leased Premises located at 825 Berkshire Blvd., Suite 200, Wyomissing, Pennsylvania 19610.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
 2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease except to the extent to which the provisions of this Amendment modify the provisions of the Lease. The provisions of the Lease shall remain in full force and effect.
 3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
 4. **Leased Premises.** Leased premises is changed from 5,974 square feet rentable and 5,334 square feet of usable floor area to 6,674 square feet of rentable and 5,959 square feet of usable floor area.
 5. **Fixed Annual Minimum Rent:** As per attached Exhibit A.
 6. **Effective Date.** The effective date for Tenant's increased space and rental payments shall be September 16, 1999.
 7. **Term of Lease.** Term of Lease is unchanged; ten (10) years starting April 1, 1995 and ending March 31, 2005.
 8. **Binding effect.** This Amendment shall be binding upon, and shall inure to the benefit of, Landlord and Tenant, and their respective successors and assigns.
-

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed this 16th day of November, 1999.

THIS LEASE MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

WYOMISSING PROFESSIONAL CENTER III, LIMITED PARTNERSHIP, by its General Partner, Wyomissing Professional Center III, Inc.

By: /s/ Stephen J. Najarian
Name: Stephen J. Najarian
Title: President

Date: _____

TENANT:

By: _____
Name: _____
Title: _____
Date: _____

ATTEST:

By: _____
Name: _____
Title: _____
Date: _____

FIFTH LEASE AMENDMENT

THIS LEASE AMENDMENT (the "Amendment") made this 21 day of August, 2000, between **Penn National Gaming**, hereinafter, called "Tenant", having its principal place of business at 825 Berkshire Blvd., Suite 200 and **Wyomissing Professional Center III LIMITED PARTNERSHIP** hereinafter called "Landlord", having its principal place of business at 825 Berkshire Blvd. Suite 203 Wyomissing, Pennsylvania 19610.

WITNESETH:

The Tenant and the Landlord have executed a Lease Agreement which includes Exhibits "A", "B", and "C", relating to the Leased Premises located at 825 Berkshire Blvd., Suite 200, Wyomissing, Pennsylvania 19610.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
 2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease except to the extent to which the provisions of this Amendment modify the provisions of the Lease. The provisions of the Lease shall remain in full force and effect.
 3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
 4. **Leased Premises.** Leased premises is changed from 6,674 square feet rentable and 5,959 square feet of usable floor area to 8,245 square feet of rentable and 7,362 square feet of usable floor area.
 5. **Fixed Annual Minimum Rent:** As per attached Exhibit A.
 6. **Effective Date.** The effective date for Tenant's increased space and rental payments shall be June 15, 2000.
 7. **Term of Lease.** Term of Lease is unchanged; ten (10) years starting April 1, 1995 and ending March 31, 2005.
 8. **Binding effect.** This Amendment shall be binding upon, and shall inure to the benefit of, Landlord and Tenant, and their respective successors and assigns.
-

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed this 21 day of August, 2000.

THIS LEASE MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE, BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

WYOMISSING PROFESSIONAL CENTER III LIMITED PARTNERSHIP, by its General Partner, Wyomissing Professional Center III Inc.

By: /s/ Stephen J. Najarian
Name: Stephen J. Najarian
Title: President

Date: 8/21/00

TENANT:

By: /s/ Robert S. Ippolito
Name: Robert S. Ippolito
Title: Sec/Treas
Date: 8/21/00

ATTEST:

By: /s/ Susan M. Montgomery
Name: Susan M. Montgomery
Title: Office Manager
Date: 8-21-00

PENN NATIONAL GAMING
Exhibit A, Rent analysis

| Period Effective Date | SF | Rate/SF | Mo. Rent | Annual Rent | Amt. Owed during period |
|-----------------------|-------|----------|-------------|---------------|-------------------------|
| April 1, 1995 | 2,120 | \$ 11.00 | \$ 1,943.33 | \$ 23,320.00 | \$ 23,320.00 |
| April 1, 1996 | 2,120 | \$ 11.33 | \$ 2,001.63 | \$ 24,019.60 | \$ 12,042.70 |
| October 1, 1996 | 2,644 | \$ 11.33 | \$ 2,496.38 | \$ 29,956.52 | \$ 14,937.22 |
| April 1, 1997 | 2,644 | \$ 11.67 | \$ 2,571.27 | \$ 30,855.22 | \$ 15,469.88 |
| October 1, 1997 | 6,183 | \$ 11.50 | \$ 5,925.38 | \$ 71,104.50 | \$ 23,961.24 |
| February 1, 1998 | 5,974 | \$ 11.50 | \$ 5,725.08 | \$ 68,701.00 | \$ 11,105.09 |
| April 1, 1998 | 5,974 | \$ 11.85 | \$ 5,896.84 | \$ 70,762.03 | \$ 70,762.03 |
| April 1, 1999 | 5,974 | \$ 12.20 | \$ 6,073.74 | \$ 72,884.89 | \$ 33,547.02 |
| September 16, 1999 | 6,674 | \$ 12.20 | \$ 6,785.43 | \$ 81,425.14 | \$ 44,170.35 |
| April 1, 2000 | 6,674 | \$ 12.57 | \$ 6,988.99 | \$ 83,867.89 | \$ 17,233.13 |
| June 15, 2000 | 8,245 | \$ 12.57 | \$ 8,634.14 | \$ 103,609.64 | \$ 82,319.99 |
| April 1, 2001 | 8,245 | \$ 12.94 | \$ 8,893.16 | \$ 106,717.93 | \$ 106,717.93 |
| April 1, 2002 | 8,245 | \$ 13.33 | \$ 9,159.96 | \$ 109,919.47 | \$ 109,919.47 |
| April 1, 2003 | 8,245 | \$ 13.73 | \$ 9,434.75 | \$ 113,217.05 | \$ 113,217.05 |
| April 1, 2004 | 8,245 | \$ 14.14 | \$ 9,717.80 | \$ 116,613.57 | \$ 116,613.57 |

ANNUAL AMOUNTS

| | | | |
|--------------------------|---------------|------------------|---------------|
| Lease year 1, 4/95-3/96 | \$ 23,320.00 | Calendar Yr 1995 | \$ 17,490.00 |
| Lease year 2, 4/96-3/97 | \$ 26,979.93 | Calendar Yr 1996 | \$ 25,328.93 |
| Lease year 3, 4/97-3/98 | \$ 50,536.21 | Calendar Yr 1997 | \$ 40,692.86 |
| Lease year 4, 4/98-3/99 | \$ 70,762.03 | Calendar Yr 1998 | \$ 70,447.06 |
| Lease year 5, 4/99-3/00 | \$ 77,717.37 | Calendar Yr 1999 | \$ 74,845.08 |
| Lease year 6, 4/00-3/01 | \$ 99,553.12 | Calendar Yr 2000 | \$ 93,950.65 |
| Lease Year 7, 4/01-3/02 | \$ 106,717.93 | Calendar Yr 2001 | \$ 105,940.86 |
| Lease Year 8, 4/02-3/03 | \$ 109,919.47 | Calendar Yr 2002 | \$ 109,119.09 |
| Lease Year 9, 4/03-3/04 | \$ 113,217.05 | Calendar Yr 2003 | \$ 112,392.66 |
| Lease Year 10, 4/04-3/05 | \$ 116,613.57 | Calendar Yr 2004 | \$ 115,764.44 |
| | | Calendar Yr 2005 | \$ 29,153.39 |

AMENDMENT AND RESTATED LEASE AGREEMENT

THIS LEASE AMENDMENT (the "Amendment") made this 5th day of April, 2005, between **Penn National Gaming, Inc.**, a Pennsylvania corporation, hereinafter called "Tenant", having its principal place of business at 825 Berkshire Blvd., Suite 200 and **Wyomissing Professional Center III, Limited Partnership**, a Pennsylvania limited partnership, hereinafter called "Landlord", having its principal place of business at 825 Berkshire Blvd. Suite 203 Wyomissing, Pennsylvania 19610.

WITNESSETH:

The Tenant and the Landlord have executed a Lease Agreement which includes Exhibits "A" and "B", and Lease Amendments, relating to Leased Premises located at 825 Berkshire Blvd., Suite 200, Wyomissing, Pennsylvania 19610.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
 2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease except to the extent to which the provisions of this Amendment modify the provisions of the Lease. The provisions of the Lease shall remain in full force and effect.
 3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
 4. **Leased Premises.** The amended Leased Premises shall be restated to be 10,145 square feet of rentable and 9,058 square feet of usable floor area.
 5. **Fixed Annual Minimum Rent:** The Annual Minimum Rent for the Extension Period, as defined in Section 7 below, shall be as shown on attached Schedule "A6-1".
 6. **Effective Date.** The effective date for Tenant's increased space and rental payments shall be April 1, 2005.
 7. **Term of Lease.** The Lease shall be extended for an additional period of seven (7) years beginning on April 1, 2005 and ending on March 31, 2012 (the "Extension Period").
 8. **Construction of Improvements and Reimbursement of Costs Incurred.** Tenant shall contract with Landlord's contractor for the construction of improvements to the Leased Premises. All such work shall be bid and performed by Landlord's contractor on an open book basis and billed at the rate of the subcontractor's or supplier's cost plus a total of 15% for construction management fee, overhead, and builder's profit
-

and be subject to the approval of a budget prior to the commencement of any work. In the first draw request submitted for the improvements, Tenant shall reimburse Landlord the amount of \$123,563.69 for third-party architectural, engineering and related costs previously incurred in designing alternate space in a to-be-built adjacent attached building previously considered by Tenant.

- 9. **Binding effect.** This Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant and their respective successors and assigns.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed this 5th day of April, 2005.

THIS LEASE MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

Wyomissing Professional Center III, Limited Partnership, a
Pennsylvania limited partnership, by its General Partner, Wyomissing
Professional Center II, Inc.

By: /s/ Stephen J. Najarian
Stephen J. Najarian, President

TENANT:

Penn National Gaming, Inc., a Pennsylvania corporation

WITNESS:

By: /s/ Susan M. Montgomery
Name: Susan M. Montgomery

By: /s/ Robert S. Ippolito
Name: Robert S. Ippolito
Title: VP/Sec/Treas



SCHEDULE "A6-1"

ANNUAL MINIMUM RENT — EXTENSION PERIOD

| | |
|---------------------------|----------|
| Square Feet (SF): | 10,145 |
| Minimum Rent per SF Yr 1: | \$ 13.50 |
| Annual Escalation: | 3.0% |

| Period | Lease Year | Rentable SF | Minimum Rent per SF | Monthly Min Rent | Annual Rent (the "Annual Minimum Rent") |
|----------------|-------------------|--------------------|----------------------------|-------------------------|--|
| 4/1/05-3/31/06 | 11 | 10,145 | \$ 13.50 | \$ 11,413.13 | \$ 136,957.50 |
| 4/1/06-3/31/07 | 12 | 10,145 | \$ 13.91 | \$ 11,755.52 | \$ 141,066.23 |
| 4/1/07-3/31/08 | 13 | 10,145 | \$ 14.32 | \$ 12,108.18 | \$ 145,298.21 |
| 4/1/08-3/31/09 | 14 | 10,145 | \$ 14.75 | \$ 12,471.43 | \$ 149,657.16 |
| 4/1/09-3/31/10 | 15 | 10,145 | \$ 15.19 | \$ 12,845.57 | \$ 154,146.87 |
| 4/1/10-3/31/11 | 16 | 10,145 | \$ 15.65 | \$ 13,230.94 | \$ 158,771.28 |
| 4/1/11-3/31/12 | 17 | 10,145 | \$ 16.12 | \$ 13,627.87 | \$ 163,534.42 |

PRIOR INCURRED COSTS
825/835 DESIGN OF ADJACENT/ATTACHED BUILDING

| Date | Vendor | Inv No. | Amount |
|------------|-------------------------|-----------------|---------------|
| 06/13/2003 | Schlouch | 22361 | 2,073.74 |
| 06/06/2003 | Architectual Concepts | 3051 | 1,903.00 |
| 07/03/2003 | Architectual Concepts | 3190 | 1,140.00 |
| 07/08/2003 | Architectual Concepts | 3235 | 1,330.00 |
| 08/12/2003 | Berks Cty. Clean Water | 081203 | 250.00 |
| 08/12/2003 | Berks Cty. Conservation | 081203 | 450.00 |
| 08/12/2003 | Architectual Concepts | 3297 | 19,156.00 |
| 08/18/2003 | Architectual Concepts | 3353 | 450.00 |
| 09/04/2003 | Schlouch | 22471 | 3,390.55 |
| 09/09/2003 | Architectual Concepts | 3416 | 6,324.40 |
| 09/09/2003 | Architectual Concepts | 3420 | 495.00 |
| 10/15/2003 | Berks Cty. Conservancy | 3920-101403 | 135.00 |
| 10/20/2003 | Architectual Concepts | 3521 | 2,955.00 |
| 10/20/2003 | Architectual Concepts | 3520 | 31.00 |
| 10/23/2003 | Stevens & Lee | 02097-00123-001 | 186.00 |
| 10/23/2003 | Stevens & Lee | 02097-00093-007 | 108.00 |
| 11/24/2003 | Stevens & Lee | 02097-00123-002 | 604.36 |
| 11/10/2003 | Architectual Concepts | 3584 | 2,400.00 |
| 11/10/2003 | Architectual Concepts | 3581 | 1,125.00 |
| 11/10/2003 | Architectual Concepts | 3581-1 | 2,823.51 |
| 12/22/2003 | Schlouch | 31626290001 | 624.00 |
| 12/16/2003 | Stevens & Lee | 02097-00123-003 | 890.00 |
| 11/24/2003 | Schlouch | 22626 | 3,879.31 |
| 01/19/2004 | Architectual Concepts | 3736 | 900.00 |
| 12/24/2003 | Architectual Concepts | 3681 | 1,440.00 |
| 12/31/2003 | Stevens & Lee | 02097-00123-004 | 95.50 |
| 01/20/2004 | Schlouch | 22747 | 3,182.78 |
| 02/04/2004 | Architectual Concepts | 3810 | 810.00 |
| 02/04/2004 | Architectual Concepts | 3806 | 1,206.10 |
| 03/09/2004 | Architectual Concepts | 3912 | 733.01 |
| 03/09/2004 | Architectual Concepts | 3913 | 2,295.00 |
| 03/09/2004 | Architectual Concepts | 3917 | 735.00 |
| 04/06/2004 | Architectual Concepts | 3996 | 810.00 |
| 03/31/2004 | Schlouch | 22874 | 1,772.91 |
| 06/11/2004 | Architectual Concepts | 4188 | 22,425.00 |
| 06/03/2004 | Schlouch | 22959 | 1,045.00 |
| 07/20/2004 | Architectual Concepts | 4222 | 5,980.00 |
| 07/20/2004 | Architectual Concepts | 4236 | 2,330.00 |
| 07/22/2004 | Architectual Concepts | 4226 | 895.00 |
| 08/18/2004 | Architectual Concepts | 4313 | 3,510.84 |
| 08/18/2004 | Architectual Concepts | 4314 | 2,080.00 |
| 08/25/2004 | Ira G Steffy | 33841 | 5,850.00 |
| 08/31/2004 | Jaime Rahn | 80604 | 70.13 |
| 09/01/2004 | Schlouch | 23100 | 6,878.55 |
| 10/08/2004 | Dennis Scouler & Assoc. | 100804 | 190.00 |
| 09/30/2004 | Architectual Concepts | 4358 | 4,110.00 |
| 09/30/2004 | Architectual Concepts | 4372 | 1,495.00 |
| | | | \$ 123,563.69 |

**825 Berkshire Blvd.
Penn National Gaming
2005 CAM Monthly**

| | |
|--|--------|
| Unit 200 | |
| Effective Rentable Square Footage | 10,145 |
| Building Square Footage | 20,527 |
| Percentage of Building Square Footage | 49.42% |
| Effective In - Suite Janitorial Square Footage | 9,058 |

| Expense | Total Building Expenses | Costs per SF | Tenant Share Of Expenses | Tenant Expenses Monthly |
|---|-------------------------|----------------|--------------------------|-------------------------|
| Fixed Expenses | | | | |
| Insurance | \$ 4,798.00 | \$ 0.23 | \$ 2,371.30 | 197.61 |
| Property Tax | 41,396.00 | 2.02 | 20,459.03 | 1,704.92 |
| Mercantile Tax | 550.00 | 0.03 | 271.82 | 22.65 |
| Subtotal - Fixed Expenses | \$ 46,744.00 | \$ 2.28 | \$ 23,102.15 | \$ 1,925.18 |
| Variable Expenses | | | | |
| Reimbursable Property Mgmt Fees | \$ 5,132.00 | \$ 0.25 | \$ 2,536.37 | 211.36 |
| Electric & Gas | 17,070.00 | 0.83 | 8,436.46 | 703.04 |
| Service Contract - HVAC | 3,900.00 | 0.19 | 1,927.49 | 160.62 |
| Additional Service - HVAC | 2,000.00 | 0.10 | 988.45 | 82.37 |
| Service Contract - Elevator | 3,216.00 | 0.16 | 1,589.43 | 132.45 |
| Service Contract - Sprinklers | 500.00 | 0.02 | 247.11 | 20.59 |
| Common Area - Janitorial Service | 2,376.00 | 0.12 | 1,174.28 | 97.86 |
| Common Area - Janitorial Supplies | 1,200.00 | 0.06 | 593.07 | 49.42 |
| Service Contract - Lawn care & Landscaping | 8,910.00 | 0.43 | 4,403.56 | 366.96 |
| Service Contract - Interior Plant Maintenance | 1,140.00 | 0.06 | 563.42 | 46.95 |
| Snow Removal | 4,394.00 | 0.21 | 2,171.63 | 180.97 |
| Operating Repairs & Maintenance | 10,934.00 | 0.53 | 5,403.88 | 450.32 |
| Service Contract - Pest Control | 520.00 | 0.03 | 257.00 | 21.42 |
| Window Cleaning | 1,920.00 | 0.09 | 948.92 | 79.08 |
| Association Assessments | — | — | — | — |
| Trash Removal | 2,580.00 | 0.13 | 1,275.11 | 106.26 |
| Security Expense | 1,075.00 | 0.05 | 531.29 | 44.27 |
| Service Contract - Alarm | 600.00 | 0.03 | 296.54 | 24.71 |
| Reimbursable Signage | 200.00 | 0.01 | 98.85 | 8.24 |
| Water & Sewer | 1,500.00 | 0.07 | 741.34 | 61.78 |
| Subtotal - Variable Expenses | \$ 69,167.00 | \$ 3.37 | \$ 34,184.21 | \$ 2,848.68 |
| Total Reimbursable Operating Expenses | \$ 115,911.00 | \$ 5.65 | \$ 57,286.36 | \$ 4,773.86 |
| In Suite Janitorial Service and Supplies | | 1.35 | 12,228.30 | 1,019.03 |

AMENDMENT AND RESTATED LEASE AGREEMENT

THIS LEASE AMENDMENT (the "Amendment") made this 20 day of November, 2007, between **Penn National Gaming, Inc.**, a Pennsylvania corporation, hereinafter called "Tenant", having its principal place of business at 825 Berkshire Boulevard, Suite 200, Wyomissing, PA 19610 and **Wyomissing Professional Center III, Limited Partnership**, a Pennsylvania limited partnership, hereinafter called "Landlord", having its principal place of business at 875 Berkshire Boulevard, Suite 102, Wyomissing, Pennsylvania 19610.

WITNESSETH:

The Tenant and the Landlord have executed a Lease Agreement dated March 31, 1995, which includes Exhibits "A" and "B", and an Amendment and Restated Lease Agreement dated April 5, 2005 (collectively, the "Lease"), relating to Leased Premises located at 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease. Except to the extent to which the provisions of this Amendment modify the provisions of the Lease, the provisions of the Lease shall remain in full force and effect.
3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
4. **Leased Premises.** Beginning on the Effective Date as defined in Section 6. below, the Leased Premises shall be increased from 10,145 square feet of rentable and 9,058 square feet of usable floor area to 20,527 square feet of rentable and 18,328 square feet of usable floor area by the addition of 10,382 square feet of rentable and 9,270 square feet of usable floor area located on the first floor of the Building (the "First Floor Area") as described on Exhibit "A1" attached hereto.
5. **Fixed Annual Minimum Rent:** Beginning on the Effective Date as defined in Section 6. below, the Annual Minimum Rent for the Leased Premises, as defined in Section 4 above, shall be as shown on attached Schedule "A5-1".
6. **Effective Date.** The effective date for Tenant's increased space and rental payments shall be May 1, 2007 (the "Effective Date").
7. **Term of Lease.** The Term of the Lease shall include the increased Leased Premises under the terms of the Amended and Restated Lease Agreement dated April 5, 2005 that provide for a lease term ended March 31, 2012.

8. **Construction of Improvements.** Tenant shall contract with Landlord's contractor for the demolition of existing improvements and construction of improvements to the First Floor Area per Tenant's approved plans and specifications. All such work shall be bid and performed by Landlord's contractor on an open book basis and billed at the rate of the subcontractor's or supplier's cost plus a total of 15% for construction management fee, overhead, and builder's profit and be subject to the approval of a budget prior to the commencement of any work. The terms shall be included in an AIA101 construction agreement between the parties.
9. **Binding Effect.** This Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant and their respective successors and assigns.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed this 20th day of November 2007.

THIS LEASE MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

Wyomissing Professional Center III, Limited Partnership, a Pennsylvania limited partnership, by its General Partner, Wyomissing Professional Center III, Inc.

By: /s/ Peter W. Carlino
Peter W. Carlino, Vice President

TENANT:

Penn National Gaming, Inc., a Pennsylvania corporation

WITNESS:

By: /s/ Susan M. Montgomery
Name: Susan M. Montgomery

By: /s/ Robert S. Ippolito
Name: Robert S. Ippolito
Title: VP/Sec/Treas

SCHEDULE "A5-1"

ANNUAL MINIMUM RENT

| | |
|---------------------------------------|----------|
| Rentable Square Feet (RSF), 1st Floor | 10,145 |
| Rentable Square Feet (RSF), 2nd Floor | 10,382 |
| Total Rentable Square Feet (RSF) | 20,527 |
| Minimum Rent per RSF (at 5/01/07) | \$ 14.32 |
| Annual Escalation | 3.0% |

| <u>Period</u> | <u>Lease Year</u> | <u>RSF</u> | <u>Minimum Rent per RSF (b)</u> | <u>Monthly Min. Rent (a)</u> | <u>"Annual Minimum Rent"</u> |
|-------------------|-------------------|------------|---------------------------------|------------------------------|------------------------------|
| 5/1/07 to 3/31/08 | 13 (a) | 20,527 | \$ 14.32 | \$ 24,495.55 | \$ 245,238.33 |
| 4/1/08 to 3/31/09 | 14 | 20,527 | \$ 14.75 | \$ 25,230.42 | \$ 302,765.04 |
| 4/1/09 to 3/31/10 | 15 | 20,527 | \$ 15.19 | \$ 25,987.33 | \$ 311,847.99 |
| 4/1/10 to 3/31/11 | 16 | 20,527 | \$ 15.65 | \$ 26,766.95 | \$ 321,203.43 |
| 4/1/11 to 3/31/12 | 17 | 20,527 | \$ 16.12 | \$ 27,569.96 | \$ 330,839.53 |

(a) The Lease provides that no rent or operating expense reimbursement is due on the increased space of 10,382 square feet for the months of May and June 2007. The monthly minimum rent for May and June 2007, respectively, is \$12,389.19.

(b) Shown at two decimal places. Actual rent calculated at extended decimal places

THIRD AMENDMENT AND RESTATED LEASE AGREEMENT

THIS LEASE AMENDMENT (the “Amendment”) made this 25th day of May, 2012, between **Penn National Gaming, Inc.**, a Pennsylvania corporation, hereinafter called “Tenant”, having its principal place of business at 825 Berkshire Boulevard, Wyomissing, PA 19610 and **Wyomissing Professional Center III, Limited Partnership** (825), a Pennsylvania limited partnership, hereinafter called “Landlord”, having its principal place of business at 875 Berkshire Boulevard, Suite 102, Wyomissing, Pennsylvania 19610.

WITNESSETH:

The Tenant and the Landlord have executed a Lease Agreement (the original Lease) dated March 31, 1995, which includes Exhibits “A” and “B”, an Amendment and Restated Lease Agreement (the First Amendment) dated April 5, 2005, and an Amendment and Restated Lease Agreement (the Second Amendment) dated November 20, 2007 (collectively, the “Lease”), relating to Leased Premises located at 825 Berkshire Boulevard, Wyomissing, Pennsylvania 19610.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease. Except to the extent to which the provisions of this Amendment modify the provisions of the Lease, the provisions of the Lease shall remain in full force and effect.
3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
4. **Fixed Annual Minimum Rent.** The Annual Minimum Rent for the Second Extension Period, as defined in Section 5. below, shall be as shown on the table below.

| | | |
|--------------------|----|--------|
| Space (RSF): | | 20,527 |
| Minimum Rent/RSF: | \$ | 16.00 |
| Annual Escalation: | | 2.5% |

| Second Extension | ANNUAL MINIMUM RENT | | | | |
|---------------------|---------------------------|--------|------------|---------------|--------------|
| | Period | RSF | per RSF | Annual | Monthly |
| | 6/1/12 - 5/31/13 | 20,527 | \$ 16.00 | \$ 328,432.00 | \$ 27,369.33 |
| | 6/1/13 - 5/31/14 | 20,527 | \$ 16.40 | \$ 336,642.80 | \$ 28,053.57 |
| | 6/1/14 - 5/31/15 | 20,527 | \$ 16.81 | \$ 345,058.87 | \$ 28,754.91 |
| | 6/1/15 - 5/31/16 | 20,527 | \$ 17.23 | \$ 353,680.21 | \$ 29,473.35 |
| | 6/1/16 - 5/31/17 | 20,527 | \$ 17.66 | \$ 362,506.82 | \$ 30,208.90 |
| | 6/1/17 - 5/31/18 | 20,527 | \$ 18.10 | \$ 371,538.70 | \$ 30,961.56 |
| | 6/1/18 - 5/31/19 | 20,527 | \$ 18.55 | \$ 380,775.85 | \$ 31,731.32 |

5. **Term of Lease.** The Term of the Lease shall be extended for an additional period of seven (7) years beginning on June 1, 2012 and ending on May 31, 2019 (the "Second Extension Period").
6. **Binding Effect.** This Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant and their respective successors and assigns.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed this 25th day of May, 2012.

THIS LEASE MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

Wyomissing Professional Center III, Limited Partnership, a Pennsylvania limited partnership, by its General Partner, Wyomissing Professional Center III, Inc.

By: /s/ Peter W. Carlino
Peter W. Carlino, President

TENANT:

Penn National Gaming, Inc., a Pennsylvania corporation

WITNESS:

By: /s/ Susan M. Montgomery
Name: Susan M. Montgomery

By: /s/ Robert S. Ippolito
Name: Robert S. Ippolito
Title: VP/Sec/Treas

THE CORPORATE CAMPUS AT SPRING RIDGE

SUMMARY OF LEASE TERMS

The terms of this Lease (the "Lease") set forth on these summary pages (the "Summary") are for convenience and are subject to further explanation in the Lease. All terms defined on these summary pages are incorporated by reference into the Lease as if set forth in their entirety therein.

| | <u>Reference</u> |
|--|------------------|
| 1. Landlord's Name and Address: | ¶38 |
| <p>Wyomissing Professional Center II, Limited Partnership (the "Landlord") 825 Berkshire Boulevard Suite 203 Wyomissing, Pennsylvania 19610 Attention: Mr. Stephen J. Najarian</p> | |
| 2. Tenant's Name and Address: | ¶38 |
| <p>Penn National Gaming, Inc. (the "Tenant") 825 Berkshire Boulevard, Suite 200 Wyomissing, Pennsylvania 19610</p> | |
| 3. Leased Premises: | ¶1 |
| <p>The area shown on <u>Exhibit "A"</u> attached hereto and made a part hereof (the "Premises"), containing approximately 4,388 square feet of rentable floor area, situate on the ground floor of a building (the "Building") constructed on the land. The building contains approximately 20,325 square feet of rentable floor area. Determination of actual rentable areas will be made subsequent to completion of design of Tenant interior layout, and the space will be measured in accordance with BOMA standards.</p> | |

4. Building Location: ¶1
- The Building will be located on a tract of land (the "Land") consisting of approximately 15 acres, located on the North side of Berkshire Boulevard, and the East side of Paper Mill Road in the Borough of Wyomissing, Berks County, Pennsylvania.
5. Building Common Area: ¶4(c)
- The area shown on Exhibit "F" attached hereto and made a part hereof (the "Building Common Area").
6. Parking Spaces: ¶1
- In connection with its use of the Premises, Tenant shall have the right to use 18 undesignated parking spaces (collectively, the "Parking Spaces") in the parking area adjacent to the Building.
7. Date of Lease: ¶2
- January 25, 2002
8. Commencement Date: ¶2
- The term of this Lease shall commence on the first to occur of (a) the date on which Tenant takes occupancy of or commences business at the Premises, or (b) the date of substantial completion, being the date when a certificate of occupancy for the Premises is issued by the applicable municipal authority (whichever date occurs first, the "Commencement Date"). The anticipated Commencement Date is March 30, 2002.
9. Term: ¶2
- Ten (10) years from the first day of the first full month of occupancy after the Commencement Date (the "Term"). Tenant shall have the ability, with six (6) months prior notice, to cancel the lease on the five (5) year anniversary date without penalty.
-

Tenant shall have the option to extend this lease for one period of five (5) years with rent escalating at 2% annually above the prior year's rent.

10.

¶3

Fixed Annual Minimum Rent:

Starting rent based on \$13.00 per rentable square foot. Rent to be pro rated during any partial months. 2% annual increase over prior year's Annual Minimum Rent.

| | |
|----------------------|----------|
| Premises Size | 4,388 |
| Starting Rate per SF | \$ 13.00 |
| Annual escalation | 2.0% |

| Time Period | Rentable Sq. Ft. | Annual Rent per SF | Monthly Rent | Annual Rent (the "Annual Minimum Rent") |
|-------------|------------------|--------------------|--------------|---|
| Year 1 | 4,388 | \$ 13.00 | \$ 4,753.67 | \$ 57,044.00 |
| Year 2 | 4,388 | \$ 13.26 | \$ 4,848.74 | \$ 58,184.88 |
| Year 3 | 4,388 | \$ 13.53 | \$ 4,945.71 | \$ 59,348.58 |
| Year 4 | 4,388 | \$ 13.80 | \$ 5,044.63 | \$ 60,535.55 |
| Year 5 | 4,388 | \$ 14.07 | \$ 5,145.52 | \$ 61,746.26 |
| Year 6 | 4,388 | \$ 14.35 | \$ 5,248.43 | \$ 62,981.19 |
| Year 7 | 4,388 | \$ 14.64 | \$ 5,353.40 | \$ 64,240.81 |
| Year 8 | 4,388 | \$ 14.93 | \$ 5,460.47 | \$ 65,525.63 |
| Year 9 | 4,388 | \$ 15.23 | \$ 5,569.68 | \$ 66,836.14 |
| Year 10 | 4,388 | \$ 15.54 | \$ 5,681.07 | \$ 68,172.86 |

11. Tenant's Share of Expenses ("Premises Expenses"):

¶4(c)

Tenant to pay full pro-rata share of all operating expenses. First year budget based on \$3.25 per SF of rentable floor area not including janitorial expenses.

Exhibit "B"

| Time Period | Rentable Sq. Ft. | Premises Expenses/ Monthly | Premises Expenses/ Annually |
|-------------|------------------|----------------------------|-----------------------------|
| Year 1 | 4,388 | \$ 3.25 | \$ 14,261.00 |

12. Building Standard Work Allowance: ¶10
\$0.00 per square foot of usable floor area of the Premises (the “Building Standard Work Allowance”). The entire cost for the Fit—Out to be borne by the Tenant.
13. Security Deposit: ¶5
Waived
14. Use of Premises: ¶6
General office uses (the “Permitted Use”).
-

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Summary of Lease Terms to be duly executed this 30 day January 2002.

THIS LEASE MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LESSOR.

WYOMISSING PROFESSIONAL CENTER II, LIMITED PARTNERSHIP, a
Pennsylvania limited partnership, by its General Partner, WYOMISSING
PROFESSIONAL CENTER II, INC.

By /s/ Stephen J. Najarian
Stephen J. Najarian, President

("Landlord")

ATTEST:

By: /s/ Susan M. Montgomery

Name: Susan M. Montgomery

Title: Asst. to Chairman

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito

Title: Vice President/Sec/Treas

Date: 1/30/02

("Tenant")

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| 1. <u>PREMISES</u> | 1 |
| 2. <u>TERM</u> | 1 |
| 3. <u>RENT</u> | 2 |
| 4. <u>TENANT'S SHARE OF EXPENSES</u> | 3 |
| 5. <u>SECURITY DEPOSIT</u> | 5 |
| 6. <u>USE</u> | 5 |
| 7. <u>SERVICES AND FACILITIES</u> | 5 |
| 8. <u>UTILITIES</u> | 6 |
| 9. <u>CONSTRUCTION OF BUILDING</u> | 6 |
| 10. <u>BUILDING STANDARD WORK ALLOWANCE</u> | 6 |
| 11. <u>SIGNS</u> | 7 |
| 12. <u>AFFIRMATIVE COVENANTS OF TENANT</u> | 7 |
| 13. <u>NEGATIVE COVENANTS OF TENANT</u> | 7 |
| 14. <u>NO MECHANICS' LIENS</u> | 8 |
| 15. <u>LANDLORD'S RIGHT TO ENTER</u> | 9 |
| 16. <u>RELEASE OF LANDLORD</u> | 9 |
| 17. <u>ASSIGNMENT AND SUBLETTING</u> | 10 |

| | |
|--|----|
| 18. <u>ENVIRONMENTAL COMPLIANCE</u> | 11 |
| 19. <u>INDEMNIFICATION</u> | 11 |
| 20. <u>LIABILITY INSURANCE</u> | 11 |
| 21. <u>FIRE OR OTHER CASUALTY</u> | 12 |
| 22. <u>WAIVER OF SUBROGATION</u> | 12 |
| 23. <u>NO IMPLIED EVICTION</u> | 12 |
| 24. <u>CONDEMNATION</u> | 12 |
| 25. <u>LANDLORD'S RIGHT TO PAY TENANT EXPENSES</u> | 13 |
| 26. <u>EVENTS OF DEFAULT</u> | 13 |
| 27. <u>LANDLORD'S REMEDIES</u> | 14 |
| 28. <u>CONFESSION OF JUDGMENT FOR DAMAGES</u> | 16 |
| 29. <u>CONFESSION OF JUDGMENT IN EJECTMENT</u> | 17 |
| 30. <u>RIGHT OF ASSIGNEE OF LANDLORD</u> | 18 |
| 31. <u>REMEDIES CUMULATIVE</u> | 18 |
| 32. <u>TENANTS WAIVERS</u> | 18 |
| 33. <u>ATTORNMEN</u> | 18 |
| 34. <u>SUBORDINATION</u> | 18 |
| 35. <u>EXECUTION OF DOCUMENTS</u> | 19 |
| 36. <u>ESTOPPEL AGREEMENTS</u> | 19 |

| | |
|--|----|
| 37. <u>CONDOMINIUM CONVERSION</u> | 19 |
| 38. <u>NOTICES</u> | 19 |
| 39. <u>BINDING EFFECT</u> | 20 |
| 40. <u>SURVIVAL OF VALID TERMS</u> | 20 |
| 41. <u>ENTIRE AGREEMENT</u> | 20 |
| 42. <u>PROHIBITION AGAINST RECORDING</u> | 20 |
| 43. <u>INTERPRETATION</u> | 20 |
| 44. <u>LIABILITY OF LANDLORD</u> | 20 |
| 45. <u>CAPTIONS AND HEADINGS</u> | 20 |
| 46. <u>NO BROKERAGE COMMISSION</u> | 20 |
| 47. <u>QUIET ENJOYMENT</u> | 21 |
| 48. <u>WAIVER OF TRIAL BY JURY</u> | 21 |
| 49. <u>OWNER'S ASSOCIATION</u> | 22 |

LEASE AGREEMENT

IN CONSIDERATION of the mutual promises contained herein, and intending to be legally bound hereby, Landlord and Tenant, in addition to the foregoing Summary, agree as follows:

1. PREMISES. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises. In connection with its use of the Premises, Tenant shall have the right to use the Parking Spaces.
2. TERM.
 - (a) The Term of this Lease shall commence on the Commencement Date, unless construction is delayed as provided in Paragraph 9(b).
 - (b) Within thirty (30) days after the Commencement Date, Landlord and Tenant shall execute a letter agreement specifying the Commencement Date. Failure to execute such letter agreement shall in no way cause this Lease not to remain in full force and effect.
 - (c) Tenant shall have the right to renew this lease for one (1) five (5) year renewal period under the same terms and conditions of the base lease with the exception that the starting rent for the period shall be 2% higher than the previous year's rent. Six (6) months written notice will be required to exercise such options by Tenant.
 - (d) Tenant shall surrender and deliver up the Premises at the end of the Term of this Lease in good order and condition as of the date of execution hereof, reasonable use and natural wear and tear excepted. If Tenant fails to surrender the Premises to Landlord on the date as required herein, Tenant shall hold Landlord harmless from all damages, direct and indirect, resulting from Tenant's failure to surrender the Premises as herein provided, including but not limited to claims made by a succeeding tenant resulting from Landlord's inability to deliver the Premises, or any part thereof, due to Tenant's failure to surrender the Premises.
 - (i) Should the Tenant, without the express written consent of the Landlord, continue to hold and occupy the Premises after the expiration of the Term of this Lease, such holding over shall be considered a tenancy at sufferance, and not for any other term whatsoever, which may be terminated by the Landlord at the will of the Landlord by giving Tenant written notice thereof, and at any time thereafter the Landlord may re-enter and take possession of the Premises, by force or otherwise. Rent during any such holding over shall be charged and paid by Tenant at the rate of 150% of the monthly rent reserved herein as the monthly rental due for that month immediately preceding the holding over.
 - (e) Definition of Lease Year: A "lease year," as herein referred to, shall consist of that full twelve (12) month period commencing on the first day of the first full month during which this Lease is in full force and effect and of each full twelve (12) month period thereafter. If the Commencement Date of this Lease, as provided aforesaid, is a day not the first day of the month, the first lease year shall consist of the remainder of that first month and the first full twelve (12) months thereafter.

3. RENT.

(a) During the term of this Lease, Tenant shall pay Landlord the Annual Minimum Rent in equal monthly installments. To the extent that the actual rentable floor area of the Premises is different from the area shown on the Summary, as certified by Landlord's architect, the Annual Minimum Rent shall be adjusted accordingly.

(b) All rent shall be payable in advance, without demand, on the first day of each calendar month during the term of this Lease, except the first monthly installment shall be paid upon the signing of this Lease. The first and last monthly payments shall be prorated on a per diem basis for any period less than a full calendar month.

(c) All rent and additional rent shall be payable without any deduction, offset or counterclaim. All rent and additional rent due hereunder shall be payable in immediately available funds at Landlord's address set forth in the Summary or at such other place as may be designated by Landlord.

(d) Tenant shall also pay as rent any sums which may become due by reason of the failure of Tenant to comply with any covenants of this Lease and any damages, costs, expenses and reasonable attorneys' fees which Landlord may incur by reason of any failure on Tenant's part to comply with any covenants of this Lease.

(e) Tenant shall pay a late charge at the rate of five percent (5%) on each dollar of rent, or any other sum collectible as rent under this Lease, which is not paid within ten (10) days after the same is due.

(f) This Lease shall be deemed and construed to be a "net-net-net" lease, so that the Annual Minimum Rent provided for herein shall be an absolute net return to Landlord throughout the term of this Lease, free of any expense, charge or other deduction whatsoever, with respect to the Premises and/or the ownership, leasing, operation, maintenance, repair, rebuilding, use or occupation thereof, or of any portion thereof, or with respect to any interest of Landlord therein, except as may be expressly provided for otherwise herein.

4. TENANT'S SHARE OF EXPENSES.

(a) In addition to the payment of Annual Minimum Rent as provided herein, Tenant shall pay as additional rent hereunder its proportionate share (as described in Paragraph 4(c)) of all Expenses (as hereinafter defined) incurred during each calendar year of the term of this Lease, as provided herein. For purposes hereof, "Expenses" shall mean all real estate taxes, real estate assessments, insurance premiums (other than Tenant's liability insurance), and other costs and expenses of every type and character incurred by Landlord in operating and maintaining the Building and the Land (or portion of the Land relating to the Building), including without limitation, the common areas thereof, all fixtures and equipment therein or thereon, water and sewer charges as metered, repair and maintenance of fixtures, equipment and utility systems relating to the Premises, janitorial services (if any) provided to Tenant, trash removal costs pertaining to the Building, grass cutting, landscape maintenance, snow removal and parking area repair, maintenance, repaving, cleaning and striping, costs of lighting the parking area, and all fees, charges and expenses imposed or assessed against the Building and its owner(s) by any applicable owners association. Expenses shall be pre-paid on a monthly basis during each calendar year of the term of this Lease as provided herein. Attached hereto as Exhibit "B" and made a part hereof is the current budget estimate and operating description for the operation of the Building and the Land. All items on the budget shall be included as Expenses, but other Expenses may be incurred from time to time.

(b) For purposes hereof, "Expenses" shall not include:

(i) Costs for which Landlord is reimbursed or indemnified (either by an insurer, condemnor, tenant, warrantor or otherwise) or, in the event Landlord fails to properly insure the Building, then Expenses shall not include expenses for which Landlord would have been reimbursed if Landlord had adequately insured the Building.

(ii) Expenses incurred in leasing or procuring tenants, including lease commissions, advertising expenses, management and leasing offices, lease negotiation and review, expenses and renovating space for tenants, and legal expenses incurred in enforcing the terms of any tenant leases.

(iii) Interest or amortization payments on any mortgages.

(iv) Costs representing an amount paid to an affiliate of Landlord which is in excess of the amount which would have been paid in the absence of such relationship.

(v) Costs specifically billed to and paid by specific tenants, including, without limitation, expenses for work performed for other tenants in the Building and expenses to be billed to other tenants for excess utility use or other services that are beyond normal office use. There shall be no duplication of costs or reimbursement.

(vi) Depreciation and costs incurred by Landlord for alterations that are considered capital improvements and replacements under generally accepted accounting principles consistently applied, except that the annual amortization of these costs shall be included in the following two instances:

(A) The annual amortization over its useful life (not to be less than ten (10) years) with a reasonable salvage value on a straight line basis of the cost of any improvement made by Landlord and required by any changes in applicable laws, rules, or regulations of any governmental authority enacted after the Building was fully assessed as a completed and occupied unit and the Lease was signed.

(B) The annual amortization over its useful life (not to be less than ten (10) years) with a reasonable salvage value on a straight line basis of the cost of any equipment or capital improvements made by Landlord after the Building was fully assessed as a completed and occupied unit and the Lease was signed, as a labor-saving measure or to accomplish other savings in operating, repairing, managing, or maintaining of the Building or Land, but only to the extent of the savings realized.

(vii) Salaries other than salary for a building manager and/or maintenance personnel or salary reimbursement to the Landlord equal to \$0.35 per rentable square foot of floor area annually.

(viii) Landlord's personal property and Landlord's own occupancy costs, if any, in the Building.

(c) The portion of Expenses which are applicable to the Premises (the "Premises Expenses") shall be determined by multiplying the Expenses by a fraction, the numerator of which is the rentable floor area of the Premises as shown on the Summary and the denominator of which is the aggregate number of rentable floor area in the Building as shown on the Summary. In addition, Tenant shall have responsibility for the entire amount of Expenses relating directly to the cost of operating the Premises, which does not include any other portion of the Building Common Area, such as janitorial services or the repair, maintenance, or Tenant required modification of the heating, ventilating or air-conditioning ("HVAC") system relating directly to the Premises. Tenant shall be responsible for its proportionate share of the entire amount of janitorial services and maintenance costs relating directly to the Building Common Area, on an occupied area basis.

(d) Tenant agrees to pay Landlord as additional rent hereunder all Premises Expenses incurred during the term of this Lease, including any and all increases in the Premises Expenses.

(e) Tenant shall pay Landlord monthly, in advance, on the first day of each calendar month during the term of this Lease, and pro rata for the fraction of any month, the sum estimated by Landlord to be one-twelfth (1/12th) of Tenant's share of all Premises Expenses. If at any time and from time to time it is determined by Landlord that Tenant's estimated payments will be insufficient to pay Tenant's share of such Premises Expenses, the Landlord shall have the right to adjust the amount of Tenant's estimated payments upon thirty (30) days prior written notice, and Tenant agrees to thereafter pay the adjusted estimated payment on a monthly basis.

(f) Within one hundred twenty (120) days after the end of each calendar year, Landlord shall deliver to Tenant (i) a written itemization of Expenses for the prior Lease year and (ii) an estimate of the then current Lease year's Expenses and Tenant's share of the Premises Expenses. An

adjustment shall be made between the aggregate total of Tenant's share of estimated Premises Expenses actually paid by Tenant during the prior Lease year, and Tenant's share of Premises Expenses actually incurred during the prior Lease year, so that Landlord shall reimburse Tenant for any excess paid by Tenant, and Tenant shall pay any deficiency to Landlord within ten (10) days of demand. If Tenant disagrees with the accuracy of the Expenses as set forth in Landlord's itemization statement, Tenant shall give written notice to Landlord to that effect, but shall nevertheless make payment in accordance with the terms of this Paragraph.

(g) Landlord shall permit Tenant to inspect its records with respect to the Expenses at a mutually convenient time and place. Any information obtained by Tenant pursuant to the provisions of this Paragraph shall be treated as confidential, except in any litigation between the parties.

(h) If due to a change in the laws presently governing taxation, any franchise tax or tax on income, profit, rentals or occupancies from or of the Premises shall be levied or imposed against the Landlord (other than business privilege tax, which is considered an Expense) in lieu of any tax or assessment that would otherwise constitute a real estate tax, such franchise, income, profit tax or tax on rentals shall be deemed to be a real estate tax and included as part of the Expenses.

5. SECURITY DEPOSIT. Waived

6. USE. The Premises shall be used only for the Permitted Use and shall not be used for any other purpose. Tenant will not use, and will not permit the use of, the Premises for any purpose which is unlawful or in violation of any statute, ordinance, rule, regulation or restriction governing the use of the Premises.

7. SERVICES AND FACILITIES. The following services and facilities shall be supplied by Landlord to Tenant in connection with Tenant's use of the Premises, in common (where applicable) with other tenants of the Building:

(a) The cost of the services described in this Paragraph are to be included as part of the Premises Expenses, except for electricity and gas, which shall be billed directly to the Tenant from the utility companies.

(b) Landlord shall furnish and maintain HVAC equipment and facilities for the Premises, in accordance with Tenant's layout and specifications, for the comfortable occupancy of the Premises. Comfortable occupancy shall mean temperatures of 68°-74°F throughout the Premises on a year-round basis, provided Tenant does not exceed an electrical load of six (6) watts per square foot and an occupancy level of one person for each 150 square feet. HVAC shall be under Tenant's control with respect to the hours of operation. Tenant shall pay directly for the electricity and gas it consumes for HVAC.

(c) Landlord shall maintain and repair the HVAC, electrical and plumbing systems servicing the Premises, the ceiling and lighting in the Premises, and the Building, its common areas, exterior, and all of the Building systems in a first class manner. The costs of this maintenance shall be included as part of the Expenses.

(d) Landlord shall provide lamping of all lighting fixtures in the Premises.

(e) Landlord shall have no responsibility or liability to Tenant, nor shall there be any abatement in rent, for any failure to supply any services or facilities as provided herein during such period as Landlord deems advisable or necessary in order to make repairs, alternations or improvements or because of labor disturbances, strikes, accidents or any other causes beyond Landlord's control.

(f) Landlord shall be responsible, at Landlord's sole cost and expense, for structural repairs and replacement of HVAC units installed in the Building. Except as otherwise provided in Paragraph 7(c) hereof, these repairs shall not be included as part of the Expenses.

8. UTILITIES. Landlord shall install meters for measuring Tenant's electric and gas usage and all other utility services to the Premises, and Tenant shall pay the utility company directly for such usage, which shall be in addition to the Expenses as defined herein.

9. CONSTRUCTION OF BUILDING.

(a) Landlord shall construct the Building on the Land in accordance with its plans and specifications for the Building.

(b) If the Landlord is delayed at any time in the progress of constructing the Building by changes requested by Tenant, by labor disputes, unavailability of materials or supplies, fire, war or civil disobedience, unusual delay in transportation, unavoidable casualties, acts of God, or any other cause beyond the Landlord's control, the Commencement Date shall be extended for a period of time equal to the period of such delay.

(c) Landlord warrants and represents to Tenant that no part of the Premises or Building (including the walls, ceilings, structural steel, flooring and pipes) shall be wrapped, insulated or fireproofed with any asbestos, asbestos-containing material or other hazardous material.

(d) Landlord agrees to deliver possession of the Premises to Tenant in compliance with all zoning and all other municipal, county, state and federal governmental laws, codes and requirements, including the Americans with Disabilities Act.

10. BUILDING STANDARD WORK ALLOWANCE.

(a) Tenant will be entirely responsible for interior improvements to be made to the Premises. All such improvements shall be made in accordance with Tenant's plans and specifications, marked as Exhibits "A" and "E" attached hereto and made a part hereof, subject to Landlord's review and approval from an engineering standpoint. All such work shall be performed by Landlord's contractors and billed at the rate of the subcontractor's or supplier's cost plus a total of 15% for construction management fee, overhead, and builder's profit.

(b) The cost of the work performed in the Premises "interior improvements", Tenant agrees to pay for this entire amount promptly upon billing therefor.

11. SIGNS. Landlord agrees to provide or allow exterior signage as follows: Exterior signage consisting of a building directional sign on the interior campus road frontage, and a building tenant directory at the exterior of the building.

12. AFFIRMATIVE COVENANTS OF TENANT. Tenant covenants and agrees that it will without demand:

(a) Comply with all requirements of any governmental authorities which apply to Tenant's use of the Premises. Promptly comply, or cause compliance, with all laws and ordinances and the orders, rules, regulations and requirements of all federal, state, county and municipal governments and appropriate departments, commissions, boards and officers thereof; foreseen or unforeseen, ordinary or extraordinary, and whether or not within the present contemplation of the parties hereto or involving any change of governmental policy and irrespective of the cost thereof, which may be applicable to the Premises, including, without limitation, the fixtures and equipment thereof and the use or manner of use of the Premises.

(b) Comply with the rules and regulations from time to time made by Landlord for the safety, care, upkeep and cleanliness of the Premises, the Building and the Land. Tenant agrees that such rules and regulations shall, when written notice thereof is given to Tenant, form a part of this Lease.

(c) Keep the Premises and Building Common Area in good order and condition, excepting only ordinary wear and tear and damage by accidental fire or other casualty not occurring through the action or negligence of Tenant or its agents, employees and invitees.

(d) Peaceably deliver up and surrender possession of the Premises to Landlord at the expiration or sooner termination of this Lease, in the same condition in which Tenant has agreed to keep the Premises during the term of this Lease, and promptly deliver to Landlord at its office all keys for the Premises.

(e) Give to Landlord prompt written notice of any accident, fire or damage occurring on or to the Premises within twenty-four (24) hours of occurrence thereof

(f) Give to Landlord a copy of any written notice concerning the Premises within twenty-four (24) hours of Tenant's receipt thereof

(g) Cause its employees and visitors to park their cars only in those portions of the parking area as may be designated for that purpose by Landlord, and not use or permit the use of any more parking spaces in the parking area than are permitted in Paragraph 1 herein.

(h) Promptly upon Landlord's request, deliver to Landlord's lender copies of Tenant's annual financial statements for the past two (2) years.

13. NEGATIVE COVENANTS OF TENANT. Tenant covenants and agrees that it will do none of the following without the prior written consent of Landlord:

(a) Place or allow to be placed any sign, projection or device upon the Premises or on the inside or outside of the Building contrary to the provisions of this Lease.

(b) Make any alterations, improvements or additions to the Premises. All alterations, improvements, additions or fixtures, whether installed before or after the execution of this Lease, shall remain upon the Premises at the expiration or sooner termination of this Lease and become the property of Landlord, unless Landlord, prior to the termination of this Lease, shall have given written notice to Tenant to remove the same, in which event Tenant shall remove such alterations, improvements and additions or fixtures, and restore the Premises to the same good order and condition in which they were upon initial occupancy.

(c) Do or suffer to be done any act objectionable to any insurance company whereby the insurance or any other insurance now in force or hereafter placed on the Premises or the Building shall become void or suspended, or whereby the same shall be rated as a more hazardous risk than at the date of the signing of this Lease. In case of a breach of this covenant (in addition to all other remedies herein given to Landlord) Tenant agrees to pay Landlord as additional rent any and all increases of premiums on insurance reasonably carried by Landlord on the Premises or the Building caused in any way by the use or occupancy of the Premises by the Tenant.

14. NO MECHANICS' LIENS.

(a) Subsequent to the Commencement Date, any construction work performed by or at the direction of Tenant within the Premises shall be performed in a good and workmanlike manner, and in accordance with the requirements of all applicable laws. Tenant, at its sole cost and expense, shall apply for and provide with reasonable diligence all necessary permits and licenses required for any such construction work. Prior to the commencement of any work or delivery of any materials to the Premises, Building or Land, Tenant shall cause each contractor to sign a Waiver of Right to File Mechanics' Liens and Mechanics' Lien Claims, which shall be filed in the Office of the Prothonotary in the Court of Common Pleas of Berks County, Pennsylvania. Tenant shall keep the Premises, Building and Land free from any and all liens arising out of any work performed, materials furnished or obligations incurred by or for Tenant, and agrees to bond against or discharge any mechanic's or materialmen's lien within ten (10) days after the filing or recording of any such lien. Tenant shall reimburse Landlord for any and all costs and expenses which may be incurred by Landlord by reason of the filing of any such liens and/or the removal of same, such reimbursement to be made within ten (10) days after Landlord has given Tenant a statement setting forth the amount of such costs and expenses. The failure of Tenant to pay any such amount to Landlord within such 10-day period shall carry with it the same consequences as failure to pay any installment of rent hereunder.

(b) Prior to the commencement of any work hereunder, Tenant shall cause each of its contractors to indemnify Landlord and hold it harmless from and against all personal injury and property damage liability incurred during the course of its work and to provide a builder's "all-risk" insurance policy, which policy will be in force during the entire term of the work being performed on the Premises. The insurance shall be in an amount acceptable to the Landlord and the Tenant, and shall name the Tenant, the Landlord and the Landlord's lender, as their respective interests may appear, as additional insureds. The insurance coverage shall provide for at least thirty (30) days' notice of cancellation, non-renewal or change. A certificate of insurance satisfactory to the Tenant, Landlord and Landlord's lender, shall be submitted to the Landlord and the Landlord's lender prior to the

commencement of any work in the Premises.

(c) Within thirty (30) days after completion of any construction in the Premises, Tenant shall deliver to Landlord a complete set of "as built" plans of such work, including without limitation, architectural, mechanical, plumbing and electrical plans, certified to Landlord by a duly licensed Pennsylvania engineer.

15. LANDLORD'S RIGHT TO ENTER. Tenant shall permit Landlord, Landlord's agents, servants, employees, and prospective buyers or any other persons authorized by Landlord, to inspect the Premises at any time, and to enter the Premises for the purposes of cleaning and, if Landlord shall so elect, for making reasonable alterations, improvements or repairs to the Building, or for any reasonable purpose in connection with the operation and maintenance of the Building, and during the last one (1) year of the term of this Lease, for the purpose of exhibiting the same for sale or lease. Landlord or its agents shall have the right (but shall not be obligated) to enter the Premises in any emergency at any time without prior notice to Tenant, but Landlord shall notify Tenant by telephone of such entry either during or immediately following such emergency.

16. RELEASE OF LANDLORD.

(a) Unless caused by the negligence of Landlord, or unless Landlord fails to perform its duties under this lease, Tenant shall be responsible for and hereby relieves Landlord from any and all liability by reason of any injury, loss, or damage to any person or property in the Premises, whether the same be due to fire, breakage, leakage, water flow, gas, use, misuse, or defects therein, or condition anywhere in the Premises, failure of water supply or light or power or electricity, wind, lightning, storm, or any other cause whatsoever, whether the loss, injury or damage be to the person or property of Tenant or any other persons.

(b) Tenant acknowledges that Tenant has inspected the Premises and that the Premises are being leased "AS IS" as a result of such inspection and not as a result of any representations made by Landlord. Landlord makes no representation or warranty to Tenant, express or implied, that the Premises are free from hazardous or toxic substances, materials or wastes which are or become regulated by any federal, state or local governmental authority or that the Premises are in compliance with any federal, state or local environmental laws or regulations. Tenant acknowledges that the Premises are in a reasonable and acceptable condition of habitability for their intended use, and the agreed rental payments are fair and reasonable.

OR FOR NEW CONSTRUCTION

Landlord makes no warranty to Tenant, express or implied, that the Premises are free from hazardous or toxic substances, materials or wastes which are or become regulated by any federal, state or local governmental authority or that the Premises are in compliance with any federal, state or local environmental laws or regulations. However, to the best of its knowledge, Landlord represents that the building and/or premises are free of hazardous substances. Upon execution of a Commencement Agreement, Tenant will acknowledge that the Premises are in a reasonable and acceptable condition of habitability for their intended use, and the agreed rental payments are fair and reasonable.

(c) Tenant acknowledges and agrees that Landlord shall not be liable to Tenant for any loss to Tenant or injury to its property or to the property of any other person by reason of the construction of the Building and other improvements located upon the Premises, the materials used in said construction, the design thereof, the condition thereof, any defects therein, or any alterations, additions, improvements, changes or replacements thereto and thereof

(d) Landlord shall not be liable to Tenant for any damages, compensation, or claim by reason of the inconvenience or annoyance arising from the necessity of repairing any portion of the Premises or the Building or improvements erected thereon, interruption in the use or occupancy thereof, or the termination of this Lease by reason of the partial or total destruction of the Premises or the Building and improvements erected thereon.

(e) Without limiting the effect of the release stated in Paragraphs 16(a) through (d) above, Landlord shall not be deemed in breach of this Lease for any reason whatsoever unless (i) Tenant shall have delivered to Landlord written notice setting forth the specific details of all facts, events or occurrences upon which Tenant relies in asserting such breach, and (ii) Landlord shall have failed to cure the alleged breach within thirty (30) days of receipt of such written notice, it being agreed that any breach which is of a type that reasonably requires longer than thirty (30) days to cure shall be deemed cured within such 30-day period if Landlord commences to cure such breach within such 30-day period and diligently proceeds to complete the cure of such breach thereafter.

17. ASSIGNMENT AND SUBLETTING.

(a) Except as otherwise provided in the immediately following sentence, Tenant shall not assign, mortgage or pledge this Lease, or sublet the Premises or any part thereof, or permit any other person to occupy the Premises or any part thereof, without the prior written consent of Landlord. Such prior consent shall not be required if Tenant makes an assignment or sublease to (i) any corporation or other legal entity which owns directly or indirectly all or substantially all of the stock of Tenant, (ii) any corporation or other legal entity of which more than one-half the stock is owned by Tenant, or (iii) any corporation into which Tenant may be converted or with which Tenant may be merged, provided that prior to taking possession of any part of the Premises, such corporation or other legal entity shall sign an assumption agreement in form satisfactory to Landlord, whereby such corporation or other legal entity agrees to be bound by the terms and conditions of this Lease.

(b) Landlord shall not withhold its consent to any assignment or subletting to any corporation or other legal entity having financial strength the same as or greater than the present financial strength of Tenant.

(c) Any assignment or subletting, even with the consent of Landlord, shall not release Tenant from liability for payment of rent or any other charges hereunder or from any of the other obligations under this Lease, and any additional consideration resulting from such assignment or subletting in excess of the rent specified herein shall be additional rent hereunder, due and payable to Landlord. The acceptance of rent from any other person shall not be deemed to be a waiver of any of the provisions of this Lease or to be a consent to any assignment or subletting. Upon any assignment of this Lease or subletting of the Premises, a change in any respect of the use of the Premises from the use actually employed by the original Tenant shall require the prior written consent of Landlord.

18. ENVIRONMENTAL COMPLIANCE. Tenant shall not cause or permit any hazardous substance, material or waste (as defined in any applicable environmental law, rule or regulation) to be brought upon or used in or about the Premises. Tenant shall cause the Premises to be used at all times in compliance with all applicable environmental laws, rules and regulations. Any failure of Tenant to comply with the covenants contained in this Paragraph shall be covered by the indemnification provisions of Paragraph 19 herein and shall be subject to all other rights and remedies available to Landlord. In no event shall Landlord be responsible for any damage resulting from any contamination to the Premises or otherwise, unless caused by Landlord.

19. INDEMNIFICATION. Tenant agrees to indemnify Landlord against loss and save Landlord harmless from and against (a) any breach or default in the performance of any covenant or agreement to be performed by Tenant under the terms of this Lease, (b) any and all claims, damages, and liabilities arising from anything done in or about the Premises during the term of this Lease by Tenant or any of its agents, contractors, servants, employees, invitees or licensees, (c) any act or negligence of Tenant or any of its agents, contractors, servants, employees, invitees or licensees, including any accident, injury or damage whatsoever caused to any person, in or about the Premises, and (d) all costs, reasonable counsel fees, expenses and liabilities incurred in connection with any such claim for which indemnification has been provided under this Paragraph. In case any action or proceeding shall be brought against Landlord by reason of any such claim, Tenant, upon notice from Landlord, shall reimburse Landlord for its counsel fees incurred in defending such action or proceeding. Tenant shall, within ten (10) days following notice to it of any claim of a third party relating to Tenant's use or occupancy of the Premises or to the performance or non-performance by Tenant of its obligations under this Lease, give written notice to the Landlord of such claim. The provisions of this Paragraph shall survive the expiration or termination of this Lease.

20. LIABILITY INSURANCE.

(a) Tenant, at its own cost and expense, shall obtain during the term of this Lease, and any renewals or extensions thereof, commercial general liability insurance in companies acceptable to Landlord, naming Landlord and Tenant as the insureds, in an amount not less than One Million Dollars (\$1,000,000.00), and providing for at least thirty (30) days' prior written notice to Landlord of cancellation, nonrenewal, or modification.

(b) Upon the signing of this Lease, Tenant shall deliver to Landlord a copy of the policy evidencing such insurance. At least thirty (30) days before the expiration of such policy and any renewal policies, Tenant shall deliver to Landlord a copy of the renewal policy.

21. FIRE OR OTHER CASUALTY.

(a) If during the term of this Lease or any renewal or extension thereof, the Premises or the Building is totally destroyed or is so damaged by fire or other casualty not occurring through the fault or negligence of Tenant or those employed by or acting for Tenant to the extent that the same cannot be repaired or restored within one hundred eighty (180) days from the date of the happening of such damage, or if such damage or casualty is not included in the risks covered by Landlord's fire insurance, then Landlord shall have the option to terminate this Lease upon written notice to Tenant, whereupon this Lease shall absolutely cease and terminate and the rent shall abate for the balance of the term. In such case, Tenant shall pay the rent apportioned to the date of damage and Landlord may enter upon and repossess the Premises without further notice.

(b) If Landlord chooses to restore the Premises, Landlord shall repair whatever portion of the Premises that may have been damaged by fire or other casualty insured as aforesaid, and the rent shall be apportioned during the time Landlord is in possession, taking into account the proportion of the Premises rendered untenable and the duration of Landlord's possession.

(c) If said damage by fire or other casualty was caused by the action or negligence of Tenant or its agents, employees or invitees, Tenant shall not be entitled to any abatement or apportionment of the rent.

(d) Tenant, at its own cost and expense, shall obtain during the term of this Lease, and any renewals or extensions thereof, content insurance for the full replacement value of its personalty used in Tenant's daily operations of the Permitted Use.

22. WAIVER OF SUBROGATION. Landlord and Tenant shall each endeavor to procure an appropriate clause in, or endorsement on, any fire and extended coverage insurance covering the Premises and Building and personal property, fixtures, and equipment located thereon or therein, pursuant to which the insurance companies waive subrogation or consent to a waiver of right of recovery. Each party hereto hereby agrees that it will not make any claim against or seek to recover from the other for any loss or damage to its property or the property of others resulting from fire or other hazards covered by such fire and extended coverage insurance except as expressly provided in this Lease; provided, however, that the release, discharge, exoneration, and covenant not to sue herein contained shall be limited by the terms and provisions of the waiver of subrogation clauses and/or endorsements consenting to a waiver of right of recovery and shall be coextensive therewith.

23. NO IMPLIED EVICTION. Notwithstanding any inference to the contrary herein contained, it is understood that the exercise by Landlord of any of its rights hereunder, including (without limitation) cessation of services as described in Paragraph 27(c)(ii), shall never be deemed an eviction (constructive or otherwise) of Tenant, or a disturbance of its use of the Premises, and shall in no event render Landlord liable to Tenant or any other person, so long as such exercise of rights is in accordance with the foregoing terms and conditions.

24. CONDEMNATION. If the whole of the Premises shall be acquired or condemned by eminent domain, then the term of this Lease shall cease and terminate as of the date on which possession of the Premises is required to be surrendered to the condemning authority. All rent

shall be paid up to the date of termination. A partial condemnation shall not be cause for termination of this Lease. Tenant hereby expressly waives any right or claim to any part of any condemnation award or damages and hereby assigns to Landlord any such right or claim to which Tenant might become entitled.

25. LANDLORD'S RIGHT TO PAY TENANT EXPENSES. If Tenant shall at any time fail to pay any utility or other charges or to take out, pay for, maintain or deliver any of the insurance policies provided for herein, or shall fail to make any other payment or perform any other act which Tenant is obligated to make or perform under this Lease, then without waiving, or releasing Tenant from, any obligations of Tenant contained in this Lease, Landlord may, but shall not be obligated to, pay any such charge, effect any such insurance coverage and pay premiums therefor, and may make any other payment or perform any other act which Tenant is obligated to perform under this Lease, in such manner and to such extent as shall be necessary. In exercising any such rights, Landlord may pay any necessary and incidental costs and expenses, employ counsel and incur and pay reasonable attorneys' fees. All sums so paid by Landlord and all necessary and incidental costs and expenses in connection with the performance of any such act by Landlord, together with interest thereon at the rate of twelve percent (12%) per annum from the date of the making of such expenditure by Landlord, shall be deemed additional rent hereunder and, except as otherwise expressly provided in this Lease, shall be payable to Landlord after ten (10) days' written notice thereof. Tenant covenants to pay any such sum or sums with interest as aforesaid and Landlord shall have (in addition to any other right or remedy of the Landlord) the same rights and remedies in the event of nonpayment thereof by Tenant as in the case of default by Tenant in the payment of rent.

26. EVENTS OF DEFAULT. The occurrence of each of the following events shall be an "Event of Default" hereunder:

(a) Tenant does not pay in full when due any installment of rent, additional rent or any other charges, expenses or costs herein agreed to be paid by Tenant for a period of five (5) days after receipt of notice that same has not been paid when due; provided that in the event Tenant shall have received three (3) such written notices within any period of twelve (12) consecutive months, then during the remainder of the twelve (12) consecutive month period after Tenant shall have received its first written notice from Landlord, Tenant shall thereafter be in default hereunder whenever Tenant shall fail to pay any sum owing under this Lease when due, without the necessity of sending any written notice of nonpayment;

(b) Tenant violates or fails to perform or comply with any nonmonetary term, covenant, condition, or agreement herein contained and fails to cure such default within thirty (30) days of notice thereof from Landlord, provided, however, if such default cannot be cured with reasonable diligence within such thirty (30) day period, the time for cure of same shall be deemed extended for such additional time as is reasonably necessary to cure same with due diligence for an additional period not to exceed thirty (30) days;

(c) Tenant vacates the Premises;

(d) Tenant shall file a voluntary petition in bankruptcy or shall be adjudicated a bankrupt or insolvent or shall file any petition or answer seeking any reorganization, arrangement, recapitalization, readjustment, liquidation or dissolution or similar relief under any present or future bankruptcy laws of the United States or any other country or political subdivision thereof, or shall seek

or consent to or acquiesce in the appointment of any trustee, receiver, or liquidator of all or any substantial part of Tenant's properties, or shall make an assignment for the benefit of creditors, or shall admit in writing Tenant's inability to pay Tenant's debts generally as they become due; or

(e) If an involuntary petition in bankruptcy shall be filed against Tenant seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future bankruptcy laws of the United States or any other state or political subdivision thereof, and if within sixty (60) days after the commencement of any such proceeding against Tenant, such proceedings shall not have been dismissed, or if, within sixty (60) days after the appointment, without the consent or acquiescence of Tenant, or any trustee, receiver or liquidator of the Tenant or of all or any substantial part of Tenant's property, such appointment shall not have been vacated or stayed on appeal or otherwise, or if, within sixty (60) days after the expiration of any such stay, such appointment shall not have been vacated.

27. LANDLORD'S REMEDIES.

(a) Upon the occurrence of any Event of Default, Landlord may, at its option and without any further notice to Tenant, terminate this Lease, whereupon the estate hereby vested in Tenant shall cease and any and all other right, title and interest of Tenant hereunder shall likewise cease without notice or lapse of time, as fully and with like effect as if the entire term of this Lease had elapsed, but Tenant shall continue to be liable to Landlord as hereinafter provided.

(b) Upon the occurrence of any Event of Default, or at any time thereafter, Landlord, in addition to and without prejudice to any other rights and remedies Landlord shall have at law or in equity, shall have the right, without terminating this Lease, to change the locks on the doors to the Premises and exclude Tenant therefrom until all of such defaults shall have been completely cured.

(c) Upon the occurrence of any Event of Default, or at any time thereafter, Landlord, in addition to and without prejudice to any other rights and remedies Landlord shall have at law or in equity, shall have the right to re-enter the Premises, either by force or otherwise, and recover possession thereof and dispossess any or all occupants of the Premises in the manner prescribed by the statute relating to summary proceedings, or similar statutes, but Tenant in such case shall remain liable to Landlord as hereinafter provided.

(d) In case of any Event of Default, re-entry, expiration and/or dispossession by summary proceedings, whether or not this Lease shall have been terminated as aforesaid:

(i) All delinquent rent, additional rent and all other sums required to be paid by Tenant hereunder shall become payable thereupon and shall be paid up to the time of such re-entry, expiration and/or dispossession, and all accelerated payments due under subparagraphs 10(a) and (b) hereof shall become immediately due and payable;

(ii) Landlord shall have the right, in its sole discretion, to terminate immediately and without any notice to Tenant, all services which are to be supplied by Landlord pursuant to the terms of this Lease, including without limitation, all janitor service and the maintenance and repair responsibilities described in Paragraph 7 hereof;

(iii) Landlord shall have the right, but not the obligation, to relet the Premises or any part or parts thereof for the account of Tenant, either in the name of Landlord or otherwise, for a term or terms which may, at Landlord's option, be less than or exceed the period which would otherwise have constituted the balance of the term of this Lease and on such conditions (which may include concessions or free rent) as Landlord, in its reasonable discretion, may determine and may collect and receive the rents therefor; Landlord shall in no way be responsible or liable for any failure to relet the Premises or any part thereof, or for any failure to collect any rent due upon any such reletting; and

(iv) Tenant shall reimburse Landlord for any expenses that Landlord may incur in connection with recovering possession of the Premises and any reletting thereof, such as court costs, attorneys' fees, brokerage fees, and the costs of advertising and the costs of any alterations, repairs, replacements and/or decorations in or to the Premises as Landlord, in Landlord's sole judgment, considers advisable and necessary for the purpose of such reletting of the Premises; and the making of such alterations, repairs, replacements and/or decorations shall not operate or be construed to release Tenant from liability hereunder as aforesaid.

(e) If this Lease is terminated by Landlord pursuant to Paragraph 27(a) hereof, Tenant nevertheless shall remain liable for all rent and damages which may be due or sustained prior to such termination, together with additional damages (the "Liquidated Damages") which, at Landlord's option, shall be either:

(i) an amount equal to (A) the rent and all other sums required to be paid by Tenant hereunder during the period which would otherwise have constituted the balance of the term of this Lease, and all damages, costs, fees and expenses incurred by Landlord as a result of such Event of Default, including without limitation, reasonable attorneys' fees, costs and expenses incurred by Landlord in pursuit of its remedies hereunder, less (B) the rent, if any, received by Landlord, pursuant to any reletting of the Premises during the period which would otherwise have constituted the balance of the term of this Lease; such amount calculated pursuant to this Paragraph 27(d)(i) shall be payable in monthly installments, in advance, on the first day of each calendar month following the occurrence of such Event of Default and continuing during the period which would otherwise have constituted the balance of the term of this Lease; or

(ii) an amount equal to the Annual Minimum Rent, Premises Expenses, and all other additional rent which was due and payable for the two (2) year period immediately preceeding Tenant's default.

(f) In the event Tenant commits a default, or suffers a default to exist, within ten (10) days after written demand, Tenant shall reimburse Landlord for Landlord's attorneys' fees incurred by Landlord in the enforcement of this Lease, regardless whether legal proceedings are or are not instituted, which fees shall include any actions taken in connection with any bankruptcy proceeding filed by or against Tenant.

(b) Tenant shall pay Landlord interest at twelve percent (12%) per annum on all failures to pay timely the rent, additional rent or any other sums required to be paid by Tenant hereunder from the date such payment is due until the date such payment is made to Landlord. Any judgment obtained by the Landlord as a result of the exercise of its rights and remedies under this Lease

shall bear interest at the rate of twelve percent (12%) per annum from the date of entry of such judgment through the date such judgment is paid in full.

(g) Upon any termination of this Lease, whether by lapse of time, by the exercise of any option by Landlord to terminate the same, or in any other manner whatsoever, or upon any termination of Tenant's right to possession without termination of this Lease, Tenant shall immediately surrender possession of the Premises to Landlord and immediately vacate the same, and remove all effects therefrom, except such as may not be removed under other provisions of this Lease. If Tenant fails to surrender and vacate as aforesaid, Landlord may forthwith re-enter the Premises, with or without process of law, and repossess itself thereof as in its former estate and expel and remove Tenant and any other persons and property therefrom, using such force as may be necessary, without being deemed guilty of trespass, eviction, conversion or forcible entry and without thereby waiving Landlord's rights to rent or any other rights given Landlord under this Lease or at law or in equity. If Tenant shall not remove all effects from the Premises as hereinabove provided, Landlord may, at its option, remove any or all of said effects in any manner it shall choose and either dispose of the same at Landlord's sole discretion, or store the same without liability for loss thereof; and Tenant shall pay Landlord, on demand, any and all expenses incurred in such removal and also storage on said effects, if applicable, for any length of time during which the same shall be in Landlord's possession or in storage.

28. CONFESSION OF JUDGMENT FOR DAMAGES. THIS PARAGRAPH SETS FORTH A WARRANT OF ATTORNEY FOR AN ATTORNEY TO CONFESS JUDGMENT AGAINST THE TENANT. IN GRANTING THIS WARRANT OF ATTORNEY TO CONFESS JUDGMENT AGAINST THE TENANT, TENANT HEREBY KNOWINGLY, INTELLIGENTLY AND VOLUNTARILY, AND, ON THE ADVICE OF SEPARATE COUNSEL OF TENANT, UNCONDITIONALLY WAIVES ANY AND ALL RIGHTS TENANT HAS OR MAY HAVE TO PRIOR NOTICE AND AN OPPORTUNITY FOR HEARING UNDER THE RESPECTIVE CONSTITUTIONS AND LAWS OF THE UNITED STATES AND THE COMMONWEALTH OF PENNSYLVANIA.

TENANT HEREBY AUTHORIZES ANY ATTORNEY OF ANY COURT OF RECORD, UPON THE OCCURRENCE OF ANY EVENT OF DEFAULT, TO APPEAR IMMEDIATELY THEREAFTER AS ATTORNEY FOR THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT IN ANY COMPETENT COURT AND TO CONFESS JUDGMENT OR JUDGMENTS AND SUCCESSIVE JUDGMENTS BY CONFESSION (WITHOUT STAY OF EXECUTION OR APPEAL) IN FAVOR OF THE LANDLORD AND ALL PERSONS CLAIMING UNDER THE LANDLORD AND AGAINST THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT FOR ALL AMOUNTS THEN DUE UNDER THIS LEASE, TOGETHER WITH AN ATTORNEY'S COLLECTION COMMISSION EQUAL TO TEN PERCENT (10%) OF THE TOTAL OF SUCH AMOUNTS, WITHOUT ANY LIABILITY ON THE PART OF THE SAID ATTORNEY, FOR WHICH THIS SHALL BE A SUFFICIENT WARRANT, AND THEREUPON A WRIT OF EXECUTION WITH CLAUSE FOR COSTS, OR OTHER PROCESS FOR SIMILAR PURPOSES, MAY ISSUE FORTHWITH WITHOUT ANY PRIOR WRIT OR PROCEEDING WHATSOEVER, AND THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT HEREBY WAIVE ALL EXEMPTION LAWS AND INQUISITION ON REAL PROPERTY AND RELEASE TO THE LANDLORD AND ALL PERSONS CLAIMING UNDER THE LANDLORD ALL ERRORS AND DEFECTS WHATSOEVER IN ENTERING SUCH ACTION OR JUDGMENT, OR IN CAUSING SUCH WRIT OF EXECUTION OR OTHER PROCESS TO BE

ISSUED, OR IN ANY PROCEEDING THEREON OR CONCERNING THE SAME, AND HEREBY AGREE THAT NO WRIT OF ERROR OR OBJECTION OR EXCEPTION SHALL BE MADE OR TAKEN THERETO. IF A COPY OF THIS LEASE, VERIFIED BY AFFIDAVIT, IS FILED IN SAID ACTION, IT SHALL NOT BE NECESSARY TO FILE THE ORIGINAL AS A WARRANT OF ATTORNEY, ANY LAW OR RULE OF COURT TO THE CONTRARY NOTWITHSTANDING. THIS WARRANT OF ATTORNEY SHALL NOT BE EXHAUSTED BY ONE EXERCISE THEREOF, AND SHALL REMAIN IN FORCE AND SHALL BE OPERATIVE FOR SUCCESSIVE EXERCISES THEREOF, FROM TIME TO TIME AS THE NEED MAY ARISE, NOT ONLY WITH RESPECT TO THE TENANT BUT ALSO WITH RESPECT TO ALL PERSONS CLAIMING UNDER THE TENANT.

29. CONFESSION OF JUDGMENT IN EJECTMENT. THIS PARAGRAPH SETS FORTH A WARRANT OF ATTORNEY FOR AN ATTORNEY TO CONFESS JUDGMENT AGAINST THE TENANT. IN GRANTING THIS WARRANT OF ATTORNEY TO CONFESS JUDGMENT AGAINST THE TENANT, TENANT HEREBY KNOWINGLY, INTELLIGENTLY AND VOLUNTARILY, AND, ON THE ADVICE OF SEPARATE COUNSEL OF TENANT, UNCONDITIONALLY WAIVES ANY AND ALL RIGHTS TENANT HAS OR MAY HAVE TO PRIOR NOTICE AND AN OPPORTUNITY FOR HEARING UNDER THE RESPECTIVE CONSTITUTIONS AND LAWS OF THE UNITED STATES AND THE COMMONWEALTH OF PENNSYLVANIA.

TENANT HEREBY AUTHORIZES THE PROTHONOTARY, CLERK OF COURT OR ANY ATTORNEY OF ANY COURT OF RECORD, UPON THE OCCURRENCE OF AN EVENT OF DEFAULT, OR IN THE EVENT THAT TENANT FAILS TO SURRENDER POSSESSION OF ALL OR ANY PART OF THE PREMISES AS REQUIRED HEREIN, TO APPEAR FOR THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT IN ANY COMPETENT COURT AND CONFESS JUDGMENT IN EJECTMENT (WITHOUT STAY OF EXECUTION OR APPEAL) IN FAVOR OF THE LANDLORD AND ALL PERSONS CLAIMING UNDER THE LANDLORD AND AGAINST THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT FOR POSSESSION OF THE PREMISES, WITHOUT ANY LIABILITY ON THE PART OF THE SAID ATTORNEY, FOR WHICH THIS SHALL BE A SUFFICIENT WARRANT, AND THEREUPON A WRIT OF POSSESSION WITH CLAUSE FOR COSTS, OR OTHER PROCESS FOR SIMILAR PURPOSES, MAY ISSUE FORTHWITH WITHOUT ANY PRIOR WRIT OR PROCEEDING WHATSOEVER, AND THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT HEREBY RELEASE TO THE LANDLORD AND ALL PERSONS CLAIMING UNDER THE LANDLORD ALL ERRORS AND DEFECTS WHATSOEVER IN ENTERING SUCH ACTION OR JUDGMENT, OR IN CAUSING SUCH WRIT OF POSSESSION OR OTHER PROCESS TO BE ISSUED, OR IN ANY PROCEEDING THEREON OR CONCERNING THE SAME, AND HEREBY AGREE THAT NO WRIT OF ERROR OR OBJECTION OR EXCEPTION SHALL BE MADE OR TAKEN THERETO. IF A COPY OF THIS LEASE, VERIFIED BY AFFIDAVIT, IS FILED IN SAID ACTION, IT SHALL NOT BE NECESSARY TO FILE THE ORIGINAL AS A WARRANT OF ATTORNEY, ANY LAW OR RULE OF COURT TO THE CONTRARY NOTWITHSTANDING. THIS WARRANT OF ATTORNEY SHALL NOT BE EXHAUSTED BY ONE EXERCISE THEREOF, AND SHALL REMAIN IN FORCE AND SHALL BE OPERATIVE FOR SUCCESSIVE EXERCISES THEREOF, FROM TIME TO TIME AS THE NEED MAY ARISE, NOT ONLY WITH RESPECT TO THE TENANT BUT ALSO WITH RESPECT TO ALL PERSONS CLAIMING UNDER THE TENANT.

30. RIGHT OF ASSIGNEE OF LANDLORD. The right to enforce all of the provisions of this Lease may be exercised by any assignee of the Landlord's right, title and interest in this Lease in its, his, her or their own name, and Tenant hereby expressly waives the requirements of any and all laws regulating the manner and/or form in which such assignments shall be executed and witnessed.

31. REMEDIES CUMULATIVE. All remedies given to Landlord herein and all rights and remedies given to Landlord by law and equity shall be cumulative and concurrent. No termination of this Lease, or taking or recovering of possession of the Premises, or entry of any judgment either for possession or for any money claimed to be due Landlord, shall deprive Landlord of any other action against Tenant for possession, or for any money due Landlord hereunder, or for damages hereunder. The exercise of or failure to exercise any remedy shall not bar or delay the exercise of any other remedy.

32. TENANT'S WAIVERS.

(a) If proceedings shall be commenced by Landlord to recover possession of the Premises, either at the end of the term hereof or by reason of an Event of Default or otherwise, Tenant expressly waives all rights to notice in excess of five (5) days required by any Act of Assembly, including the Act of April 6, 1951, P.L. 69, Art. V, Sec. 501, as amended, and agrees that in either or any such case five (5) days' notice shall be sufficient. Without limitation of or by the foregoing, Tenant hereby waives any and all demands, notices of intention, and notice of action or proceedings which may be required by law to be given or taken prior to any entry or re-entry by summary proceedings, ejectment or otherwise, by Landlord, except as hereinbefore expressly provided with respect to five (5) days' notice.

(b) Any notice to quit required by law previous to proceedings to recover possession of the Premises or any notice of demand for rent on the day when such is due and the benefit of all laws granting stay of execution, appeal, inquisition and exemption are hereby waived by Tenant; provided, however, that nothing in this paragraph shall be construed as a waiver of any notice specifically mentioned or required by any other part of this Lease.

(c) In the event of a termination of this Lease prior to the date of expiration herein originally fixed, Tenant hereby waives all right to recover or regain possession of the Premises, to save forfeiture by payment of rent due or by other performance of the conditions, terms or provisions hereof, and, without limitation of or by the foregoing, Tenant waives all right to reinstate or redeem this Lease notwithstanding any provisions of any statute, law or decision now or hereafter in force or effect and Tenant waives all right to any second or further trial in summary proceedings, ejectment or in any other action provided by any statute or decision now or hereafter in force or effect.

33. ATTORNMENT. In the event of the sale or assignment of Landlord's interest in the Premises or in the event of a foreclosure under any mortgage made by Landlord covering the Premises, Tenant shall attorn to the purchaser and recognize such purchaser as Landlord under this Lease.

34. SUBORDINATION. At the option of Landlord or Landlord's lender, or both of

them, this Lease and the Tenant's interest hereunder shall be subject and subordinate at all times to any mortgage or mortgages, deed or deeds of trust, or such other security instrument or instruments, including all renewals, extensions, consolidations, assignments and refinances of the same, as well as all advances made upon the security thereof, which now or hereafter become liens upon the Landlord's fee and/or leasehold interest in the Premises, and/or any and all of the buildings now or hereafter erected or to be erected and/or any and all of the Premises, provided, however, that in each such case, the holder of such other security, the trustee of such deed of trust or holder of such other security instrument shall agree that this Lease shall not be divested or in any way affected by foreclosure or other default proceedings under said mortgage, deed of trust, or other instrument or other obligations secured thereby, so long as Tenant shall not be in default under the terms of this Lease; and shall agree that this Lease shall remain in full force and effect notwithstanding any such default proceedings.

Notwithstanding anything herein to the contrary, any holder of any mortgage may at any time subordinate its mortgage to this Lease, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution and delivery and in that even such mortgage shall have the same rights with respect to this Lease as though this Lease had been executed and delivered prior to the execution and delivery of the mortgage.

35. EXECUTION OF DOCUMENTS. The above subordination shall be self-executing, but Tenant agrees upon demand to execute such other document or documents as may be required by a mortgagee, trustee under any deed of trust, or holder of a similar security interest, or any party to the types of documents enumerated herein for the purpose of subordinating this Lease in accordance with the foregoing. Upon the expiration of ten (10) days after a formal written notice, Tenant shall be deemed to have appointed Landlord and Landlord may execute and deliver the required documents for and on behalf of Tenant.

36. ESTOPPEL AGREEMENTS. Tenant shall execute an estoppel agreement in favor of any mortgagee or purchaser of Landlord's interest herein, within ten (10) days after requested to do so by Landlord or any such mortgagee or purchaser. Such estoppel agreement shall be in the form requested by Landlord or such mortgagee or purchaser.

37. CONDOMINIUM CONVERSION. Tenant acknowledges that Landlord has informed Tenant that Landlord, at any time in Landlord's sole discretion, may by recorded declaration, convert the fee ownership of the Building and the Land to a condominium in accordance with the provisions of the Pennsylvania Uniform Condominium Act (the "Act"). In such event, the common areas of the Building and the Land shall become Common Elements and/or Limited Common Elements, as defined in the Act and as designated by Landlord, and the Common Expenses pertaining thereto (as defined in the Act), as applicable, shall be included as part of the Premises Expenses. Tenant agrees upon demand to execute such document or documents as may be required by Landlord in connection with any such condominium conversion.

38. NOTICES. All notices required to be given by either party to the other shall be in writing. All such notices shall be deemed to have been given upon delivery in person, or upon depositing in the United States mail, by certified mail, return receipt requested, postage prepaid, or by delivery by telefax, facsimile or telegraph, or by Federal Express or other nationally recognized overnight delivery service, addressed to the parties at the addresses shown in the summary pages at the front of this Lease or to such other address which either party may hereafter designate in writing by notice given in a like manner.

39. BINDING EFFECT. All rights and liabilities herein given to, or imposed upon the respective parties hereto, shall extend to and bind the several and respective heirs, personal representatives, successors and permitted assigns of said parties.

40. SURVIVAL OF VALID TERMS. If any provision of this Lease shall be invalid or unenforceable, the remainder of the provisions of this Lease shall not be affected thereby, and each and every provision of this Lease shall be enforceable to the fullest extent permitted by law.

41. ENTIRE AGREEMENT. This Lease and any exhibit, rider or addendum that may be attached hereto set forth all the promises, agreements, conditions and understandings between Landlord and Tenant relative to the Premises, and there are no promises, agreements, conditions or understandings, either oral or written, between them other than are herein set forth. Except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and signed by them.

42. PROHIBITION AGAINST RECORDING. This Lease shall not be recorded and any attempted recording of this Lease shall constitute an Event of Default hereunder.

43. INTERPRETATION. As used in this Lease and when required by context, each number (singular or plural) shall include all numbers, and each gender shall include all genders. Time is and shall be of essence of each term and provision of this Lease. The term "person" as used herein means person, firm, association or corporation, as the case may be. If Tenant is more than one person, all agreements, conditions, obligations, covenants, warrants of attorney, waivers and releases made by Tenant shall be joint and several, and shall bind and affect all persons who are defined as "Tenant" herein.

44. LIABILITY OF LANDLORD. The term "Landlord" as used herein means the fee owner of the Premises from time to time. In the event of the voluntary or involuntary transfer of such ownership to a successor-in-interest of the Landlord, the Landlord shall be automatically discharged and relieved of and from all liability and obligations hereunder which shall thereafter accrue, and Tenant shall look solely to such successor-in-interest for the performance and obligations of the Landlord hereunder which shall thereafter accrue. The liability of Landlord and its successors-in-interest under or with respect to this Lease shall be strictly limited to and enforceable solely out of its or their interest in the Premises and shall not be enforceable out of any other assets.

45. CAPTIONS AND HEADINGS. The captions and headings of the paragraphs contained herein are for convenience of reference only and in no way define, limit, describe, modify or amplify the interpretation, construction or meaning of any provision of or the scope or intent of this Lease nor in any way affect this Lease. All Exhibits are an integral part of this Lease and are attached hereto.

46. NO BROKERAGE COMMISSION. Landlord and Tenant represent and warrant that no brokerage commission or similar compensation is due to any party by reason of this Lease. Each party hereby agrees to indemnify and hold the other party harmless from and against any and all claims, costs, damages, expenses, judgments or liability resulting from any claim for brokerage commissions or similar compensation made by any party in connection with this Lease.

47. QUIET ENJOYMENT. Upon Tenant's compliance with the provisions of this Lease, including the payment of all rent hereunder, Tenant shall peaceably hold and enjoy the Premises during the term hereof without hinderance or interruption by Landlord or any person claiming under Landlord.

48. WAIVER OF TRIAL BY JURY. Each party to this Lease agrees that any suit, action, or proceeding, whether claim or counterclaim, brought or instituted by any party hereto or any successor or assign of any party hereto or with respect to this Lease or which in any way relates, directly or indirectly, to the Premises or any event, transaction, or occurrence arising out of or in any way in connection with the Premises, or the dealings of the parties with respect thereto, shall be tried only by a court and not by a jury. EACH PARTY HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION OR PROCEEDING. TENANT ACKNOWLEDGES AND AGREES THAT THIS PARAGRAPH 48 IS A SPECIFIC AND MATERIAL ASPECT TO THIS LEASE BETWEEN THE PARTIES AND THAT LANDLORD WOULD NOT LEASE THE PREMISES TO THE TENANT IF THIS WAIVER OF JURY TRIAL SECTION WERE NOT A PART OF THIS LEASE.

49. OWNERS' ASSOCIATION. This Lease and all terms and provisions hereof shall be under and subject, in all respects, to: (a) the Declaration of Covenants, Easements, Conditions and Restrictions for The Owner's Association Of Wyomissing Professional Center, Inc., which is recorded in the Recorder of Deeds Office of Berks County, Pennsylvania, and (b) the Articles of Incorporation and the Bylaws of The Owners Association Of Wyomissing Professional Center, Inc., copies of which are available upon request. Tenant covenants and agrees to comply with the terms of such written instruments insofar as they pertain to any tenant of the Building and such tenant's agents, servants, employees, invitees, and business visitors.

CONSENT

INTENDING to be legally bound hereby, The Owners' Association OF Wyomissing Professional Center, Inc. (*or The Owners' Association of Wyomissing Professional Center, Inc. or The Owner's Association of Wyomissing Professional Center, West Campus, Inc.*) hereby joins in and consents to the above Lease insofar as any of the above provisions concern the parking area and any other common areas maintained by it.

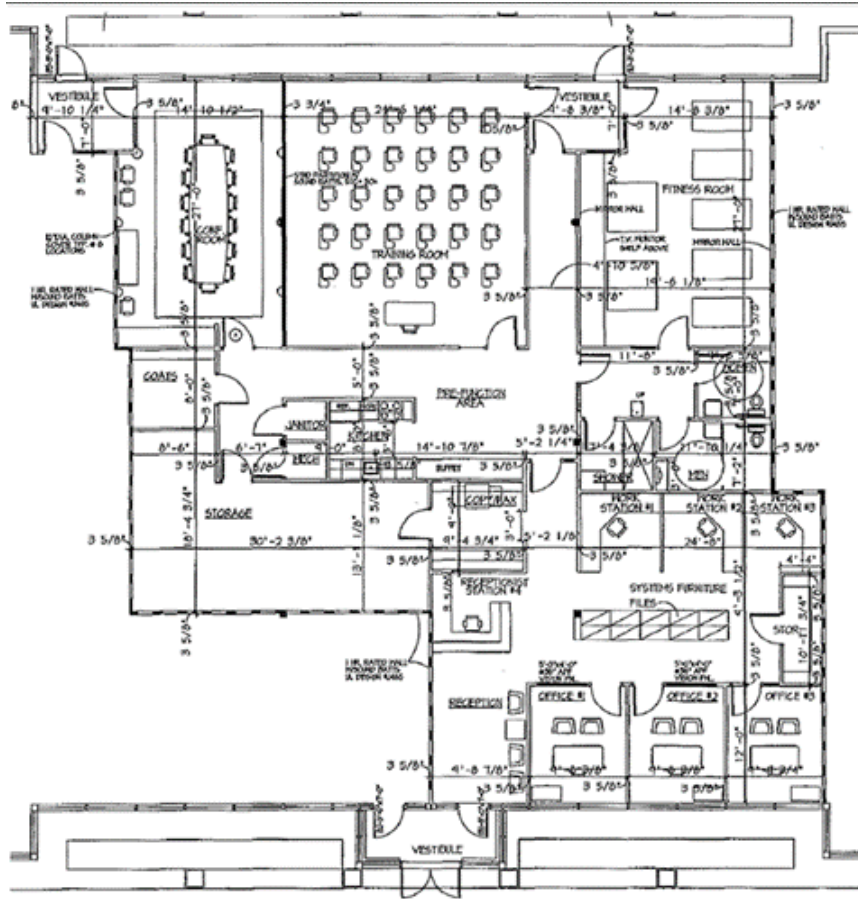
OWNER'S ASSOCIATION OF WYOMISSING PROFESSIONAL
CENTER, INC.

By: /s/ Stephen J. Najarian

Exhibits

- "A" - Leased Premises
- "B" - Expense Budget
- "C" - Building Location
- "D" - Left Blank Intentionally
- "E" - Tenant Plans and Specifications
- "F" - Building Common Area
- "G" - Left Blank Intentionally

Exhibit "A"



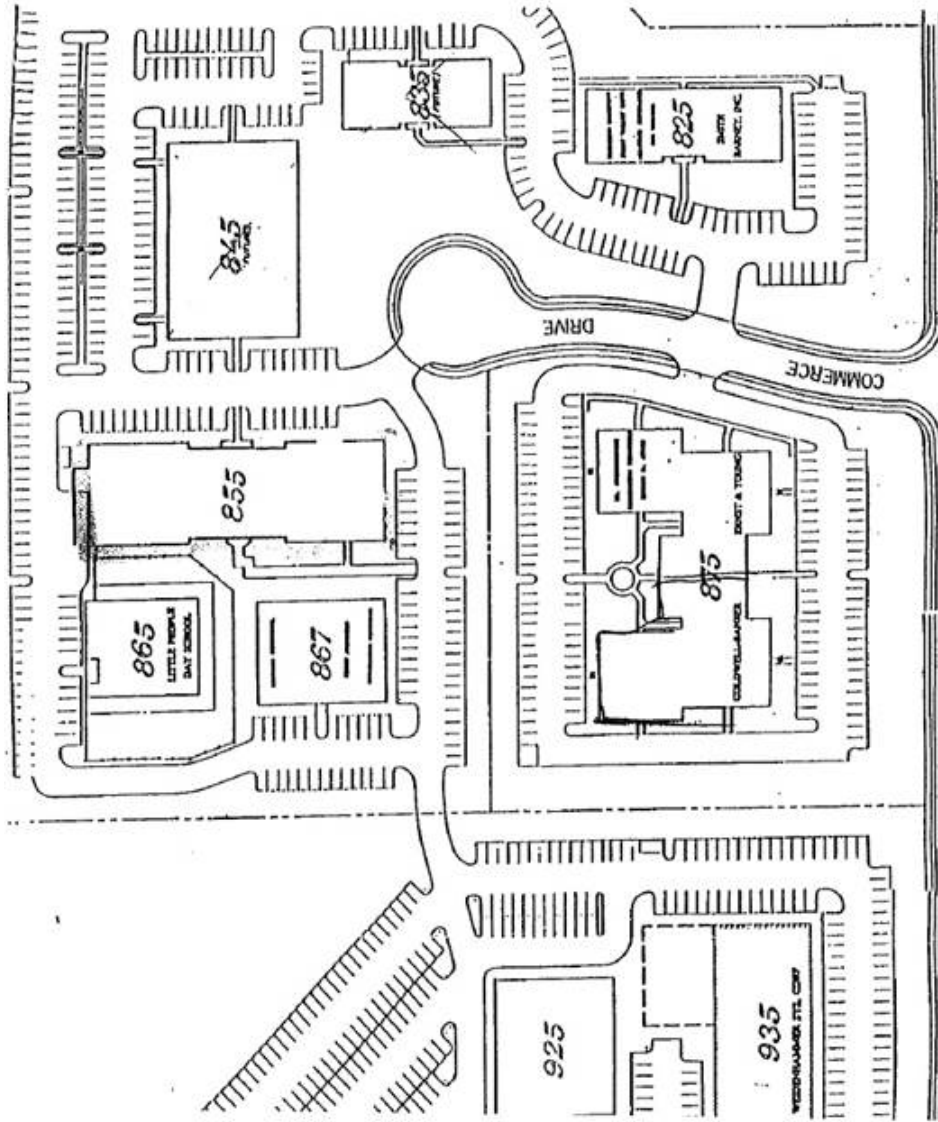
855 BERKSHIRE BLVD.
4,388 SQ.FT.

EXHIBIT "B"

OPERATING EXPENSE BUDGET

| CATEGORY | | P.S.F. |
|--------------------------------------|----|---------------|
| Real Estate taxes | \$ | 1.55 |
| Insurance | | .18 |
| Janitorial | | 1.00 |
| Sewer & Water | | .09 |
| Trash Removal | | .14 |
| HVAC & building repair & maintenance | | .35 |
| CAM Maintenance & Management | | .35 |
| Lawn & bed maintenance | | .35 |
| Snow removal | | .10 |
| CAM electric and gas | | .14 |
| TOTAL: | \$ | 4.25 |

WYOMISSING PROFESSIONAL CENTER



Berkshire Boulevard

Standard Interior Fit Specifications

Note: pricing of interior improvements is based on these Standard Interior Fit Specifications, unless specified otherwise by Tenant.

- A) Flooring** Landlord shall provide a concrete slab for 100% of the gross area. Tenant to provide standard carpet grade assumes a 26 to 28 oz. carpet, brand Shaw or Patcraft, installed throughout the entire space.
- B) Walls and Ceilings** Tenant shall provide 3 5/8" steel stud interior walls with 1/2" gypsum wall board on each side. Exterior and suite demising walls shall be insulated with 3 1/2" fiberglass insulation. Drywall shall be taped and sanded and shall be painted with one coat of latex primer and one coat of latex finish in an off-white color. Walls shall receive a 4" vinyl wall base.

Interior doors shall be stain grade solid core wood doors with handicapped accessible lever hardware. Frames shall be a knockdown metal frame. Door frame shall be painted with one coat of primer and one coat of oil base paint. Color of door frame shall match wall color.

All interior partitions with the exception of the mechanical room, shall extend to the underside of the suspended ceiling.

Mechanical room partition shall extend from floor to underside of trusses.

Tenant shall provide 2' x 2' suspended acoustical tile ceiling throughout the entire space with the exception of the mechanical room, with standard grid.
- C) Lighting/Electrical** Tenant shall provide and install 2'x4' Four Tube Lay-in lighting fixtures with electronic ballasts, with standard prismatic lenses. Provide approximately one fixture per 90 square feet of floor area or as shown on Tenant's reflected ceiling plan.

Tenant shall provide outlets equivalent in number to one duplex receptacle every 15 feet along the perimeter wall and one duplex receptacle every 15 feet on interior partitions.
- D) HVAC** Tenant shall provide interior ducting based on tenant requirements. Supply and return registers shall be installed as required, and equipment shall be sized to Tenant requirements. One thermostat/control is provided per zone.

Building specifications



AIA Document A101

**Standard Form of Agreement Between
Owner and Contractor**
*where the basis of payment is a
STIPULATED SUM*
1987 EDITION

THIS DOCUMENT HAS IMPORTANT LEGAL CONSEQUENCES; CONSULTATION WITH AN ATTORNEY IS ENCOURAGED WITH RESPECT TO ITS COMPLETION OR MODIFICATION.

The 1987 Edition of AIA Document A201, General Conditions of the Contract for Construction, is adopted in this document by reference. Do not use with other general conditions unless this document is modified.

This document has been approved and endorsed by The Associated General Contractors of America.

AGREEMENT

made as of the 16th day of JANUARY in the year of TWO THOUSAND TWO (2002)

BETWEEN the Owner:
(Name and address) PENN NATIONAL GAMING, INC.
825 BERKSHIRE BOULEVARD
SUITE 20
WYOMISSING, PA 19610

and the Contractor:
(Name and address) 825 BERKSHIRE BOULEVARD
SUITE 203
WYOMISSING, PA 19610

The Project is:
(Name and location) TENANT IMPROVEMENTS AT
855 BERKSHIRE BOULEVARD
WYOMISSING PROFESSIONAL CENTER 855
WYOMISSING, PA 19610

The Architect is:
(Name and address) BRUCE D. WEINSTEIGER, AIA
ARCHITECTURAL CONCEPTS
626 WEST LINCOLN HIGHWAY
EXTON, PA 19341

The Owner and Contractor agree as set forth below.

Copyright 1915, 1918, 1925, 1937, 1951, 1958, 1961, 1963, 1967, 1974, 1977, ©1987 by The American Institute of Architects, 1735 New York Avenue, N.W., Washington, D.C. 20006. Reproduction of the material herein or substantial quotation of its provisions without written permission of the AIA violates the copyright laws of the United States and will be subject to legal prosecution.

AIA DOCUMENT A101 · OWNER-CONTRACTOR AGREEMENT · TWELFTH EDITION · AIA [ILLEGIBLE] · @1987
THE AMERICAN INSTITUTE OF ARCHITECTS, 1735 NEW YORK AVENUE, N.W., WASHINGTON, D.C. 20006'

A101-1987

WARNING: Unlicensed photocopying violates U.S. copyright laws and is subject to legal prosecution.

ARTICLE 1
THE CONTRACT DOCUMENTS

The Contract Documents consist of this Agreement. Conditions of the Contract General. Supplementary and other Conditions. Drawings. Specifications. addenda issued prior to execution of this Agreement, other documents listed in this Agreement and Modifications issued after execution of this Agreement: these form the Contract, and are as fully a part of the Contract as if attached to this Agreement or repeated herein. The Contract represents the entire and integrated agreement between the parties hereto and supersedes prior negotiations, representations or agreements, either written or oral. An enumeration of the Contract Documents, other than Modifications, appears in Article 9.

ARTICLE 2
THE WORK OF THIS CONTRACT

The Contractor shall execute the entire Work described in the Contract Documents, except to the extent specifically indicated in the Contract Documents to be the responsibility of others, or as follows:

Contractor shall provide tenant improvements according to the Plans and Specifications.

ARTICLE 3
DATE OF COMMENCEMENT AND SUBSTANTIAL COMPLETION

3.1 The date of commencement is the date from which the Contract Time of Paragraph 3.2 is measured, and shall be the date of this Agreement, as first written above, unless a different date is stated below or provision is made for the date to be fixed in a notice to proceed issued by the Owner.

(Insert the date of commencement if it differs from the date of this Agreement or if applicable date that the date will be fixed in a notice to proceed)

Unless the date of commencement is established by a notice to proceed issued by the Owner, the Contractor shall notify the Owner in writing not less than five days before commencing the Work to permit the timely filing of mortgages, mechanic's liens and other security interests.

3.2 The Contractor shall achieve Substantial Completion of the entire Work not later than April 26, 2002 or any written extensions thereof.

(Insert the calendar date or number of calendar days after the date of commencement. Also insert any requirements for earlier Substantial Completion of certain portions of the Work, if not stated else where in the Contract Documents)

[ILLEGIBLE] subject to adjustments of this Contract Time as provided in the Contract Documents.

(Insert provisions, if any, for liquidated damages relating to failure to complete on time)

ARTICLE 4
CONTRACT SUM

4.1 The Owner shall pay the Contractor in current funds for the Contractor's performance of the Contract the Contract Sum of One Hundred Ninety-one Thousand Six Hundred Fifty-two and 10/1000 Dollars (\$ 191, 652 .10), subject to additions and deductions as provided in the Contract Documents.

4.2 The Contract Sum is based upon the following alternates, If any, which are described in the Contract Documents and are hereby accepted by the Owner:

(State the numbers or other identification of accepted alternates. If decisions on other alternates are to be made by the Owner subsequent to the execution of this Agreement, attach a schedule of such other alternates showing the amount for each and the date until which that amount is valid.)

4.3 Unit prices, if any, are as follows:

ARTICLE 5
PROGRESS PAYMENTS

5.1 Based upon Applications for Payment submitted to the Architect by the Contractor and Certificates for Payment issued by the Architect, the Owner shall make progress payments on account of the Contract Sum to the Contractor as provided below and elsewhere in the Contract Documents.

5.2 The period covered by each Application for Payment shall be one calendar month ending on the last day of the month, or as follows: Payments shall be due as follows:

| | | | |
|------------------|-------------|----|--|
| February 1, 2002 | \$47,913.03 | or | 25% of any revised estimate. |
| March 1, 2002 | \$47,913.03 | or | 25% of any revised estimate. |
| April 1, 2002 | \$47,913.03 | or | 25% of any revised estimate. |
| April 26, 2002 | \$47,913.01 | or | any remaining balance due under this contract. |

5.3 Provided an Application for Payment is received by the Architect not later than the LAST day of a month, the Owner shall make payment to the Contractor not later than the day of the following month. If an Application for Payment is received by the Architect after the application date fixed above, payment shall be made by the Owner not later than days after the Architect receives the Application for Payment.

5.4 Each Application for Payment shall be based upon the schedule of values submitted by the Contractor in accordance with the Contract Documents. The schedule of values shall allocate the entire Contract Sum among the various portions of the Work and be prepared in such form and supported by such data to substantiate its accuracy as the Architect may require. This schedule, unless objected to by the Architect, shall be used as a basis for reviewing the Contractor's Applications for Payment.

5.5 Applications for Payment shall indicate the percentage of completion of each portion of the Work as of the end of the period covered by the Application for Payment.

5.6 Subject to the provisions of the Contract Documents, the amount of each progress payment shall be computed as follows:

5.6.1 Take that portion of the Contract Sum properly allocable to completed Work as determined by multiplying the percentage completion of each portion of the Work by the share of the total Contract Sum allocated to that portion of the Work in the schedule of values, less retainage of -0- percent (-0- %). Pending final determination of cost to the Owner of changes in the Work, amounts not in the dispute may be included as provided in Subparagraph 7.3.7 of the General Conditions even though the Contract Sum has not yet been adjusted by Change Order;

5.6.2 Add that portion of the Contract Sum properly allocable to materials and equipment delivered and suitably stored at the site for subsequent incorporation in the completed construction (or, if approved in advance by the Owner, suitably stored off the site at a location agreed upon in writing), less retainage of -0- percent (-0- %);

5.6.3 Subtract the aggregate of previous payments made by the Owner; and

5.6.4 Subtract amounts, if any, for which the Architect has withheld or nullified a Certificate for Payment as provided in Paragraph 9.5 of the General Conditions.

5.7 The progress payment amount determined in accordance with Paragraph 5.6 shall be further modified under the following circumstances:

5.7.1 Add, upon Substantial Completion of the Work, a sum sufficient to increase the total payments to ONE HUNDRED percent (100 %) of the Contract Sum, less such amounts as the Architect shall determine for incomplete Work and unsettled claims; and

5.7.2 Add, if final completion of the Work is thereafter materially delayed through no fault of the Contractor, any additional amounts payable in accordance with Subparagraph 9.10.3 of the General Conditions.

5.8 Reduction or limitation of retainage, if any, shall be as follows:

(If it is intended, prior to Substantial Completion of the entire work, to reduce or limit the retainage resulting from the percentages inserted in Subparagraphs 5.6.1 and 5.6.2 above, and this is not explained elsewhere in the Contract Documents, insert here provisions for such reduction or limitation.)

ARTICLE 6
FINAL PAYMENT

Final payment, constituting the entire unpaid balance of the Contract Sum, shall be made by the Owner to the Contractor when (1) the Contract has been fully performed by the Contractor except for the Contractor's responsibility to correct nonconforming Work as provided in Subparagraph 12.2.2 of the General Conditions and to satisfy other requirements, if any, which necessarily survive final payment; and (2) a final Certificate for Payment has been issued by the Architect; such Final payment shall be made by the Owner not more than 30 days after the issuance of the Architect's final Certificate for payment, or as follows:

ARTICLE 7
MISCELLANEOUS PROVISIONS

7.1 Where reference is made in this Agreement to a provision of the General Conditions or another Contract Document, the reference refers to that provision as amended or supplemented by other provisions of the Contract Documents.

7.2 Payments due and unpaid under the Contract shall bear interest from the date payment is due at the rate stated below, or in the absence thereof, at the legal rate prevailing from time to time at the place where the Project is located.

(Insert rate of interest agreed upon, if any.)

(Usury laws and requirements under the Federal Truth in Lending Act, similar state and local consumer credit laws and other regulations at the Owner's and Contractor's principal places of business, the location of the Project and elsewhere may affect the validity of this provision. Legal advice should be obtained with respect to deletions or modifications, and also regarding requirements such as written disclosures or waivers.)

7.3 Other provisions:

ARTICLE 8
TERMINATION OR SUSPENSION

8.1 The Contract may be terminated by the Owner or the Contractor as provided in Article 14 of the General Conditions.

8.2 The Work may be suspended by the Owner as provided in Article 14 of the General Conditions.

ARTICLE 9
ENUMERATION OF CONTRACT DOCUMENTS

9.1 The Contract Documents, except for Modifications issued after execution of this Agreement, are enumerated as follows:

9.1.1 The Agreement is this executed Standard Form of Agreement Between Owner and Contractor, AIA Document A101, 1987 Edition.

9.1.2 The General Conditions are the General Conditions of the Contract for Construction, AIA Document A201, 1987 Edition.

9.1.3 The Supplementary and other Conditions of the Contract are those contained in the Project Manual dated, and are as follows:

| Document | Title | Pages |
|----------|-------|-------|
| | | |
| | | |

9.1.4 The Specifications are those contained in the Project Manual dated as in Subparagraph 9.1.3, and are as follows:

(Either list the Specifications here or refer to an exhibit attached to this Agreement.)

| Section | Title | Pages |
|---------|-------|-------|
| | | |
| | | |

9.1.5 The Drawings are as follows, and are dated unless a different date is shown below:

(Either list the Drawings here or refer to an exhibit attached to this Agreement.)

| Number | Title | Date |
|--------|-------------------|------|
| A2.0 | Tenant Floor Plan | |

9.1.6 The addenda, if any, are as follows:

| Number | Date | Pages |
|--------|------|-------|
|--------|------|-------|

Portions of Addenda relating to bidding requirements are not part of the Contract Documents unless the bidding requirements are also enumerated in this Article 9.

9.1.7 Other documents, if any, forming part of the Contract Documents are as follows:

(List here any additional documents which are intended to form part of the Contract Documents. The General Conditions provide that bidding requirements such as advertisement or invitation to bid, Instructions to Bidders, sample forms and the Contractor's bid are not part of the Contract Documents unless enumerated in this Agreement. They should be listed here only if intended to be part of the Contract Documents.)

This Agreement is entered into as of the day and year first written above and is executed in at least three original copies of which one is to be delivered to the Contractor, one to the Architect for use in the administration of the Contract, and the remainder to the Owner.

CONTRACTOR

/s/ Robert S. Ippolito
(Signature) PENN NATIONAL GAMING, INC.
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
(Printed name and title)
Robert S. Ippolito VP/Sec/Treas

/s/ STEPHEN J. NAJARIAN, President
(Signature)
STEPHEN J. NAJARIAN, President
CDG Commercial Builders, INC.
(Printed name and title)

ESTIMATE SHEET

JOB NAME: PENN NATIONAL
JOB DESCRIPTION: FIT
DATE: 1/11/2002
JOB NUMBER: WPC8-55PN

SF 4,591

| DESCRIPTION | CATEGORY | COMMENTS | SUBCONTRACTOR | TOTAL COST | PER SF |
|--|------------|--------------------------------------|-----------------------|-------------------|-----------------|
| <u>SITE</u> | | | | | |
| LAND | 10-100-100 | | | | 0 |
| SETTLEMENT COSTS- FINANCING | 10-100-250 | | | | 0 |
| INTEREST RESERVE | 10-100-275 | | | | 0 |
| PRIMARY SITE EXCAVATION | 20-210-025 | | | | 0 |
| ROCK EXCAVATION- ROADS | 20-210-600 | | | | 0 |
| SITE LIGHTING | 20-250-100 | | | | 0 |
| PAVING - GENERAL | 20-260-025 | | | | 0 |
| SIDEWALKS - OTHER | 20-262-150 | | | | 0 |
| MISCELLANEOUS | 20-280-300 | | | | 0 |
| SITE LANDSCAPING | 20-280-400 | | | | 0 |
| OUTSIDE BROKER COMMISSIONS | 60-650-200 | | | | 0 |
| SUBTOTAL | | | | 0.00 | \$ — |
| <u>CONSTRUCTION</u> | | | | | |
| PERMITS | 30-300-100 | | | 655.00 | 0.142670442 |
| ARCHITECTURE | 30-304-100 | | | | 0 |
| ENGINEERING | 30-305-150 | | | | 0 |
| TRASH REMOVAL | 30-310-400 | | | 3,250.00 | 0.707906774 |
| ELECTRICITY | 30-310-450 | | | 450.00 | 0.098017861 |
| HEAT/AC | 30-310-500 | | | 400.00 | 0.087126988 |
| TEMPORARIES- GENERAL | 30-310-550 | | | 250.00 | 0.054454367 |
| TEMP INSURANCE | 30-310-600 | | | 1,148.00 | 0.250054454 |
| FOOTINGS | 30-330-250 | | | | 0 |
| FOUNDATION | 30-340-100 | | | | 0 |
| SLABS & STONE | 30-340-150 | | | | 0 |
| SIDEWALKS | 30-340-200 | | | | 0 |
| STUCCO | 30-350-100 | | | | 0 |
| BRICK & BLOCK | 30-350-150 | | | | 0 |
| LUMBER / BLOCKING | 30-360-100 | | | 650.00 | 0.141581355 |
| STRUCTURAL STEEL | 30-360-150 | | | | 0 |
| ROOF TRUSSES | 30-360-250 | | | | 0 |
| RAILINGS | 30-360-300 | | | | 0 |
| PAINING | 30-367-100 | ALL PAINT | WEST LANC AVE ASSOC | 7,195.00 | 1.567196689 |
| DRYWALL / INT PARTIONS | 30-367-150 | STUDS, WALLS, CEILINGS | G EARL MARTIN | 29,045.00 | 6.326508386 |
| INSULATION | 30-367-200 | INCLUDED IN DRYWALL | | | 0 |
| WINDOWS & GLASS | 30-370-150 | DOORS, FOYER, TAKE OUT/IN | B & G GLASS BERKSHIRE | 6,950.00 | 1.513831409 |
| INTERIOR DOORS | 30-370-175 | METAL FRAMES/HARDWARE | INSULATION | 9,175.00 | 1.998475278 |
| ROOFING | 30-375-100 | | | | 0 |
| GUTTERS & DOWNSPOUTS | 30-375-150 | | | | 0 |
| PLUMBING | 30-377-100 | CUT UP FLOOR & REPLACE | D J SOCKEL | 18,125.00 | 3.947941625 |
| HVAC | 30-378-100 | | LUPPOLD | 24,628.00 | 5.364408626 |
| ELECTRICAL | 30-379-100 | | SWEIGART | 20,650.00 | 4.497930734 |
| SITE LIGHTING | 30-379-200 | | | | 0 |
| HARDWARE | 30-380-100 | INCLUDED WITH DOORS | | | 0 |
| TOILET ACCESSORIES | 30-385-100 | | | 465.00 | 0.101285123 |
| FIRE EXT. | 30-385-450 | | | 235.00 | 0.051187105 |
| SPRINKLER | 30-385-450 | | | | 0 |
| ALARM SPRINKLER | 30-385-450 | NO PASS CARD OR SEC SYSTEM IN PRICE | | | 0 |
| ELEVATOR | 30-385-500 | | | | 0 |
| SIGNAGE | 30-385-550 | | | | 0 |
| SPECIALTIES- GENERAL | 30-385-600 | COLUMNS IN CONFERENCE ROOM | | 1,720.00 | 0.374646047 |
| SPECIALTIES- GENERAL | 30-385-600 | MIRRORS ON FIT ROOM WALLS INSTALLED | | 2,800.00 | 0.609888913 |
| APPLIANCE PACKAGE | 30-388-100 | NOT IN PRICE BUT ALL INSTALLATION IS | | | 0 |
| CABINETS | 30-390-100 | | DECARLO | 12,500.00 | 2.722718362 |
| FINISH CARPENTRY | 30-391-100 | | BOARDER | 3,258.00 | 0.709649314 |
| STORAGE SHELVING | 30-391-150 | INCLUDED WITH CABINETS | | | 0 |
| FLOOR | 30-395-100 | | | | 0 |
| CERAMIC TILE | 30-395-100 | | DELUCIA | 4,375.00 | 0.952951427 |
| MARBLE TILE | 30-395-100 | | | | 0 |
| CARPETING | 30-395-100 | | | 12,355.00 | 2.691134829 |
| PAVING | 30-397-100 | | | | 0 |
| LANDSCAPING | 30-397-150 | | | | 0 |
| FINISH CLEANING | 30-399-100 | | | 1,800.00 | 0.392071444 |
| JOB JOHNNY | 30-399-125 | | | 600.00 | 0.130690481 |
| MISC SUPPLIES | 30-399-150 | | | | 0 |
| CONSTRUCTION LABOR | 30-399-250 | DEMO OF ALL WALLS & CEILINGS | | 3,975.00 | 0.865824439 |
| MISC REPAIRS | 30-399-200 | | | | 0 |
| MISC SOFT COSTS | | | | | 0 |
| SUBTOTAL | | | | 166,654.00 | \$ 36.30 |
| <u>OVERHEAD</u> | | | | | |
| PROJECT SUPERVISION | 40-402-100 | CDG Commercial Builders, Inc. | 3% | 4,999.62 | 1.089004574 |
| PROJECT OVERHEAD | 40-405-100 | Carlino Development Group, Inc. | 5% | 8,332.70 | 1.815007624 |
| PROJECT PROFIT | | PENN NATIONAL | 7% | 11,665.78 | 2.541010673 |
| SUBTOTAL | | | | 191,652.10 | \$ 5.45 |
| <u>OPTIONS/ADD ONS (32 CODES)</u> | | | | | |
| | | | | 0.00 | |
| | | | | 0.00 | |
| | | | | 0.00 | |
| TOTAL PROJECT COST | | | | 191,652.10 | \$ 47.19 |
| Landlord's contribution | | | | 0.00 | \$ 0.00 |
| Tenant's loan responsibility | | | | 191,652.10 | 41.74517534 |

COMMENCEMENT AGREEMENT

THIS COMMENCEMENT AGREEMENT (the "Agreement") made this 23rd day of May 2002, between **Penn National Gaming, Inc.**, hereinafter, called "Tenant", having its principal place of business at 825 Berkshire Boulevard, Suite 200, Wyomissing, PA 19610 and **Wyomissing Professional Center, II, LIMITED PARTNERSHIP** hereinafter called "Landlord", having its principal place of business at 825 Berkshire Blvd. Suite 203 Wyomissing, Pennsylvania 19610.

WITNESETH:

The Tenant and the Landlord have executed a Lease Agreement, which includes Exhibits "A", "B", "C", "E" and "F", relating to the Leased Premises located at 855 Berkshire Boulevard, Suite 100, Wyomissing, Pennsylvania 19610.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
2. **Amendment.** This Agreement is an amendment to and shall be deemed an integral part of the Lease except to the extent to which the provisions of this Agreement modify the provisions of the Lease. The provisions of the Lease shall remain in full force and effect.
3. **Defined Terms.** All capitalized terms used in this Agreement without definition which are defined in the Lease shall have the meanings set forth in the Lease.
4. **Commencement Date.** Commencement date for Tenant's space shall be May 21, 2002.
5. **Term of Lease.** Term of Lease is ten (10) years and eleven (11) days, starting May 21, 2002 and ending May 31, 2012.
6. **Binding effect.** This Amendment shall be binding upon, and shall inure to the benefit of, Landlord and Tenant, and their respective successors and assigns.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Commencement Agreement to be duly executed this 23rd day of May 2002.

THIS AGREEMENT MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

**WYOMISSING PROFESSIONAL CENTER II,
LIMITED PARTNERSHIP**, by its General Partner, The
Wyomissing Professional Center II

By: /s/ Stephen J. Najarian

Name: Stephen J. Najarian
Title: President

Date: 5/24/02

ATTEST:

TENANT:

By: /s/ Susan M. Montgomery

By: /s/ Robert S. Ippolito

Name: Susan M. Montgomery

Name: Robert S. Ippolito

Title: Office Manager/ Asst. to Chairman

Title: VP/Sec/Treas

Date: 5/23/02

Date: 5/24/02

FIRST LEASE AMENDMENT

THIS LEASE AMENDMENT (the "Amendment") made this 4th day of December, 2002, between **Penn National Gaming**, hereinafter, called "Tenant", having its principal place of business at 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610 and **Wyomissing Professional Center II, Limited Partnership** hereinafter called "Landlord", having its principal place of business at 825 Berkshire Boulevard., Suite 203, Wyomissing, Pennsylvania 19610.

WITNESSETH:

The Tenant and the Landlord have executed a Lease Agreement dated January 25, 2002 which includes Exhibits "A", "B", "C", "E" and "F", relating to the Leased Premises located at 855 Berkshire Blvd., Suite 200, Wyomissing, Pennsylvania 19610.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
 2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease except to the extent to which the provisions of this Amendment modify the provisions of the Lease. The provisions of the Lease shall remain in full force and effect.
 3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
 4. **Leased Premises.** The floor area of the leased premises is increased by 5,521 rentable square feet from 4,388 square feet of rentable floor area to 9,909 square feet of rentable floor area. All Lease calculations, pro rations and charges based on rentable square feet shall be changed accordingly.
 5. **Fixed Annual Minimum Rent:** As per attached Attachment A1-1.
 6. **Effective Date.** The effective date for Tenant's increased space and rental payments shall be March 1, 2003 or ten (10) days from the completion of the construction to be performed by Landlord's contractor as per Attachment A1-2 attached hereto, whichever is sooner.
 7. **Term of Lease.** The Term of Lease is unchanged ending May 31, 2012.
 8. **Binding effect.** This Amendment shall be binding upon, and shall inure to the benefit of, Landlord and Tenant, and their respective successors and assigns.
-

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed this 4th day of December, 2002.

THIS LEASE AMENDMENT MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

**WYOMISSING PROFESSIONAL CENTER II,
LIMITED PARTNERSHIP**, by its General Partner,
Wyomissing Professional Center II, Inc.

By: /s/ Stephen J. Najarian
Stephen J. Najarian, President

Date: 12/4/02

TENANT:

PENN NATIONAL GAMING, INC., a
Pennsylvania corporation

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito

Title: VP/Sec/Treas

Date: 12/4/02

ATTESST:

By: /s/ Susan M. Montgomery

Name: Susan M. Montgomery

Title: Asst. to Chairman

Date: 12-4-02

ATTACHMENT A1-1

FIXED ANNUAL MINIMUM RENT

| | |
|---------------------|----------|
| Rentable SF: | 9,909 |
| Starting Rate PRSF: | \$ 13.00 |
| Annual Escalation: | 2.0% |

| <u>Lease Year/ Period</u> | <u>Rentable Sq.Ft.</u> | <u>Minimum Rent per Rentable Sq. Ft.</u> | <u>Monthly Rent</u> | <u>Annual Rent (the "Annual Minimum Rent")</u> |
|-------------------------------|----------------------------|--|---------------------|--|
| 3/1/03 - 5/31/03 | 9,909 | \$ 13.00 | \$ 10,734.75 | \$ 32,204.25 |
| Lse Yr 2 6/1/03 - 5/31/04 | 9,909 | \$ 13.26 | \$ 10,949.45 | \$ 131,393.34 |
| Lse Yr 3 04-05 | 9,909 | \$ 13.53 | \$ 11,168.43 | \$ 134,021.21 |
| Lse Yr 4 05-06 | 9,909 | \$ 13.80 | \$ 11,391.80 | \$ 136,701.63 |
| Lse Yr 5 06-07 | 9,909 | \$ 14.07 | \$ 11,619.64 | \$ 139,435.66 |
| Lse Yr 6 07-08 | 9,909 | \$ 14.35 | \$ 11,852.03 | \$ 142,224.38 |
| Lse Yr 7 08-09 | 9,909 | \$ 14.64 | \$ 12,089.07 | \$ 145,068.86 |
| Lse Yr 8 09-10 | 9,909 | \$ 14.93 | \$ 12,330.85 | \$ 147,970.24 |
| Lse Yr 9 10-11 | 9,909 | \$ 15.23 | \$ 12,577.47 | \$ 150,929.65 |
| Lse Yr 10 11-12 | 9,909 | \$ 15.54 | \$ 12,829.02 | \$ 153,948.24 |

Notes :

- (1) The first amount shown in the Annual Rent column for the period 3/1/03 to 5/31/03 is for that three (3) month period only, the remaining amounts shown in that column are for the 12 month Lease Year periods indicated.
- (2) Monthly Rent shall be pro rated for a partial month occupancy.

ATTACHMENT A1-2

ESTIMATE SHEET - FIT UP

12/04/2002 11:07

| | | | | |
|-----------------|----------------------|----------------|-------|------|
| JOB NAME | Penn National Gaming | SPACE | 5,521 | RSF |
| JOB DESCRIPTION | 855 Expansion #2 | WORK ALLOWANCE | - | PRSF |
| DATE | 12/03/2002 | | | |
| JOB NUMBER | | | | |

| DESCRIPTION | CATEGOR | Unit | # Units | Cost/Unit | TOTAL COST | PER SF | COMMENTS | SUBCONTRACTOR |
|--|------------|------|---------|-----------|-------------------|--------|-----------------------|----------------------|
| CONSTRUCTION HARD COSTS | | | | | | | | |
| SLABS & STONES | 30-340-150 | EA | | | 850.00 | 0.15 | Plumbing Ditches | |
| ROUGH CARPENTRY/FRAMIN | 30-365-100 | EA | | | 475.00 | 0.09 | | |
| PAINTING | 30-367-100 | EA | | | 9,320.00 | 1.69 | | West Lancaster Ave. |
| DRYWALL / INT PARTIONS | 30-367-150 | EA | | | 26,595.00 | 4.82 | | G earl Martin |
| INSULATION | 30-367-200 | EA | | | 2,650.00 | 0.48 | In Walls & Bath | G earl Martin |
| WINDOWS & GLASS | 30-370-150 | EA | | | 1,700.00 | 0.31 | | B&G Glass |
| DOORS (INTERIOR) | 30-370-175 | EA | | | 8,238.00 | 1.49 | | Berkshire Insulation |
| ROOFING | 30-375-100 | EA | | | 375.00 | 0.07 | Patch Roof at Vents | Rainbow |
| PLUMBING | 30-377-100 | EA | | | 17,475.00 | 3.17 | | DJ Sockel |
| HVAC | 30-378-100 | EA | | | 25,113.00 | 4.55 | | Luppold |
| ELECTRIC | 30-379-100 | EA | | | 17,540.00 | 3.18 | | Swiegart |
| ROUGH/FINISH HARDWARE | 30-380-100 | EA | | | 0.00 | — | | |
| TOILET ACCESSORIES | 30-385-100 | EA | | | 3,793.00 | 0.69 | Toilet Partitions ADA | Berkshire Insulation |
| FIRE EXT. | 30-385-450 | EA | | | 235.00 | 0.04 | | |
| SPRINKLER | 30-385-450 | EA | | | 0.00 | — | | |
| ALARM SPRINKLER | 30-385-450 | EA | | | 0.00 | — | | |
| SIGNAGE | 30-385-550 | EA | | | 0.00 | — | | |
| SPECIALTIES | 30-385-600 | EA | | | 520.00 | 0.09 | | Berkshire Insulation |
| APPLIANCE PACKAGE | 30-388-100 | EA | | | — | — | | |
| CABINETS | 30-390-100 | EA | | | 4,520.00 | 0.82 | | Decarlo |
| FINISH CARPENTRY | 30-391-100 | EA | | | 3,983.00 | 0.72 | | Bordner |
| STORAGE SHELVING | 30-391-150 | EA | | | 0.00 | — | | |
| FLOORING | | | | | | | | |
| CERAMIC TILE | 30-395-100 | EA | | | 8,150.00 | 1.48 | | DeLucia |
| MARBLE TILE | 30-395-100 | EA | | | 0.00 | — | | |
| CARPETING | 30-395-100 | EA | | | 13,955.00 | 2.53 | | Carpet Connection |
| FINAL CLEANING | 30-399-100 | EA | | | 2,000.00 | 0.36 | | |
| CONSTRUCTION LABOR | 30-399-250 | EA | | | 750.00 | 0.14 | Demo walls | Kleckner |
| Total Construction Hard Costs Costs | | | | | 146,912.00 | | | |
| CONSTRUCTION SOFT COSTS | | | | | | | | |
| PERMITS | 30-300-100 | EA | | | 850.00 | 0.15 | | |

| | | | | | |
|---|------------|----|------------|-----------------|------------------|
| ARCHITECTURE | 30-304-100 | EA | | 4,200.00 | 0.76 |
| ENGINEERING | 30-305-150 | EA | | 0.00 | — |
| INSURANCE | 30-310-600 | EA | | 1,450.00 | 0.26 |
| MISC SOFT COSTS | | | | 0.00 | — |
| Total Construction Soft Costs | | | | 6,500.00 | 1.18 |
| ADDITIONAL DEVELOPMENT COSTS | | | | | |
| TEMP TRASH REMOVAL | 30-310-400 | EA | | 3,950.00 | 0.72 |
| TEMP ELECTRIC | 30-310-450 | EA | | 750.00 | 0.14 |
| TEMP HEAT | 30-310-500 | EA | | 800.00 | 0.14 |
| TEMPORARIES- GENERAL | 30-310-550 | EA | | 250.00 | 0.05 |
| JOB JOHNNY | 30-399-125 | EA | | 290.00 | 0.05 |
| CONSTRUCTION EXTRAS | 30-399-150 | EA | | 0.00 | — |
| CALLBACK WORK | 30-399-200 | EA | | 0.00 | — |
| Total Additional Development Costs | | | | 6,040.00 | |
| CDG Supervision | 40-402-100 | EA | 5% | 159,452.00 | 7,972.60 |
| CDG Commercial Builders | 40-405-100 | EA | 3% | 159,452.00 | 4,783.56 |
| Ovhd/Profit | 40-405-300 | EA | 7% | 159,452.00 | 11,161.64 |
| Total Supervision, O/P | | | 15% | | 23,917.80 |

TOTAL PROJECT COST NO OPTIONS **\$ 183,369.80** 33.21

| | | | | | |
|---------------------------------|------------|----|--|----------|------|
| OPTIONS/UP GRADES/ADDONS | | | | | |
| CABINETS | 30-390-100 | EA | | 2,271.00 | 0.41 |
| CABINETS | 30-390-100 | EA | | 5,347.00 | 0.97 |
| CABINETS | 30-390-100 | EA | | 4,916.00 | 0.89 |
| | | | | 0.00 | — |

| APPROVED BY | DATE | COMMENTS |
|--------------------|---------|---|
| BR /s/ [ILLEGIBLE] | 12-4-02 | |
| RM /s/ [ILLEGIBLE] | 12/4/02 | Options Do <u>Not</u> Include 15% Markup. |
| SN /s/ [ILLEGIBLE] | 12/4/02 | |
| RH /s/ [ILLEGIBLE] | | /s/ [ILLEGIBLE] |

SECOND LEASE AMENDMENT

THIS LEASE AMENDMENT (the "Amendment") made this 29th day of January, 2003, between **Penn National Gaming**, hereinafter, called "Tenant", having its principal place of business at 825 Berkshire Boulevard, Suite 200, Wyomissing, Pennsylvania 19610 and **Wyomissing Professional Center II, Limited Partnership** hereinafter called "Landlord", having its principal place of business at 825 Berkshire Boulevard., Suite 203, Wyomissing, Pennsylvania 19610.

WITNESSETH:

The Tenant and the Landlord have executed a Lease Agreement dated January 25, 2002 which includes Exhibits "A", "B", "C", "E" and "F", and a First Lease Amendment thereto relating to the Leased Premises located at 855 Berkshire Blvd., Suite 200, Wyomissing, Pennsylvania 19610.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease except to the extent to which the provisions of this Amendment modify the provisions of the Lease. The provisions of the Lease shall remain in full force and effect.
3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
4. **Construction.** The construction to be performed by Landlord's contractor is modified to include the OPTIONS/UPGRADES/ADD ONS shown on the Estimate Sheet — Fit Up v2.1 [Revised 1/20/03] attached hereto as Attachment A2-1.
5. **Binding effect.** This Amendment shall be binding upon, and shall inure to the benefit of, Landlord and Tenant, and their respective successors and assigns.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed this 29th day of January, 2003.

THIS LEASE AMENDMENT MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A

RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

**WYOMISSING PROFESSIONAL CENTER II,
LIMITED PARTNERSHIP**, by its General Partner,
Wyomissing Professional Center II, Inc.

By: /s/ Stephen J. Najarian
Stephen J. Najarian, President

Date: 1/28/03

TENANT:

PENN NATIONAL GAMING, INC., a
Pennsylvania corporation

ATTEST:

By: /s/ Susan M. Montgomery

Name: Susan M. Montgomery

Title: Asst. to Chairman

Date: 1/29/03

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito

Title: Vice President/Secretary/Treasurer

Date: 1/29/03

ESTIMATE SHEET - FIT UP

| | | | | |
|-----------------|----------------------|----------------|-------|------|
| JOB NAME | Penn National Gaming | SPACE | 5,521 | RSF |
| JOB DESCRIPTION | 855 Expansion #2 | WORK ALLOWANCE | - | PRSF |
| DATE | 12/03/2002 | | | |
| JOB NUMBER | | | | |

| DESCRIPTION | CATEGOR | Unit | # Units | Cost/Unit | TOTAL COST | PER SF | COMMENTS | SUBCONTRACTOR |
|--|------------|------|---------|-----------|-------------------|--------|-----------------------|----------------------|
| CONSTRUCTION HARD COSTS | | | | | | | | |
| SLABS & STONES | 30-340-150 | EA | | | 850.00 | 0.15 | Plumbing Ditches | |
| ROUGH | | | | | | | | |
| CARPENTRY/FRAMIN | 30-365-100 | EA | | | 475.00 | 0.09 | | |
| PAINTING | 30-367-100 | EA | | | 9,320.00 | 1.69 | | West Lancaster Ave. |
| DRYWALL / INT PARTIONS | 30-367-150 | EA | | | 26,595.00 | 4.82 | | G earl Martin |
| INSULATION | 30-367-200 | EA | | | 2,650.00 | 0.48 | In Walls & Bath | G earl Martin |
| WINDOWS & GLASS | 30-370-150 | EA | | | 1,700.00 | 0.31 | | B&G Glass |
| DOORS (INTERIOR) | 30-370-175 | EA | | | 8,238.00 | 1.49 | | Berkshire Insulation |
| ROOFING | 30-375-100 | EA | | | 375.00 | 0.07 | Patch Roof at Vents | Rainbow |
| PLUMBING | 30-377-100 | EA | | | 17,475.00 | 3.17 | | DJ Socket |
| HVAC | 30-378-100 | EA | | | 25,113.00 | 4.55 | | Luppold |
| ELECTRIC | 30-379-100 | EA | | | 17,540.00 | 3.18 | | Swiegart |
| ROUGH/FINISH HARDWARE | 30-380-100 | EA | | | 0.00 | — | | |
| TOILET ACCESSORIES | 30-385-100 | EA | | | 3,793.00 | 0.69 | Toilet Partitions ADA | Berkshire Insulation |
| FIRE EXT. | 30-385-450 | EA | | | 235.00 | 0.04 | | |
| SPRINKLER | 30-385-450 | EA | | | 0.00 | — | | |
| ALARM SPRINKLER | 30-385-450 | EA | | | 0.00 | — | | |
| SIGNAGE | 30-385-550 | EA | | | 0.00 | — | | |
| SPECIALTIES | 30-385-600 | EA | | | 520.00 | 0.09 | | Berkshire Insulation |
| APPLIANCE PACKAGE | 30-388-100 | EA | | | — | — | | |
| CABINETS | 30-390-100 | EA | | | 4,520.00 | 0.82 | | Decarlo |
| FINISH CARPENTRY | 30-391-100 | EA | | | 3,983.00 | 0.72 | | Bordner |
| STORAGE SHELVING | 30-391-150 | EA | | | 0.00 | — | | |
| FLOORING | | | | | | | | |
| CERAMIC TILE | 30-395-100 | EA | | | 8,150.00 | 1.48 | | DeLucia |
| MARBLE TILE | 30-395-100 | EA | | | 0.00 | — | | |
| CARPETING | 30-395-100 | EA | | | 13,955.00 | 2.53 | | Carpet Connection |
| FINAL CLEANING | 30-399-100 | EA | | | 2,000.00 | 0.36 | | |
| CONSTRUCTION LABOR | 30-399-250 | EA | | | 750.00 | 0.14 | Demo walls | Kleckner |
| Total Construction Hard Costs Costs | | | | | 146,912.00 | | | |
| CONSTRUCTION SOFT COSTS | | | | | | | | |
| PERMITS | 30-300-100 | EA | | | 850.00 | 0.15 | | |
| ARCHITECTURE | 30-304-100 | EA | | | 4,200.00 | 0.76 | | |
| ENGINEERING | 30-305-150 | EA | | | 0.00 | — | | |

| | | | | | | | |
|--|------------|----|------------|------------|----------------------|--------------|-------------------------------------|
| INSURANCE | 30-310-600 | EA | | | 1,450.00 | 0.26 | |
| MISC SOFT COSTS | | | | | 0.00 | — | |
| Total Construction Soft Costs Costs | | | | | 6,500.00 | 1.18 | |
| ADDITIONAL DEVELOPMENT COSTS | | | | | | | |
| TEMP TRASH REMOVAL | 30-310-400 | EA | | | 3,950.00 | 0.72 | |
| TEMP ELECTRIC | 30-310-450 | EA | | | 750.00 | 0.14 | |
| TEMP HEAT | 30-310-500 | EA | | | 800.00 | 0.14 | |
| TEMPORARIES- GENERAL | 30-310-550 | EA | | | 250.00 | 0.05 | |
| JOB JOHNNY | 30-399-125 | EA | | | 290.00 | 0.05 | |
| CONSTRUCTION EXTRAS | 30-399-150 | EA | | | 0.00 | — | |
| CALLBACK WORK | 30-399-200 | EA | | | 0.00 | — | |
| Total Additional Development Costs | | | | | 6,040.00 | | |
| CDG Supervision | 40-402-100 | EA | 5% | 159,452.00 | 7,972.60 | 1.44 | |
| CDG Commercial Builders | 40-405-100 | EA | 3% | 159,452.00 | 4,783.56 | 0.87 | |
| Ovhd/Profit | 40-405-300 | EA | 7% | 159,452.00 | 11,161.64 | 2.02 | |
| Total Supervision, O/P | | | 15% | | 23,917.80 | | |
| TOTAL PROJECT COST NO OPTIONS | | | | | \$ 183,369.80 | 33.21 | |
| OPTIONS/UPGRADES/ADD ONS | | | | | | | |
| CABINETS | 30-390-100 | EA | | | 2,271.00 | 0.41 | Add Cabinet Above Copy/Fax |
| CABINETS | 30-390-100 | EA | | | 5,347.00 | 0.97 | Add Cabinet Above File Storage #1 |
| CABINETS | 30-390-100 | EA | | | 4,916.00 | 0.89 | Add Cabinet Above File Storage #2 |
| COMPUTER FLOOR, RAILING | | EA | | | 6,825.00 | 1.24 | Add Raised Floor, Railing, drilling |
| Total Options/Upgrades/Add Ons | | | | | \$ 19,359.00 | 3.51 | |
| CDG Supervision | 40-402-100 | EA | 5% | 19,359.00 | 967.95 | 0.18 | |
| CDG Commercial Builders | 40-405-100 | EA | 3% | 19,359.00 | 580.77 | 0.11 | |
| Ovhd/Profit | 40-405-300 | EA | 7% | 19,359.00 | 1,355.13 | 0.25 | |
| Total Supervision, O/P (Options) | | | 15% | | 2,903.85 | | |
| TOTAL PROJECT COST WITH OPTIONS | | | | | \$ 205,632.65 | 37.25 | |

| APPROVED BY (CDG) | DATE | COMMENTS | ACCEPTED BY (PNG) | DATE |
|--------------------------|---------------|----------|--|------|
| BR _____ | | | /s/ Robert S. Ippolito _____ | |
| RM /s/ [ILLEGIBLE] _____ | 1/28/03 _____ | | Name Robert S. Ippolito _____ | |
| SN /s/ [ILLEGIBLE] _____ | 1/28/03 _____ | | Title Vice President/Secretary/Treasurer _____ | |
| RH _____ | | | | |

THIRD LEASE AMENDMENT

THIS THIRD LEASE AMENDMENT (the "Amendment") made this 19th day of October, 2010, between **Penn National Gaming, Inc.**, a Pennsylvania corporation, hereinafter called "Tenant", having its principal place of business at 825 Berkshire Boulevard, Suite 200, Wyomissing, PA 19610 and **Wyomissing Professional Center II, Limited Partnership**, a Pennsylvania limited partnership, hereinafter called "Landlord", having its principal place of business at 875 Berkshire Boulevard, Suite 102, Wyomissing, Pennsylvania 19610.

WITNESSETH:

The Tenant and the Landlord have executed a Lease Agreement dated January 25, 2002 which includes Exhibits "A", "B", "C", "E" and "F", a Commencement Agreement thereto dated May 23, 2002, a First Lease Amendment thereto dated December 4, 2002, and a Second Amendment thereto dated January 29, 2003 (collectively, the "Lease") relating to the Leased Premises located at 855 Berkshire Boulevard, Suite 100, Wyomissing, Pennsylvania 19610. The original Lease premises totaled 4,388 rentable square feet which square footage was increased by an additional 5,521 rentable square feet via the First Lease Amendment for a total of 9,909 rentable square feet and the parties desire to include an additional, adjacent space consisting of 3,569 rentable square feet for a total leased premises of 13,478 rentable square feet.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease. Except to the extent to which the provisions of this Amendment modify the provisions of the Lease, the provisions of the Lease shall remain in full force and effect.
3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
4. **Leased Premises.** The defined leased premises shall consist of a total space of 13,478 rentable square feet.
5. **Term of Lease.** The Term of the Lease is unchanged ending May 31, 2012. Tenant shall have the right to renew this Lease for one (1) five (5) year Renewal Period under the same terms and conditions of the base Lease with the exception that the starting rent for the period shall be two percent (2%) higher than the previous year's rent. The Lease shall automatically extend for the Renewal Period unless Tenant shall have given Landlord written notice at least ninety (90) days prior to the end of the initial term of its intention to terminate the Lease at the end of the initial ten (10) year term.
6. **Fixed Annual Minimum Rent.** The Annual Minimum Rent shall increase by two percent (2%) annually over the prior year's Annual Minimum Rent as shown on

attached Schedule "A6-1".

- 7. **Tenant's Share of Expenses.** For the purposes of Section 7, Tenant's Share shall be adjusted to include the additional area as shown below. Furthermore, the Reimbursable Property Management Fee of \$0.35 per rentable square foot shall increase by 3% per rentable square foot annually, effective January 1, 2011.

| Initial Term | Approx. RSF | ESTIMATED EXPENSES | | |
|-----------------------|----------------|--------------------|--------------|-------------|
| | | per RSF | "Annual" | Monthly |
| Last 8 months of Year | 9 | \$ 5.24 | \$ 47,083.12 | \$ 5,885.39 |

- 8. **Effective Date.** The effective date for Tenant's increased space and rental payments shall be on the first to occur of (a) the date on which Tenant takes occupancy of or commences business at the premises, or (b) the date of substantial completion, being the date when a certificate of occupancy for the premises is issued by the applicable municipal authority, or (c) October, 1, 2010.
- 9. **Interior Improvements.** The interior improvements to be performed by Tenant's contractor in a form and manner acceptable to Landlord. Landlord shall approve plans and drawings prior to the improvements commencing.
- 10. **Binding effect.** This Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant and their respective successors and assigns.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed this 19th day of October, 2010.

THIS LEASE MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

**Wyomissing Professional Center II,
Limited Partnership**, a Pennsylvania limited partnership, by its General Partner, Wyomissing Professional Center II, Inc.

By: /s/ Peter W. Carlino
Peter W. Carlino, President

TENANT:

Penn National Gaming, Inc., a Pennsylvania corporation

WITNESS:

By: /s/ Susan M. Montgomery By: /s/ Robert S. Ippolito

Name: Susan M. Montgomery Name: Robert S. Ippolito

Title: VP/Sec/Treas

SCHEDULE "A6-1"

ANNUAL MINIMUM RENT

| | |
|----------------------------|--------|
| Rentable Square Feet (RSF) | 13,478 |
| Annual Escalation | 2.0% |

| | <u>Period</u> | <u>Lease Year</u> | <u>RSF</u> | <u>Minimum Rent per RSF</u> | <u>Monthly Minimum Rent</u> | <u>"Annual Minimum Rent"</u> |
|---|-----------------------|-----------------------|------------|-------------------------------------|-------------------------------------|--------------------------------------|
| Last 8 months of 9th Year of Initial Term | 10/1/10 to 5/31/11 | 9 | 13,478 | \$ 15.23 | \$ 17,105.83 | \$ 136,846.62* |
| Last Year of Initial Term | 6/1/11 to 5/31/12 | 10 | 13,478 | \$ 15.54 | \$ 17,454.01 | \$ 209,448.12 |

* This annual minimum rent table includes the increase in rentable square feet from 9,909 to 13,478, which increase in rentable square feet will become effective October 1, 2010 and remain in effect for the balance of the 9th Lease Year consisting of 8 months and every year thereafter.

FOURTH LEASE AMENDMENT

THIS FOURTH LEASE AMENDMENT (the "Amendment") made this 25th day of May, 2012, between **Penn National Gaming, Inc.**, a Pennsylvania corporation, hereinafter called "Tenant", having its principal place of business at 825 Berkshire Boulevard, Wyomissing, PA 19610 and **Wyomissing Professional Center II, Limited Partnership** (855), a Pennsylvania limited partnership, hereinafter called "Landlord", having its principal place of business at 875 Berkshire Boulevard, Suite 102, Wyomissing, Pennsylvania 19610.

WITNESSETH:

The Tenant and the Landlord have executed a Lease Agreement dated January 25, 2002 which includes Exhibits "A", "B", "C", "E" and "F", a Commencement Agreement thereto dated May 23, 2002, a First Lease Amendment thereto dated December 4, 2002, a Second Amendment dated January 29, 2003, and a Third Lease Amendment dated October 19, 2010 (collectively, the "Lease") relating to the Leased Premises located at 855 Berkshire Boulevard, Suite 100, Wyomissing, Pennsylvania 19610. The original Lease premises totaled 4,388 rentable square feet which square footage was increased by an additional 5,521 rentable square feet via the First Lease Amendment for a total of 9,909 rentable square feet and an adjacent space consisting of 3,569 rentable square feet for a total leased premises of 13,478 rentable square feet which was added to the premises via the Third Lease Amendment. The parties desire to include an additional, adjacent space consisting of 4,011 rentable square feet for a total leased premises of 17,489 rentable square feet.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease. Except to the extent to which the provisions of this Amendment modify the provisions of the Lease, the provisions of the Lease shall remain in full force and effect.
3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
4. **Leased Premises.** The defined leased premises shall consist of a total space of 17,489 rentable square feet.
5. **Term of Lease.** Tenant desires to exercise its right to renew this Lease for one (1), seven (7) year Renewal Period under the same terms and conditions of the base Lease except as modified herein.
6. **Fixed Annual Minimum Rent.** The Annual Minimum Rent shall increase by two and one half percent (2.5%) annually over the prior year's Annual Minimum Rent and shall be adjusted to include the additional, adjacent area as shown on the table below.

| Renewal Period | RSF | ANNUAL MINIMUM RENT | | |
|----------------|--------|---------------------|---------------|--------------|
| | | per RSF | Annual | Monthly |
| 6/1/12-5/31/13 | 17,489 | \$ 16.00 | \$ 279,824.00 | \$ 23,318.67 |
| 6/1/13-5/31/14 | 17,489 | \$ 16.40 | \$ 286,819.60 | \$ 23,901.63 |
| 6/1/14-5/31/15 | 17,489 | \$ 16.81 | \$ 293,990.09 | \$ 24,499.17 |
| 6/1/15-5/31/16 | 17,489 | \$ 17.23 | \$ 301,335.47 | \$ 25,111.29 |
| 6/1/16-5/31/17 | 17,489 | \$ 17.66 | \$ 308,855.74 | \$ 25,737.98 |
| 6/1/17-5/31/18 | 17,489 | \$ 18.10 | \$ 316,550.90 | \$ 26,379.24 |
| 6/1/18-5/31/19 | 17,489 | \$ 18.55 | \$ 324,420.95 | \$ 27,035.08 |

7. **Tenant's Share of Expenses.** For the purposes of Section 4, Tenant's Share shall be adjusted to include the additional area as shown below.

| Lease Year 11 | RSF | ESTIMATED EXPENSES | | |
|-------------------------------------|--------|--------------------|--------------|-------------|
| | | per RSF | "Annual" | Monthly |
| last 7 months of calendar year 2012 | 17,489 | \$ 4.62 | \$ 47,132.89 | \$ 6,733.27 |

8. **Effective Date.** The effective date for Tenant's increased space and rental payments shall be on the first to occur of (a) the date on which Tenant takes occupancy of or commences business at the premises, or (b) the date of substantial completion, being the date when a certificate of occupancy for the premises is issued by the applicable municipal authority, or (c) June 1, 2012.
9. **Interior Improvements.** The interior improvements to be performed by Tenant's contractor in a form and manner acceptable to Landlord. Landlord shall approve plans and drawings prior to the improvements commencing.
10. **Binding effect.** This Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant and their respective successors and assigns.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed this 25th day of May, 2012.

THIS LEASE MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

Wyomissing Professional Center II, Limited Partnership, a Pennsylvania limited partnership, by its General Partner, Wyomissing Professional Center II, Inc.

By: /s/ Peter W. Carlino

Peter W. Carlino, President

TENANT:

Penn National Gaming, Inc., a Pennsylvania corporation

WITNESS:

By: /s/ Susan M. Montgomery

Name: Susan M. Montgomery

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito

Title: VP/Sec/Treas

FIFTH LEASE AMENDMENT

THIS FIFTH LEASE AMENDMENT (the "Amendment") dated as of the 1st day of September, 2017 (the "Effective Date") between **Penn National Gamine, Inc.**, a Pennsylvania corporation (hereinafter called "**Tenant**") having its principal place of business at 825 Berkshire Boulevard, Wyomissing, PA 19610 and **Wyomissing Professional Center II, Limited Partnership (855)**, a Pennsylvania limited partnership (hereinafter called "**Landlord**") having its principal place of business at 875 Berkshire Boulevard, Suite 102, Wyomissing, Pennsylvania 19610.

WITNESSETH:

WHEREAS, the Tenant and the Landlord have executed a Lease Agreement dated January 25, 2002 which includes Exhibits "A", "B", "C", "E" and "F", a Commencement Agreement thereto dated May 23, 2002, a First Lease Amendment thereto dated December 4, 2002, a Second Amendment dated January 29, 2003, a Third Lease Amendment dated October 19, 2010 and a Fourth Lease Amendment dated May 25, 2012 (hereafter collectively called the "**Lease**") relating to the Lease premises located at 855 Berkshire Boulevard, Suite 100, Wyomissing, Pennsylvania 19610; and

WHEREAS, the Lease premises originally totaled 4,388 rentable square feet; and

WHEREAS, the Lease premises square footage was increased by an additional 5,521 rentable square feet via the First Lease Amendment, for a total of 9,909 rentable square feet; and

WHEREAS, the Lease premises square footage was increased by an additional 3,569 rentable square feet via the Third Lease Amendment, for a total of 13,478 rentable square feet; and

WHEREAS, the Lease premises square footage was increased by an additional 4,011 rentable square feet via the Fourth Lease Amendment, for a total of 17,489 rentable square feet; and

WHEREAS, the parties now desire to further increase the Lease premises to include an additional, adjacent space consisting of 3,000 rentable square feet, for a total of 20,489 rentable square feet;

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord and Tenant enter this Amendment and agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease. Except to the extent to which the provisions of this Amendment modify the provisions of the Lease, the provisions of the Lease shall remain in full force and effect.
3. **Defined Terms.** All capitalized terms used in this Amendment without definition

which are defined in the Lease shall have the meanings set forth in the Lease.

4. **Lease Premises.** The Lease premises shall be increased by adding an adjacent 3,000 rentable square feet, making the total leased space 20,489 rentable square feet.
5. **Term of Lease.** The term of Lease is revised so as to run for seven (7) consecutive years beginning on **September 1, 2017** and on **August 31, 2024**, all under the same terms and conditions except as otherwise modified herein.
6. **Landlord’s Obligation upon Delivery.** Landlord shall deliver the adjacent 3,000 rentable square feet of space fully demolished of existing partitions and floor coverings. In the event the adjacent 3,000 rentable square feet are not delivered by Landlord fully demolished of partitions and floor coverings on September 1, 2017, then Tenant’s payment of rent and estimated expenses shall abate, on the 3,000 rentable square feet of space only, until such date as the space is fully delivered.
7. **Fixed Annual Minimum Rent.** The Annual Minimum Rent shall increase annually effective each September 1st by two and one-half percent (2.5%) over the prior year’s Annual Minimum Rent, as shown on the table below:

| Lease Period | RSF | ANNUAL MINIMUM RENT | | |
|---------------------|--------|---------------------|---------------|--------------|
| | | per RSF | Annual | Monthly |
| 09/01/17 - 08/31/18 | 20,489 | \$ 17.23 | \$ 353,025.47 | \$ 29,418.79 |
| 09/01/18 - 08/31/19 | 20,489 | \$ 17.66 | \$ 361,851.11 | \$ 30,154.26 |
| 09/01/19 - 08/31/20 | 20,489 | \$ 18.10 | \$ 370,897.38 | \$ 30,908.12 |
| 09/01/20 - 08/31/21 | 20,489 | \$ 18.55 | \$ 380,169.82 | \$ 31,680.82 |
| 09/01/21 - 08/31/22 | 20,489 | \$ 19.02 | \$ 389,674.06 | \$ 32,472.84 |
| 09/01/22 - 08/31/23 | 20,489 | \$ 19.49 | \$ 399,415.92 | \$ 33,284.66 |
| 09/01/23 - 08/31/24 | 20,489 | \$ 19.98 | \$ 409,401.31 | \$ 34,116.78 |

8. **Tenant’s Share of Expenses.** Tenant’s Share of Expenses shall be adjusted to include the adjacent 3,000 rentable square feet, as shown on the table below:

| Lease Period | RSF | ESTIMATED EXPENSES | | |
|---------------------|--------|--------------------|------------------|-------------|
| | | per RSF | remaining annual | monthly |
| 09/01/17 - 12/31/17 | 20,489 | \$ 4.62 | \$ 31,553.06 | \$ 7,888.27 |

9. **Effective Date.** The Effective Date of this Amendment shall be September 1, 2017.
10. **Tenant Interior Improvements.** The interior improvements to be performed by Tenant’s contractor in a form and manner acceptable to Landlord, Landlord shall approve plans and drawings prior to the improvements commencing.
11. **Renewal Period.** Tenant shall be provided one (1) option to renew for an additional seven (7) years by providing Landlord with not less than one hundred eighty (180) days advance written notice prior to August 31, 2024.

12. **Binding Effect.** This Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant and their respective successors and assigns.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Fifth Lease Amendment to be duly executed upon the date first set forth above.

THIS AMENDMENT MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

Wyomissing Professional Center II, Limited Partnership (855), a Pennsylvania limited partnership, by its General Partner, Wyomissing Professional Center II, Inc.

By: /s/ Peter W. Carlino
Peter W. Carlino, President

TENANT:

Penn National Gaming, Inc., a Pennsylvania corporation

By: /s/ Jay A. Snowden

Name: Jay A. Snowden
Title: President & COO

ATTESTED:

By: /s/ Carl Sottosanti

Name: Carl Sottosanti,
its Secretary & General Counsel

WYOMISSING PROFESSIONAL CENTER

SUMMARY OF LEASE TERMS

The terms of this Lease (the "Lease") set forth on these summary pages (the "Summary") are for convenience and are subject to further explanation in the Lease. All terms defined on these summary pages are incorporated by reference into the Lease as if set forth in their entirety therein.

| | <u>Reference</u> |
|---|------------------|
| 1. <u>Landlord's Name and Address:</u> | ¶38 |
| Wyomissing Professional Center, Inc. (the "Landlord") 825 Berkshire Boulevard - Suite 203 Wyomissing, Pennsylvania 19610 Attention: Mr. Stephen J. Najarian | |
| 2. <u>Tenant's Name and Address:</u> | ¶38 |
| Penn National Gaming, Inc. (the "Tenant") 825 Berkshire Boulevard Suite 200 Wyomissing, PA 19610 | |
| 3. <u>Leased Premises:</u> | ¶1 |
| The area shown on Exhibit "A" attached hereto and made a part hereof (the "Premises"), containing approximately 5,500 square feet of rentable floor area situate on the ground floor of a building located at 875 Berkshire Boulevard, Wyomissing, PA 19610 (the "Building") constructed on the land. The Building contains approximately 27,702 square feet of rentable floor area. Determination of actual rentable and usable areas will be made subsequent to completion of design of Tenant interior layout, and the space will be measured in accordance with BOMA standards. | |
| 4. <u>Building Location:</u> | ¶1 |
| The Building is located on a tract of land (the "Land") consisting of approximately 15 acres, located on the North side of Berkshire Boulevard, and the East side of Paper Mill Road in the Borough of Wyomissing, Berks County, Pennsylvania. | |

5. Parking Spaces: ¶1

In connection with its use of the Premises, Tenant shall have the right to use a total of (22) undesignated parking spaces of which five (5) spaces may be designated (collectively, the "Parking Spaces") in the parking area adjacent to the Building.

6. Date of Lease: ¶2

April 5, 2005

7. Commencement Date: ¶2

The term of this Lease shall commence on the first to occur of (a) the date on which Tenant takes occupancy of or commences business at the Premises, or (b) the date of substantial completion, being the date when a certificate of occupancy for the Premises is issued by the applicable municipal authority, or (c) June 1, 2005 the "Commencement Date").

8. Term: ¶2

Three (3) years from the first day of the first full month of occupancy after the Commencement Date (the "Term"). Tenant shall have the option to extend this lease for one (1) period of five (5) years (the "Renewal Period") on the same terms and conditions as contained in the Lease for the initial Term.

9. Fixed Annual Minimum Rent: ¶3

Starting rent based on \$12.50 per rentable square foot. Rent to be pro-rated during any partial months. 2.5% annual increase over prior year's Annual Minimum Rent.

| Period | Lease Year | Approx. RSF | Rate PRSF | Annual Min Rent | Monthly Min Rent |
|----------------|------------|-------------|-----------|-----------------|------------------|
| Initial Term | 1 | 5,500 | \$ 12.50 | \$ 68,750.00 | \$ 5,729.17 |
| | 2 | | \$ 12.81 | \$ 70,468.75 | \$ 5,872.40 |
| | 3 | | \$ 13.13 | \$ 72,230.47 | \$ 6,019.21 |
| Renewal Period | 4 | | \$ 13.46 | \$ 74,036.23 | \$ 6,169.69 |
| | 5 | | \$ 13.80 | \$ 75,887.14 | \$ 6,323.93 |
| | 6 | | \$ 14.14 | \$ 77,784.31 | \$ 6,482.03 |
| | 7 | | \$ 14.50 | \$ 79,728.92 | \$ 6,644.08 |
| | 8 | | \$ 14.86 | \$ 81,722.15 | \$ 6,810.18 |

10. Tenant's Share of Expenses ("Premises Expenses"): ¶4(c)

Tenant to pay full pro-rata share of all operating expenses. First year budget estimated at \$3.94 per square foot of rentable floor area, not including in-suite janitorial expenses. Exhibit "B"

| <u>Lease Year</u> | <u>Expenses Est PRSF</u> | <u>Annual Est Expenses</u> | <u>Monthly Est Expenses</u> |
|-------------------|--------------------------|----------------------------|-----------------------------|
| 1 | \$ 3.94 | \$ 21,670.00 | \$ 1,805.83 |

11. Building Standard Work Allowance: ¶10

No allowance to be provided by Landlord. The entire cost for the Fit — Up improvements to be borne by the Tenant

12. Security Deposit: ¶5

Waived

13. Use of Premises: ¶6

General office uses (the "Permitted Use").

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| 1. <u>PREMISES</u> | 2 |
| 2. <u>TERM</u> | 2 |
| 3. <u>RENT</u> | 3 |
| 4. <u>TENANT'S SHARE OF EXPENSES</u> | 3 |
| 5. <u>SECURITY DEPOSIT</u> | 6 |
| 6. <u>USE</u> | 6 |
| 7. <u>SERVICES AND FACILITIES</u> | 6 |
| 8. <u>UTILITIES</u> | 7 |
| 9. <u>CONSTRUCTION OF BUILDING</u> | 7 |
| 10. <u>BUILDING STANDARD WORK ALLOWANCE</u> | 7 |
| 11. <u>SIGNS</u> | 7 |
| 12. <u>AFFIRMATIVE COVENANTS OF TENANT</u> | 7 |
| 13. <u>NEGATIVE COVENANTS OF TENANT</u> | 8 |
| 14. <u>NO MECHANICS' LIENS</u> | 9 |
| 15. <u>LANDLORD'S RIGHT TO ENTER</u> | 10 |
| 16. <u>RELEASE OF LANDLORD</u> | 10 |
| 17. <u>ASSIGNMENT AND SUBLETTING</u> | 11 |

| | |
|--|----|
| 18. <u>ENVIRONMENTAL COMPLIANCE</u> | 11 |
| 19. <u>INDEMNIFICATION</u> | 11 |
| 20. <u>LIABILITY INSURANCE</u> | 12 |
| 21. <u>FIRE OR OTHER CASUALTY</u> | 12 |
| 22. <u>WAIVER OF SUBROGATION</u> | 13 |
| 23. <u>NO IMPLIED EVICTION</u> | 13 |
| 24. <u>CONDEMNATION</u> | 13 |
| 25. <u>LANDLORD'S RIGHT TO PAY TENANT EXPENSES</u> | 13 |
| 26. <u>EVENTS OF DEFAULT</u> | 14 |
| 27. <u>LANDLORD'S REMEDIES</u> | 15 |
| 28. <u>CONFESSION OF JUDGMENT FOR DAMAGES</u> | 17 |
| 29. <u>CONFESSION OF JUDGMENT IN EJECTMENT</u> | 17 |
| 30. <u>RIGHT OF ASSIGNEE OF LANDLORD</u> | 18 |
| 31. <u>REMEDIES CUMULATIVE</u> | 18 |
| 32. <u>TENANT'S WAIVERS</u> | 19 |
| 33. <u>ATTORNMEN</u> | 19 |
| 34. <u>SUBORDINATION</u> | 19 |
| 35. <u>EXECUTION OF DOCUMENTS</u> | 20 |
| 36. <u>ESTOPPEL AGREEMENTS</u> | 20 |

| | |
|--|----|
| 37. <u>CONDOMINIUM CONVERSION</u> | 20 |
| 38. <u>NOTICES</u> | 20 |
| 39. <u>BINDING EFFECT</u> | 20 |
| 40. <u>SURVIVAL OF VALID TERMS</u> | 20 |
| 41. <u>ENTIRE AGREEMENT</u> | 20 |
| 42. <u>PROHIBITION AGAINST RECORDING</u> | 21 |
| 43. <u>INTERPRETATION</u> | 21 |
| 44. <u>LIABILITY OF LANDLORD</u> | 21 |
| 45. <u>CAPTIONS AND HEADINGS</u> | 21 |
| 46. <u>NO BROKERAGE COMMISSION</u> | 21 |
| 47. <u>QUIET ENJOYMENT</u> | 21 |
| 48. <u>WAIVER OF TRIAL BY JURY</u> | 21 |
| 49. <u>OWNER'S ASSOCIATION</u> | 22 |

LEASE AGREEMENT

IN CONSIDERATION of the mutual promises contained herein, and intending to be legally bound hereby, Landlord and Tenant, in addition to the foregoing Summary, agree as follows:

1. PREMISES. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises. In connection with its use of the Premises, Tenant shall have the right to use the Parking Spaces.

2. TERM.

(a) The Term of this Lease shall commence on the Commencement Date, unless construction is delayed as provided in Paragraph 9(b).

(b) Within thirty (30) days after the Commencement Date, Landlord and Tenant shall execute a letter agreement specifying the Commencement Date. Failure to execute such letter agreement shall in no way cause this Lease not to remain in full force and effect.

(c) The Term of the Lease shall be three (3) years and shall include a renewal period as defined in Section 2.(d) below.

(d) Provided Tenant has not given written notice to Landlord at least one hundred eighty (180) days prior to the expiration of the initial three (3) year term that it intends to terminate the Lease at the end of the initial term, the Lease shall automatically renew for one (1) five (5) year renewal period (the "Renewal Period") under the same terms and conditions of the initial lease period.

(e) Tenant shall surrender and deliver up the Premises at the end of the Term of this Lease in good order and condition as of the date of execution hereof, reasonable use and natural wear and tear excepted. If Tenant fails to surrender the Premises to Landlord on the date as required herein, Tenant shall hold Landlord harmless from all damages, direct and indirect, resulting from Tenant's failure to surrender the Premises as herein provided, including but not limited to claims made by a succeeding tenant resulting from Landlord's inability to deliver the Premises, or any part thereof, due to Tenant's failure to surrender the Premises.

Should the Tenant, without the express written consent of the Landlord, continue to hold and occupy the Premises after the expiration of the Term of this Lease, such holding over shall be considered a tenancy at sufferance, and not for any other term whatsoever, which may be terminated by the Landlord at the will of the Landlord by giving Tenant written notice thereof, and at any time thereafter the Landlord may re-enter and take possession of the Premises, by force or otherwise. Rent during any such holding over shall be charged and paid by Tenant at the rate of 150% of the monthly rent reserved herein as the monthly rental due for that month immediately preceding the holding over.

(f) Definition of Lease Year: A "Lease Year," as herein referred to, shall consist of that full twelve (12) month period commencing on the first day of the first full month during which this Lease is in full force and effect and of each full twelve (12) month period thereafter. If the

Commencement Date of this Lease, as provided aforesaid, is a day not the first day of the month, the first lease year shall consist of the remainder of that first month and the first full twelve (12) months thereafter.

3. RENT.

(a) During the term of this Lease, Tenant shall pay Landlord the Annual Minimum Rent in equal monthly installments. To the extent that the actual rentable floor area of the Premises is different from the area shown on the Summary, as certified by Landlord's architect, the Annual Minimum Rent shall be adjusted accordingly.

(b) All rent shall be payable in advance, without demand, on the first day of each calendar month during the term of this Lease, except the first monthly installment shall be paid upon the signing of this Lease. The first and last monthly payments shall be prorated on a per diem basis for any period less than a full calendar month.

(c) All rent and additional rent shall be payable without any deduction, offset or counterclaim. All rent and additional rent due hereunder shall be payable in immediately available funds at Landlord's address set forth in the Summary or at such other place as may be designated by Landlord.

(d) Tenant shall also pay as rent any sums which may become due by reason of the failure of Tenant to comply with any covenants of this Lease and any damages, costs, expenses and reasonable attorneys' fees which Landlord may incur by reason of any failure on Tenant's part to comply with any covenants of this Lease.

(e) Tenant shall pay a late charge at the rate of ten percent (10%) on each dollar of rent, or any other sum collectible as rent under this Lease, which is not paid within ten (10) days after the same is due.

(f) This Lease shall be deemed and construed to be a "net-net-net" lease, so that the Annual Minimum Rent provided for herein shall be an absolute net return to Landlord throughout the term of this Lease, free of any expense, charge or other deduction whatsoever, with respect to the Premises and/or the ownership, leasing, operation, maintenance, repair, rebuilding, use or occupation thereof, or of any portion thereof, or with respect to any interest of Landlord therein, except as may be expressly provided for otherwise herein.

4. TENANT'S SHARE OF EXPENSES.

(a) In addition to the payment of Annual Minimum Rent as provided herein, Tenant shall pay as additional rent hereunder its proportionate share (as described in Paragraph 4(c)) of all Expenses (as hereinafter defined) incurred during each calendar year of the term of this Lease, as provided herein. For purposes hereof, "Expenses" shall mean all real estate taxes, real estate assessments, insurance premiums (other than Tenant's liability insurance), and other costs and expenses of every type and character incurred by Landlord in operating and maintaining the Building and the Land (or portion of the Land relating to the Building), including without limitation, the common areas thereof, all fixtures and equipment therein or thereon, water and sewer charges as metered, repair and

maintenance of fixtures, equipment and utility systems relating to the Premises, janitorial services (if any) provided to Tenant, trash removal costs pertaining to the Building, grass cutting, landscape maintenance, snow removal and parking area repair, maintenance, repaving, cleaning and striping, costs of lighting the parking area, and all fees, charges and expenses imposed or assessed against the Building and its owner(s) by any applicable owners association. Expenses shall be pre-paid on a monthly basis during each calendar year of the term of this Lease as provided herein. Attached hereto as Exhibit "B" and made a part hereof is the current budget estimate and operating description for the operation of the Building and the Land. All items on the budget shall be included as Expenses, but other Expenses may be incurred from time to time.

(b) For purposes hereof, "Expenses" shall not include:

(i) Costs for which Landlord is reimbursed or indemnified (either by an insurer, condemnor, tenant, warrantor or otherwise) or, in the event Landlord fails to properly insure the Building, then Expenses shall not include expenses for which Landlord would have been reimbursed if Landlord had adequately insured the Building.

(ii) Expenses incurred in leasing or procuring tenants, including lease commissions, advertising expenses, management and leasing offices, lease negotiation and review, expenses and renovating space for tenants, and legal expenses incurred in enforcing the terms of any tenant leases.

(iii) Interest or amortization payments on any mortgages.

(iv) Costs representing an amount paid to an affiliate of Landlord which is in excess of the amount which would have been paid in the absence of such relationship.

(v) Costs specifically billed to and paid by specific tenants, including, without limitation, expenses for work performed for other tenants in the Building and expenses to be billed to other tenants for excess utility use or other services that are beyond normal office use. There shall be no duplication of costs or reimbursement.

(vi) Depreciation and costs incurred by Landlord for alterations that are considered capital improvements and replacements under generally accepted accounting principles consistently applied, except that the annual amortization of these costs shall be included in the following two instances:

(A) The annual amortization over its useful life (not to be less than ten (10) years) with a reasonable salvage value on a straight line basis of the cost of any improvement made by Landlord and required by any changes in applicable laws, rules, or regulations of any governmental authority enacted after the Building was fully assessed as a completed and occupied unit and the Lease was signed.

(B) The annual amortization over its useful life (not to be less than ten (10) years) with a reasonable salvage value on a straight line basis of the cost of any equipment or capital improvements made by Landlord after the Building was fully assessed as a completed and occupied unit and the Lease was signed, as a labor-saving

measure or to accomplish other savings in operating, repairing, managing, or maintaining of the Building or Land, but only to the extent of the savings realized.

(vii) Salaries other than salary for a building manager and/or maintenance personnel or salary reimbursement to the Landlord equal to \$0.25 per rentable square foot of floor area annually.

(viii) Landlord's personal property and Landlord's own occupancy costs, if any, in the Building.

(c) The portion of Expenses which are applicable to the Premises (the "Premises Expenses") shall be determined by multiplying the Expenses by a fraction, the numerator of which is the rentable floor area of the Premises as shown on the Summary and the denominator of which is the aggregate number of rentable floor area in the Building as shown on the Summary. In addition, Tenant shall have responsibility for the entire amount of Expenses relating directly to the cost of operating the Premises, which does not include any other portion of the Building Common Area, such as janitorial services or the repair, maintenance, or Tenant required modification of the heating, ventilating or air-conditioning ("HVAC") system relating directly to the Premises. Tenant shall be responsible for its proportionate share of the entire amount of janitorial services and maintenance costs relating directly to the Building Common Area, on an occupied area basis.

(d) Tenant agrees to pay Landlord as additional rent hereunder all Premises Expenses incurred during the term of this Lease, including any and all increases in the Premises Expenses.

(e) Tenant shall pay Landlord monthly, in advance, on the first day of each calendar month during the term of this Lease, and pro rata for the fraction of any month, the sum estimated by Landlord to be one-twelfth ($1/12^{\text{th}}$) of Tenant's share of all Premises Expenses. If at any time and from time to time it is determined by Landlord that Tenant's estimated payments will be insufficient to pay Tenant's share of such Premises Expenses, the Landlord shall have the right to adjust the amount of Tenant's estimated payments upon thirty (30) days prior written notice, and Tenant agrees to thereafter pay the adjusted estimated payment on a monthly basis.

(f) Within one hundred twenty (120) days after the end of each calendar year, Landlord shall deliver to Tenant (i) a written itemization of Expenses for the prior Lease year and (ii) an estimate of the then current Lease year's Expenses and Tenant's share of the Premises Expenses. An adjustment shall be made between the aggregate total of Tenant's share of estimated Premises Expenses actually paid by Tenant during the prior Lease year, and Tenant's share of Premises Expenses actually incurred during the prior Lease year, so that Landlord shall reimburse Tenant for any excess paid by Tenant, and Tenant shall pay any deficiency to Landlord within ten (10) days of demand. If Tenant disagrees with the accuracy of the Expenses as set forth in Landlord's itemization statement, Tenant shall give written notice to Landlord to that effect, but shall nevertheless make payment in accordance with the terms of this Paragraph.

(g) Landlord shall permit Tenant to inspect its records with respect to the Expenses at a mutually convenient time and place. Any information obtained by Tenant pursuant to the provisions of this Paragraph shall be treated as confidential, except in any litigation between the parties.

(h) If due to a change in the laws presently governing taxation, any franchise tax or tax on income, profit, rentals or occupancies from or of the Premises shall be levied or imposed against the Landlord (other than business privilege tax, which is considered an Expense) in lieu of any tax or assessment that would otherwise constitute a real estate tax, such franchise, income, profit tax or tax on rentals shall be deemed to be a real estate tax and included as part of the Expenses.

5. SECURITY DEPOSIT. INTENTIONALLY DELETED

6. USE. The Premises shall be used only for the Permitted Use and shall not be used for any other purpose. Tenant will not use, and will not permit the use of, the Premises for any purpose which is unlawful or in violation of any statute, ordinance, rule, regulation or restriction governing the use of the Premises.

7. SERVICES AND FACILITIES. The following services and facilities shall be supplied by Landlord to Tenant in connection with Tenant's use of the Premises, in common (where applicable) with other tenants of the Building:

(a) The cost of the services described in this Paragraph are to be included as part of the Premises Expenses, except for electricity and gas, which shall be billed directly to the Tenant from the utility companies.

(b) Landlord shall furnish and maintain HVAC equipment and facilities for the Premises, in accordance with Tenant's layout and specifications, for the comfortable occupancy of the Premises. Comfortable Occupancy shall mean temperatures of 68°-75°F throughout the Premises on a year-round basis (Winter: interior 68° F (no humidity control) at outdoor conditions 10° F DB, Summer: interior 75° F (at 50% RH) at outdoor conditions 93° F DB / 75° F WB), provided Tenant does not exceed an electrical load of six (6) watts per square foot and an occupancy level of one person for each 150 square feet. If Comfortable Occupancy cannot be maintained under the conditions set forth above, Tenant shall give notice to Landlord and Landlord shall review Tenant's observations. HVAC shall be under Tenant's control with respect to the hours of operation. Tenant shall pay directly for the electricity and gas it consumes for HVAC.

(c) Landlord shall maintain and repair the HVAC, electrical and plumbing systems servicing the Premises, the ceiling and lighting in the Premises, and the Building, its common areas, exterior, and all of the Building systems in a first class manner. The costs of this maintenance shall be included as part of the Expenses.

(d) Landlord shall provide lamping of all lighting fixtures in the Premises.

(e) Landlord shall have no responsibility or liability to Tenant, nor shall there be any abatement in rent, for any failure to supply any services or facilities as provided herein during such period as Landlord deems advisable or necessary in order to make repairs, alternations or improvements or because of labor disturbances, strikes, accidents or any other causes beyond Landlord's control.

(f) Landlord shall be responsible, at Landlord's sole cost and expense, for structural repairs and replacement of HVAC units installed in the Building. Except as otherwise provided in Paragraph 7(c) hereof, these repairs shall not be included as part of the Expenses.

8. UTILITIES. Landlord shall install meters for measuring Tenant's electric and gas usage and all other utility services to the Premises, and Tenant shall pay the utility company directly for such usage, which shall be in addition to the Expenses as defined herein.

9. CONSTRUCTION OF BUILDING.

(a) Landlord has constructed the Building on the Land in accordance with its plans and specifications for the Building.

(b) If the Landlord is delayed at any time in the progress of constructing any improvements to the Premises by changes requested by Tenant, by labor disputes, unavailability of materials or supplies, fire, war or civil disobedience, unusual delay in transportation, unavoidable casualties, acts of God, or any other cause beyond the Landlord's control, the Commencement Date shall be extended for a period of time equal to the period of such delay.

(c) Landlord warrants and represents to Tenant that no part of the Premises or Building (including the walls, ceilings, structural steel, flooring and pipes) shall be wrapped, insulated or fireproofed with any asbestos, asbestos-containing material or other hazardous material.

10. BUILDING STANDARD WORK ALLOWANCE.

(a) Subject to Landlord's prior review and approval from an engineering standpoint, Tenant, at its sole cost and expense shall construct the interior improvements to be made to the Premises in accordance with and as indicated on Tenant's plans and specifications, attached hereto as Exhibit "C". All such work shall be performed by Landlord's contractor and billed at the rate of the subcontractor's or supplier's cost plus a total of 15% for construction management fee, overhead, and builder's profit.

(b) If, following written agreement by Tenant and Landlord, additional work is performed in the Premises by the Landlord, Tenant agrees to pay for the excess amount promptly upon billing therefor.

11. SIGNS. Landlord agrees to allow exterior signage as described on Exhibit "D". All such signage shall be constructed and maintained at Tenant's expense

12. AFFIRMATIVE COVENANTS OF TENANT. Tenant covenants and agrees that it will without demand:

(a) Comply with all requirements of any governmental authorities which apply to Tenant's use of the Premises. Promptly comply, or cause compliance, with all laws and ordinances and the orders, rules, regulations and requirements of all federal, state, county and municipal governments and appropriate departments, commissions, boards and officers thereof, foreseen or

unforeseen, ordinary or extraordinary, and whether or not within the present contemplation of the parties hereto or involving any change of governmental policy and irrespective of the cost thereof, which may be applicable to the Premises, including, without limitation, the fixtures and equipment thereof and the use or manner of use of the Premises.

(b) Comply with the rules and regulations from time to time made by Landlord for the safety, care, upkeep and cleanliness of the Premises, the Building and the Land. Tenant agrees that such rules and regulations shall, when written notice thereof is given to Tenant, form a part of this Lease.

(c) Keep the Premises and Building Common Area in good order and condition, excepting only ordinary wear and tear and damage by accidental fire or other casualty not occurring through the action or negligence of Tenant or its agents, employees and invitees.

(d) Peaceably deliver up and surrender possession of the Premises to Landlord at the expiration or sooner termination of this Lease, in the same condition in which Tenant has agreed to keep the Premises during the term of this Lease, and promptly deliver to Landlord at its office all keys for the Premises.

(e) Give to Landlord prompt written notice of any accident, fire or damage occurring on or to the Premises within twenty-four (24) hours of occurrence thereof.

(f) Give to Landlord a copy of any written notice concerning the Premises within twenty-four (24) hours of Tenant's receipt thereof.

(g) Cause its employees and visitors to park their cars only in those portions of the parking area as may be designated for that purpose by Landlord, and not use or permit the use of any more parking spaces in the parking area than are permitted in Paragraph 1 herein.

(h) Promptly upon Landlord's request, deliver to Landlord's lender copies of Tenant's annual financial statements for the past two (2) years.

13. NEGATIVE COVENANTS OF TENANT. Tenant covenants and agrees that it will do none of the following without the prior written consent of Landlord:

(a) Place or allow to be placed any sign, projection or device upon the Premises or on the inside or outside of the Building contrary to the provisions of this Lease.

(b) Make any alterations, improvements or additions to the Premises. All alterations, improvements, additions or fixtures, whether installed before or after the execution of this Lease, shall remain upon the Premises at the expiration or sooner termination of this Lease and become the property of Landlord, unless Landlord, prior to the termination of this Lease, shall have given written notice to Tenant to remove the same, in which event Tenant shall remove such alterations, improvements and additions or fixtures, and restore the Premises to the same good order and condition in which they were upon initial occupancy. However, notwithstanding the provisions of the preceding paragraph, Tenant may remove any alterations, improvements, additions or fixtures that are reasonably removable, without causing excessive damage to the Premises, that are or will be installed as part of the

Interior Improvements set forth in Exhibit "C" hereto or installed by Tenant at Tenant's cost during the term of this Lease, providing Tenant restores the Premises to the same good order and condition in which they were upon initial occupancy, reasonable wear and tear excepted.

(c) Do or suffer to be done any act objectionable to any insurance company whereby the insurance or any other insurance now in force or hereafter placed on the Premises or the Building shall become void or suspended, or whereby the same shall be rated as a more hazardous risk than at the date of the signing of this Lease. In case of a breach of this covenant (in addition to all other remedies herein given to Landlord) Tenant agrees to pay Landlord as additional rent any and all increases of premiums on insurance reasonably carried by Landlord on the Premises or the Building caused in any way by the use or occupancy of the Premises by the Tenant.

14. NO MECHANICS' LIENS.

(a) Subsequent to the Commencement Date, any construction work performed by or at the direction of Tenant within the Premises shall be performed in a good and workmanlike manner, and in accordance with the requirements of all applicable laws. Tenant, at its sole cost and expense, shall apply for and provide with reasonable diligence all necessary permits and licenses required for any such construction work. Prior to the commencement of any work or delivery of any materials to the Premises, Building or Land, Tenant shall cause each contractor to sign a Waiver of Right to File Mechanics' Liens and Mechanics' Lien Claims, which shall be filed in the Office of the Prothonotary in the Court of Common Pleas of Berks County, Pennsylvania. Tenant shall keep the Premises, Building and Land free from any and all liens arising out of any work performed, materials furnished or obligations incurred by or for Tenant, and agrees to bond against or discharge any mechanic's or materialmen's lien within ten (10) days after the filing or recording of any such lien. Tenant shall reimburse Landlord for any and all costs and expenses which may be incurred by Landlord by reason of the filing of any such liens and/or the removal of same, such reimbursement to be made within ten (10) days after Landlord has given Tenant a statement setting forth the amount of such costs and expenses. The failure of Tenant to pay any such amount to Landlord within such 10-day period shall carry with it the same consequences as failure to pay any installment of rent hereunder.

(b) Prior to the commencement of any work hereunder, Tenant shall cause each of its contractors to indemnify Landlord and hold it harmless from and against all personal injury and property damage liability incurred during the course of its work and to provide a builder's "all-risk" insurance policy, which policy will be in force during the entire term of the work being performed on the Premises. The insurance shall be in an amount acceptable to the Landlord and the Tenant, and shall name the Tenant, the Landlord and the Landlord's lender, as their respective interests may appear, as additional insureds. The insurance coverage shall provide for at least thirty (30) days' notice of cancellation, non-renewal or change. A certificate of insurance satisfactory to the Tenant, Landlord and Landlord's lender, shall be submitted to the Landlord and the Landlord's lender prior to the commencement of any work in the Premises.

(c) Within thirty (30) days after completion of any construction in the Premises, Tenant shall deliver to Landlord a complete set of "as built" plans of such work, including without limitation, architectural, mechanical, plumbing and electrical plans, certified to Landlord by a duly licensed Pennsylvania engineer.

15. LANDLORD'S RIGHT TO ENTER. Tenant shall permit Landlord, Landlord's agents, servants, employees, and prospective buyers or any other persons authorized by Landlord, to inspect the Premises at any time, and to enter the Premises for the purposes of cleaning and, if Landlord shall so elect, for making reasonable alterations, improvements or repairs to the Building, or for any reasonable purpose in connection with the operation and maintenance of the Building, and during the last one (1) year of the term of this Lease, for the purpose of exhibiting the same for sale or lease. Landlord or its agents shall have the right (but shall not be obligated) to enter the Premises in any emergency at any time without prior notice to Tenant, but Landlord shall notify Tenant by telephone of such entry either during or immediately following such emergency.

16. RELEASE OF LANDLORD.

(a) Unless caused by the negligence of Landlord, or unless Landlord fails to perform its duties under this lease, Tenant shall be responsible for and hereby relieves Landlord from any and all liability by reason of any injury, loss, or damage to any person or property in the Premises, whether the same be due to fire, breakage, leakage, water flow, gas, use, misuse, or defects therein, or condition anywhere in the Premises, failure of water supply or light or power or electricity, wind, lightning, storm, or any other cause whatsoever, whether the loss, injury or damage be to the person or property of Tenant or any other persons.

(b) Tenant acknowledges that Tenant has inspected the Premises and that the Premises are being leased "AS IS" as a result of such inspection and not as a result of any representations made by Landlord. Landlord makes no representation or warranty to Tenant, express or implied, that the Premises are free from hazardous or toxic substances, materials or wastes which are or become regulated by any federal, state or local governmental authority or that the Premises are in compliance with any federal, state or local environmental laws or regulations. Tenant acknowledges that the Premises are in a reasonable and acceptable condition of habitability for their intended use, and the agreed rental payments are fair and reasonable.

(c) Tenant acknowledges and agrees that Landlord shall not be liable to Tenant for any loss to Tenant or injury to its property or to the property of any other person by reason of the construction of the Building and other improvements located upon the Premises, the materials used in said construction, the design thereof, the condition thereof, any defects therein, or any alterations, additions, improvements, changes or replacements thereto and thereof.

(d) Landlord shall not be liable to Tenant for any damages, compensation, or claim by reason of the inconvenience or annoyance arising from the necessity of repairing any portion of the Premises or the Building or improvements erected thereon, interruption in the use or occupancy thereof, or the termination of this Lease by reason of the partial or total destruction of the Premises or the Building and improvements erected thereon.

(e) Without limiting the effect of the release stated in Paragraphs 16(a) through (d) above, Landlord shall not be deemed in breach of this Lease for any reason whatsoever unless (i) Tenant shall have delivered to Landlord written notice setting forth the specific details of all facts, events or occurrences upon which Tenant relies in asserting such breach, and (ii) Landlord shall have failed to cure the alleged breach within thirty (30) days of receipt of such written notice, it being agreed that any breach which is of a type that reasonably requires longer than thirty (30) days to cure

shall be deemed cured within such 30-day period if Landlord commences to cure such breach within such 30-day period and diligently proceeds to complete the cure of such breach thereafter.

17. ASSIGNMENT AND SUBLETTING.

(a) Except as otherwise provided in the immediately following sentence, Tenant shall not assign, mortgage or pledge this Lease, or sublet the Premises or any part thereof, or permit any other person to occupy the Premises or any part thereof, without the prior written consent of Landlord. Such prior consent shall not be required if Tenant makes an assignment or sublease to (i) any corporation or other legal entity which owns directly or indirectly all or substantially all of the stock of Tenant, (ii) any corporation or other legal entity of which more than one-half the stock is owned by Tenant, or (iii) any corporation into which Tenant may be converted or with which Tenant may be merged, provided that prior to taking possession of any part of the Premises, such corporation or other legal entity shall sign an assumption agreement in form satisfactory to Landlord, whereby such corporation or other legal entity agrees to be bound by the terms and conditions of this Lease.

(b) Landlord shall not withhold its consent to any assignment or subletting to any corporation or other legal entity having financial strength the same as or greater than the present financial strength of Tenant.

(c) Any assignment or subletting, even with the consent of Landlord, shall not release Tenant from liability for payment of rent or any other charges hereunder or from any of the other obligations under this Lease, and any additional consideration resulting from such assignment or subletting in excess of the rent specified herein shall be additional rent hereunder, due and payable to Landlord. The acceptance of rent from any other person shall not be deemed to be a waiver of any of the provisions of this Lease or to be a consent to any assignment or subletting. Upon any assignment of this Lease or subletting of the Premises, a change in any respect of the use of the Premises from the use actually employed by the original Tenant shall require the prior written consent of Landlord.

18. ENVIRONMENTAL COMPLIANCE. Tenant shall not cause or permit any hazardous substance, material or waste (as defined in any applicable environmental law, rule or regulation) to be brought upon or used in or about the Premises. Tenant shall cause the Premises to be used at all times in compliance with all applicable environmental laws, rules and regulations. Any failure of Tenant to comply with the covenants contained in this Paragraph shall be covered by the indemnification provisions of Paragraph 19 herein and shall be subject to all other rights and remedies available to Landlord. In no event shall Landlord be responsible for any damage resulting from any contamination to the Premises or otherwise, unless caused by Landlord.

19. INDEMNIFICATION. Tenant agrees to indemnify Landlord against loss and save Landlord harmless from and against (a) any breach or default in the performance of any covenant or agreement to be performed by Tenant under the terms of this Lease, (b) any and all claims, damages, and liabilities arising from anything done in or about the Premises during the term of this Lease by Tenant or any of its agents, contractors, servants, employees, invitees or licensees, (c) any act or negligence of Tenant or any of its agents, contractors, servants, employees, invitees or licensees, including any accident, injury or damage whatsoever caused to any person, in or about the Premises, and (d) all costs, reasonable counsel fees, expenses and liabilities incurred in connection with any such claim for which indemnification has been provided under this Paragraph. In case any action or proceeding shall be

brought against Landlord by reason of any such claim, Tenant, upon notice from Landlord, shall reimburse Landlord for its counsel fees incurred in defending such action or proceeding. Tenant shall, within ten (10) days following notice to it of any claim of a third party relating to Tenant's use or occupancy of the Premises or to the performance or non-performance by Tenant of its obligations under this Lease, give written notice to the Landlord of such claim. Landlord agrees to indemnify Tenant against loss and save Tenant harmless from and against (a) any breach or default in the performance of any covenant or agreement to be performed by Landlord under the terms of this Lease, (b) any and all claims, damages, and liabilities arising from anything done in or about the Premises during the term of this Lease by Landlord or any of its agents, contractors, servants, employees, invitees or licensees, (c) any act or negligence of Landlord or any of its agents, contractors, servants, employees, invitees or licensees, including any accident, injury or damage whatsoever caused to any person, in or about the Premises, and (d) all costs, reasonable counsel fees, expenses and liabilities incurred in connection with any such claim for which indemnification has been provided under this Paragraph. In case any action or proceeding shall be brought against Tenant by reason of any such claim, Landlord, upon notice from Tenant, shall reimburse Tenant for its counsel fees incurred in defending such action or proceeding. Landlord shall, within ten (10) days following notice to it of any claim of a third party relating to the performance or non-performance by Landlord of its obligations under this Lease, give written notice to the Tenant of such claim. The provisions of this Paragraph 19 shall survive the expiration or termination of this Lease.

20. LIABILITY INSURANCE.

(a) Tenant, at its own cost and expense, shall obtain during the term of this Lease, and any renewals or extensions thereof, commercial general liability insurance in companies acceptable to Landlord, naming Landlord and Tenant as the insureds, in an amount not less than One Million Dollars (\$1,000,000.00), and providing for at least thirty (30) days' prior written notice to Landlord of cancellation, nonrenewal, or modification.

(b) Upon the signing of this Lease, Tenant shall deliver to Landlord a copy of the policy evidencing such insurance. At least thirty (30) days before the expiration of such policy and any renewal policies, Tenant shall deliver to Landlord a copy of the renewal policy.

21. FIRE OR OTHER CASUALTY.

(a) If during the term of this Lease or any renewal or extension thereof, the Premises or the Building is totally destroyed or is so damaged by fire or other casualty not occurring through the fault or negligence of Tenant or those employed by or acting for Tenant to the extent that the same cannot be repaired or restored within one hundred eighty (180) days from the date of the happening of such damage, or if such damage or casualty is not included in the risks covered by Landlord's fire insurance, then Landlord shall have the option to terminate this Lease upon written notice to Tenant, whereupon this Lease shall absolutely cease and terminate and the rent shall abate for the balance of the term. In such case, Tenant shall pay the rent apportioned to the date of damage and Landlord may enter upon and repossess the Premises without further notice.

(b) If Landlord chooses to restore the Premises, Landlord shall repair whatever portion of the Premises that may have been damaged by fire or other casualty insured as aforesaid, and the rent shall be apportioned during the time Landlord is in possession, taking into

account the proportion of the Premises rendered untenable and the duration of Landlord's possession.

(c) If the damage caused as above renders less than twenty-five per cent (25%) of the Premises unfit for occupancy, Landlord shall repair whatever portion of the Premises that may have been damaged by fire or other casualty insured as aforesaid, and the rent accrued or accruing shall not be apportioned or suspended, however if Tenant does not have use of three (3) exam rooms, the x-ray unit and mechanical room functions, the damage shall be treated as if twenty-five per cent (25%) or more of the Premises is unfit for occupancy as stated above.

(d) If said damage by fire or other casualty was caused by the action or negligence of Tenant or its agents, employees or invitees, Tenant shall not be entitled to any abatement or apportionment of the rent.

(e) Tenant, at its own cost and expense, shall obtain during the term of this Lease, and any renewals or extensions thereof, content insurance for the full replacement value of its personalty used in Tenant's daily operations of the Permitted Use.

22. WAIVER OF SUBROGATION. Landlord and Tenant shall each endeavor to procure an appropriate clause in, or endorsement on, any fire and extended coverage insurance covering the Premises and Building and personal property, fixtures, and equipment located thereon or therein, pursuant to which the insurance companies waive subrogation or consent to a waiver of right of recovery. Each party hereto hereby agrees that it will not make any claim against or seek to recover from the other for any loss or damage to its property or the property of others resulting from fire or other hazards covered by such fire and extended coverage insurance except as expressly provided in this Lease; provided, however, that the release, discharge, exoneration, and covenant not to sue herein contained shall be limited by the terms and provisions of the waiver of subrogation clauses and/or endorsements consenting to a waiver of right of recovery and shall be coextensive therewith.

23. NO IMPLIED EVICTION. Notwithstanding any inference to the contrary herein contained, it is understood that the exercise by Landlord of any of its rights hereunder, including (without limitation) cessation of services as described in Paragraph 27(c)(ii), shall never be deemed an eviction (constructive or otherwise) of Tenant, or a disturbance of its use of the Premises, and shall in no event render Landlord liable to Tenant or any other person, so long as such exercise of rights is in accordance with the foregoing terms and conditions.

24. CONDEMNATION. If the whole of the Premises shall be acquired or condemned by eminent domain, then the term of this Lease shall cease and terminate as of the date on which possession of the Premises is required to be surrendered to the condemning authority. All rent shall be paid up to the date of termination. A partial condemnation shall not be cause for termination of this Lease. Tenant hereby expressly waives any right or claim to any part of any condemnation award or damages and hereby assigns to Landlord any such right or claim to which Tenant might become entitled.

25. LANDLORD'S RIGHT TO PAY TENANT EXPENSES. If Tenant shall at any time fail to pay any utility or other charges or to take out, pay for, maintain or deliver any of the insurance policies provided for herein, or shall fail to make any other payment or perform any other act which Tenant is obligated to make or perform under this Lease, then without waiving, or releasing Tenant from, any obligations of Tenant contained in this Lease, Landlord may, but shall not be obligated

to, pay any such charge, effect any such insurance coverage and pay premiums therefor, and may make any other payment or perform any other act which Tenant is obligated to perform under this Lease, in such manner and to such extent as shall be necessary. In exercising any such rights, Landlord may pay any necessary and incidental costs and expenses, employ counsel and incur and pay reasonable attorneys' fees. All sums so paid by Landlord and all necessary and incidental costs and expenses in connection with the performance of any such act by Landlord, together with interest thereon at the rate of twelve percent (12%) per annum from the date of the making of such expenditure by Landlord, shall be deemed additional rent hereunder and, except as otherwise expressly provided in this Lease, shall be payable to Landlord after ten (10) days' written notice thereof. Tenant covenants to pay any such sum or sums with interest as aforesaid and Landlord shall have (in addition to any other right or remedy of the Landlord) the same rights and remedies in the event of nonpayment thereof by Tenant as in the case of default by Tenant in the payment of rent.

26. EVENTS OF DEFAULT. The occurrence of each of the following events shall be an "Event of Default" hereunder:

(a) Tenant does not pay in full when due any installment of rent, additional rent or any other charges, expenses or costs herein agreed to be paid by Tenant for a period of five (5) days after receipt of notice that same has not been paid when due; provided that in the event Tenant shall have received three (3) such written notices within any period of twelve (12) consecutive months, then during the remainder of the twelve (12) consecutive month period after Tenant shall have received its first written notice from Landlord, Tenant shall thereafter be in default hereunder whenever Tenant shall fail to pay any sum owing under this Lease when due, without the necessity of sending any written notice of nonpayment;

(b) Tenant violates or fails to perform or comply with any non-monetary term, covenant, condition, or agreement herein contained and fails to cure such default within thirty (30) days of notice thereof from Landlord, provided, however, if such default cannot be cured with reasonable diligence within such thirty (30) day period, the time for cure of same shall be deemed extended for such additional time as is reasonably necessary to cure same with due diligence for an additional period not to exceed thirty (30) days;

(c) Tenant vacates the Premises;

(d) Tenant shall file a voluntary petition in bankruptcy or shall be adjudicated a bankrupt or insolvent or shall file any petition or answer seeking any reorganization, arrangement, recapitalization, readjustment, liquidation or dissolution or similar relief under any present or future bankruptcy laws of the United States or any other country or political subdivision thereof, or shall seek or consent to or acquiesce in the appointment of any trustee, receiver, or liquidator of all or any substantial part of Tenant's properties, or shall make an assignment for the benefit of creditors, or shall admit in writing Tenant's inability to pay Tenant's debts generally as they become due; or

(e) If an involuntary petition in bankruptcy shall be filed against Tenant seeking any reorganization, arrangement, composition, readjustment, liquidation, dissolution or similar relief under any present or future bankruptcy laws of the United States or any other state or political subdivision thereof, and if within sixty (60) days after the commencement of any such proceeding against Tenant, such proceedings shall not have been dismissed, or if, within sixty (60) days after the

appointment, without the consent or acquiescence of Tenant, or any trustee, receiver or liquidator of the Tenant or of all or any substantial part of Tenant's property, such appointment shall not have been vacated or stayed on appeal or otherwise, or if, within sixty (60) days after the expiration of any such stay, such appointment shall not have been vacated.

27. LANDLORD'S REMEDIES.

(a) Upon the occurrence of any Event of Default, Landlord may, at its option and without any further notice to Tenant, terminate this Lease, whereupon the estate hereby vested in Tenant shall cease and any and all other right, title and interest of Tenant hereunder shall likewise cease without notice or lapse of time, as fully and with like effect as if the entire term of this Lease had elapsed, but Tenant shall continue to be liable to Landlord as hereinafter provided.

(b) Upon the occurrence of any Event of Default, or at any time thereafter, Landlord, in addition to and without prejudice to any other rights and remedies Landlord shall have at law or in equity, shall have the right to re-enter the Premises, either by force or otherwise, and recover possession thereof and dispossess any or all occupants of the Premises in the manner prescribed by the statute relating to summary proceedings, or similar statutes, but Tenant in such case shall remain liable to Landlord as hereinafter provided.

(c) In case of any Event of Default, re-entry, expiration and/or dispossession by summary proceedings, whether or not this Lease shall have been terminated as aforesaid:

(i) All delinquent rent, additional rent and all other sums required to be paid by Tenant hereunder shall become payable thereupon and shall be paid up to the time of such re-entry, expiration and/or dispossession, and all accelerated payments due under subparagraphs 10(a) and (b) hereof shall become immediately due and payable;

(ii) Landlord shall have the right, in its sole discretion, to terminate immediately and without any notice to Tenant, all services which are to be supplied by Landlord pursuant to the terms of this Lease, including without limitation, all janitor service and the maintenance and repair responsibilities described in Paragraph 7 hereof;

(iii) Landlord shall have the right, but not the obligation, to relet the Premises or any part or parts thereof for the account of Tenant, either in the name of Landlord or otherwise, for a term or terms which may, at Landlord's option, be less than or exceed the period which would otherwise have constituted the balance of the term of this Lease and on such conditions (which may include concessions or free rent) as Landlord, in its reasonable discretion, may determine and may collect and receive the rents therefor; Landlord shall in no way be responsible or liable for any failure to relet the Premises or any part thereof, or for any failure to collect any rent due upon any such reletting; and

(iv) Tenant shall reimburse Landlord for any expenses that Landlord may incur in connection with recovering possession of the Premises and any reletting thereof, such as court costs, attorneys' fees, brokerage fees, and the costs of advertising and the costs of any alterations, repairs, replacements and/or decorations in or to the Premises as Landlord, in Landlord's sole judgment, considers advisable and necessary for the purpose of such reletting of the Premises; and the making of

such alterations, repairs, replacements and/or decorations shall not operate or be construed to release Tenant from liability hereunder as aforesaid.

(d) If this Lease is terminated by Landlord pursuant to Paragraph 27(a) hereof, Tenant nevertheless shall remain liable for all rent and damages which may be due or sustained prior to such termination, together with additional damages (the "Liquidated Damages") which, at Landlord's option, shall be either:

(i) an amount equal to (A) the rent and all other sums required to be paid by Tenant hereunder during the period which would otherwise have constituted the balance of the term of this Lease, and all damages, costs, fees and expenses incurred by Landlord as a result of such Event of Default, including without limitation, reasonable attorneys' fees, costs and expenses incurred by Landlord in pursuit of its remedies hereunder, less (B) the rent, if any, received by Landlord, pursuant to any reletting of the Premises during the period which would otherwise have constituted the balance of the term of this Lease; such amount calculated pursuant to this Paragraph 27(d)(i) shall be payable in monthly installments, in advance, on the first day of each calendar month following the occurrence of such Event of Default and continuing during the period which would otherwise have constituted the balance of the term of this Lease; or

(ii) an amount equal to the Annual Minimum Rent, Premises Expenses, and all other additional rent which was due and payable for the two (2) year period immediately preceeding Tenant's default.

(e) In the event Tenant commits a default, or suffers a default to exist, within ten (10) days after written demand, Tenant shall reimburse Landlord for Landlord's attorneys' fees incurred by Landlord in the enforcement of this Lease, regardless whether legal proceedings are or are not instituted, which fees shall include any actions taken in connection with any bankruptcy proceeding filed by or against Tenant.

(f) Tenant shall pay Landlord interest at twelve percent (12%) per annum on all failures to pay timely the rent, additional rent or any other sums required to be paid by Tenant hereunder from the date such payment is due until the date such payment is made to Landlord. Any judgment obtained by the Landlord as a result of the exercise of its rights and remedies under this Lease shall bear interest at the rate of twelve percent (12%) per annum from the date of entry of such judgment through the date such judgment is paid in full.

(g) Upon any termination of this Lease, whether by lapse of time, by the exercise of any option by Landlord to terminate the same, or in any other manner whatsoever, or upon any termination of Tenant's right to possession without termination of this Lease, Tenant shall immediately surrender possession of the Premises to Landlord and immediately vacate the same, and remove all effects therefrom, except such as may not be removed under other provisions of this Lease. If Tenant fails to surrender and vacate as aforesaid, Landlord may forthwith re-enter the Premises, with or without process of law, and repossess itself thereof as in its former estate and expel and remove Tenant and any other persons and property therefrom, using such force as may be necessary, without being deemed guilty of trespass, eviction, conversion or forcible entry and without thereby waiving Landlord's rights to rent or any other rights given Landlord under this Lease or at law or in equity. If Tenant shall not remove all effects from the Premises as hereinabove provided, Landlord may, at its option, remove

any or all of said effects in any manner it shall choose and either dispose of the same at Landlord's sole discretion, or store the same without liability for loss thereof, and Tenant shall pay Landlord, on demand, any and all expenses incurred in such removal and also storage on said effects, if applicable, for any length of time during which the same shall be in Landlord's possession or in storage.

28. CONFESSION OF JUDGMENT FOR DAMAGES. THIS PARAGRAPH SETS FORTH A WARRANT OF ATTORNEY FOR AN ATTORNEY TO CONFESS JUDGMENT AGAINST THE TENANT. IN GRANTING THIS WARRANT OF ATTORNEY TO CONFESS JUDGMENT AGAINST THE TENANT, TENANT HEREBY KNOWINGLY, INTELLIGENTLY AND VOLUNTARILY, AND, ON THE ADVICE OF SEPARATE COUNSEL OF TENANT, UNCONDITIONALLY WAIVES ANY AND ALL RIGHTS TENANT HAS OR MAY HAVE TO PRIOR NOTICE AND AN OPPORTUNITY FOR HEARING UNDER THE RESPECTIVE CONSTITUTIONS AND LAWS OF THE UNITED STATES AND THE COMMONWEALTH OF PENNSYLVANIA.

TENANT HEREBY AUTHORIZES ANY ATTORNEY OF ANY COURT OF RECORD, UPON THE OCCURRENCE OF ANY EVENT OF DEFAULT, TO APPEAR IMMEDIATELY THEREAFTER AS ATTORNEY FOR THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT IN ANY COMPETENT COURT AND TO CONFESS JUDGMENT OR JUDGMENTS AND SUCCESSIVE JUDGMENTS BY CONFESSION (WITHOUT STAY OF EXECUTION OR APPEAL) IN FAVOR OF THE LANDLORD AND ALL PERSONS CLAIMING UNDER THE LANDLORD AND AGAINST THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT FOR ALL AMOUNTS THEN DUE UNDER THIS LEASE, TOGETHER WITH AN ATTORNEY'S COLLECTION COMMISSION EQUAL TO TEN PERCENT (10%) OF THE TOTAL OF SUCH AMOUNTS, WITHOUT ANY LIABILITY ON THE PART OF THE SAID ATTORNEY, FOR WHICH THIS SHALL BE A SUFFICIENT WARRANT, AND THEREUPON A WRIT OF EXECUTION WITH CLAUSE FOR COSTS, OR OTHER PROCESS FOR SIMILAR PURPOSES, MAY ISSUE FORTHWITH WITHOUT ANY PRIOR WRIT OR PROCEEDING WHATSOEVER, AND THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT HEREBY WAIVE ALL EXEMPTION LAWS AND INQUISITION ON REAL PROPERTY AND RELEASE TO THE LANDLORD AND ALL PERSONS CLAIMING UNDER THE LANDLORD ALL ERRORS AND DEFECTS WHATSOEVER IN ENTERING SUCH ACTION OR JUDGMENT, OR IN CAUSING SUCH WRIT OF EXECUTION OR OTHER PROCESS TO BE ISSUED, OR IN ANY PROCEEDING THEREON OR CONCERNING THE SAME, AND HEREBY AGREE THAT NO WRIT OF ERROR OR OBJECTION OR EXCEPTION SHALL BE MADE OR TAKEN THERETO. IF A COPY OF THIS LEASE, VERIFIED BY AFFIDAVIT, IS FILED IN SAID ACTION, IT SHALL NOT BE NECESSARY TO FILE THE ORIGINAL AS A WARRANT OF ATTORNEY, ANY LAW OR RULE OF COURT TO THE CONTRARY NOTWITHSTANDING. THIS WARRANT OF ATTORNEY SHALL NOT BE EXHAUSTED BY ONE EXERCISE THEREOF, AND SHALL REMAIN IN FORCE AND SHALL BE OPERATIVE FOR SUCCESSIVE EXERCISES THEREOF, FROM TIME TO TIME AS THE NEED MAY ARISE, NOT ONLY WITH RESPECT TO THE TENANT BUT ALSO WITH RESPECT TO ALL PERSONS CLAIMING UNDER THE TENANT.

29. CONFESSION OF JUDGMENT IN EJECTMENT. THIS PARAGRAPH SETS FORTH A WARRANT OF ATTORNEY FOR AN ATTORNEY TO CONFESS JUDGMENT AGAINST THE TENANT. IN GRANTING THIS WARRANT OF ATTORNEY TO CONFESS

JUDGMENT AGAINST THE TENANT, TENANT HEREBY KNOWINGLY, INTELLIGENTLY AND VOLUNTARILY, AND, ON THE ADVICE OF SEPARATE COUNSEL OF TENANT, UNCONDITIONALLY WAIVES ANY AND ALL RIGHTS TENANT HAS OR MAY HAVE TO PRIOR NOTICE AND AN OPPORTUNITY FOR HEARING UNDER THE RESPECTIVE CONSTITUTIONS AND LAWS OF THE UNITED STATES AND THE COMMONWEALTH OF PENNSYLVANIA.

TENANT HEREBY AUTHORIZES THE PROTHONOTARY, CLERK OF COURT OR ANY ATTORNEY OF ANY COURT OF RECORD, UPON THE OCCURRENCE OF AN EVENT OF DEFAULT, OR IN THE EVENT THAT TENANT FAILS TO SURRENDER POSSESSION OF ALL OR ANY PART OF THE PREMISES AS REQUIRED HEREIN, TO APPEAR FOR THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT IN ANY COMPETENT COURT AND CONFESS JUDGMENT IN EJECTMENT (WITHOUT STAY OF EXECUTION OR APPEAL) IN FAVOR OF THE LANDLORD AND ALL PERSONS CLAIMING UNDER THE LANDLORD AND AGAINST THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT FOR POSSESSION OF THE PREMISES, WITHOUT ANY LIABILITY ON THE PART OF THE SAID ATTORNEY, FOR WHICH THIS SHALL BE A SUFFICIENT WARRANT, AND THEREUPON A WRIT OF POSSESSION WITH CLAUSE FOR COSTS, OR OTHER PROCESS FOR SIMILAR PURPOSES, MAY ISSUE FORTHWITH WITHOUT ANY PRIOR WRIT OR PROCEEDING WHATSOEVER, AND THE TENANT AND ALL PERSONS CLAIMING UNDER THE TENANT HEREBY RELEASE TO THE LANDLORD AND ALL PERSONS CLAIMING UNDER THE LANDLORD ALL ERRORS AND DEFECTS WHATSOEVER IN ENTERING SUCH ACTION OR JUDGMENT, OR IN CAUSING SUCH WRIT OF POSSESSION OR OTHER PROCESS TO BE ISSUED, OR IN ANY PROCEEDING THEREON OR CONCERNING THE SAME, AND HEREBY AGREE THAT NO WRIT OF ERROR OR OBJECTION OR EXCEPTION SHALL BE MADE OR TAKEN THERETO. IF A COPY OF THIS LEASE, VERIFIED BY AFFIDAVIT, IS FILED IN SAID ACTION, IT SHALL NOT BE NECESSARY TO FILE THE ORIGINAL AS A WARRANT OF ATTORNEY, ANY LAW OR RULE OF COURT TO THE CONTRARY NOTWITHSTANDING. THIS WARRANT OF ATTORNEY SHALL NOT BE EXHAUSTED BY ONE EXERCISE THEREOF, AND SHALL REMAIN IN FORCE AND SHALL BE OPERATIVE FOR SUCCESSIVE EXERCISES THEREOF, FROM TIME TO TIME AS THE NEED MAY ARISE, NOT ONLY WITH RESPECT TO THE TENANT BUT ALSO WITH RESPECT TO ALL PERSONS CLAIMING UNDER THE TENANT.

30. RIGHT OF ASSIGNEE OF LANDLORD. The right to enforce all of the provisions of this Lease may be exercised by any assignee of the Landlord's right, title and interest in this Lease in its, his, her or their own name, and Tenant hereby expressly waives the requirements of any and all laws regulating the manner and/or form in which such assignments shall be executed and witnessed.

31. REMEDIES CUMULATIVE. All remedies given to Landlord herein and all rights and remedies given to Landlord by law and equity shall be cumulative and concurrent. No termination of this Lease, or taking or recovering of possession of the Premises, or entry of any judgment either for possession or for any money claimed to be due Landlord, shall deprive Landlord of any other action against Tenant for possession, or for any money due Landlord hereunder, or for damages hereunder. The exercise of or failure to exercise any remedy shall not bar or delay the exercise of any other remedy.

32. TENANT'S WAIVERS.

(a) If proceedings shall be commenced by Landlord to recover possession of the Premises, either at the end of the term hereof or by reason of an Event of Default or otherwise, Tenant expressly waives all rights to notice in excess of five (5) days required by any Act of Assembly, including the Act of April 6, 1951, P.L. 69, Art. V, Sec. 501, as amended, and agrees that in either or any such case five (5) days' notice shall be sufficient. Without limitation of or by the foregoing, Tenant hereby waives any and all demands, notices of intention, and notice of action or proceedings which may be required by law to be given or taken prior to any entry or re-entry by summary proceedings, ejectment or otherwise, by Landlord, except as hereinbefore expressly provided with respect to five (5) days' notice.

(b) Any notice to quit required by law previous to proceedings to recover possession of the Premises or any notice of demand for rent on the day when such is due and the benefit of all laws granting stay of execution, appeal, inquisition and exemption are hereby waived by Tenant; provided, however, that nothing in this paragraph shall be construed as a waiver of any notice specifically mentioned or required by any other part of this Lease.

(c) In the event of a termination of this Lease prior to the date of expiration herein originally fixed, Tenant hereby waives all right to recover or regain possession of the Premises, to save forfeiture by payment of rent due or by other performance of the conditions, terms or provisions hereof, and, without limitation of or by the foregoing, Tenant waives all right to reinstate or redeem this Lease notwithstanding any provisions of any statute, law or decision now or hereafter in force or effect and Tenant waives all right to any second or further trial in summary proceedings, ejectment or in any other action provided by any statute or decision now or hereafter in force or effect.

33. ATTORNMENT. In the event of the sale or assignment of Landlord's interest in the Premises or in the event of a foreclosure under any mortgage made by Landlord covering the Premises, Tenant shall attorn to the purchaser and recognize such purchaser as Landlord under this Lease.

34. SUBORDINATION. At the option of Landlord or Landlord's lender, or both of them, this Lease and the Tenant's interest hereunder shall be subject and subordinate at all times to any mortgage or mortgages, deed or deeds of trust, or such other security instrument or instruments, including all renewals, extensions, consolidations, assignments and refinances of the same, as well as all advances made upon the security thereof, which now or hereafter become liens upon the Landlord's fee and/or leasehold interest in the Premises, and/or any and all of the buildings now or hereafter erected or to be erected and/or any and all of the Premises, provided, however, that in each such case, the holder of such other security, the trustee of such deed of trust or holder of such other security instrument shall agree that this Lease shall not be divested or in any way affected by foreclosure or other default proceedings under said mortgage, deed of trust, or other instrument or other obligations secured thereby, so long as Tenant shall not be in default under the terms of this Lease; and shall agree that this Lease shall remain in full force and effect notwithstanding any such default proceedings. Notwithstanding anything herein to the contrary, any holder of any mortgage may at any time subordinate its mortgage to this Lease, by notice in writing to Tenant, and thereupon this Lease shall be deemed prior to such mortgage without regard to their respective dates of execution and delivery and in that even such mortgage shall have the same rights with respect to this Lease as though this Lease had been executed

and delivered prior to the execution and delivery of the mortgage.

35. EXECUTION OF DOCUMENTS. The above subordination shall be self-executing, but Tenant agrees upon demand to execute such other document or documents as may be required by a mortgagee, trustee under any deed of trust, or holder of a similar security interest, or any party to the types of documents enumerated herein for the purpose of subordinating this Lease in accordance with the foregoing. Upon the expiration of ten (10) days after a formal written notice, Tenant shall be deemed to have appointed Landlord and Landlord may execute and deliver the required documents for and on behalf of Tenant.

36. ESTOPPEL AGREEMENTS. Tenant shall execute an estoppel agreement in favor of any mortgagee or purchaser of Landlord's interest herein, within ten (10) days after requested to do so by Landlord or any such mortgagee or purchaser. Such estoppel agreement shall be in the form requested by Landlord or such mortgagee or purchaser.

37. CONDOMINIUM CONVERSION. Tenant acknowledges that Landlord has informed Tenant that Landlord, at any time in Landlord's sole discretion, may by recorded declaration, convert the fee ownership of the Building and the Land to a condominium in accordance with the provisions of the Pennsylvania Uniform Condominium Act (the "Act"). In such event, the common areas of the Building and the Land shall become Common Elements and/or Limited Common Elements, as defined in the Act and as designated by Landlord, and the Common Expenses pertaining thereto (as defined in the Act), as applicable, shall be included as part of the Premises Expenses. Tenant agrees upon demand to execute such document or documents as may be required by Landlord in connection with any such condominium conversion.

38. NOTICES. All notices required to be given by either party to the other shall be in writing. All such notices shall be deemed to have been given upon delivery in person, or upon depositing in the United States mail, by certified mail, return receipt requested, postage prepaid, or by delivery by telefax, facsimile or telegraph, or by Federal Express or other nationally recognized overnight delivery service, addressed to the parties at the addresses shown in the summary pages at the front of this Lease or to such other address which either party may hereafter designate in writing by notice given in a like manner.

39. BINDING EFFECT. All rights and liabilities herein given to, or imposed upon the respective parties hereto, shall extend to and bind the several and respective heirs, personal representatives, successors and permitted assigns of said parties.

40. SURVIVAL OF VALID TERMS. If any provision of this Lease shall be invalid or unenforceable, the remainder of the provisions of this Lease shall not be affected thereby, and each and every provision of this Lease shall be enforceable to the fullest extent permitted by law.

41. ENTIRE AGREEMENT. This Lease and any exhibit, rider or addendum that may be attached hereto set forth all the promises, agreements, conditions and understandings between Landlord and Tenant relative to the Premises, and there are no promises, agreements, conditions or understandings, either oral or written, between them other than are herein set forth. Except as herein otherwise provided, no subsequent alteration, amendment, change or addition to this Lease shall be binding upon Landlord or Tenant unless reduced to writing and signed by them.

42. PROHIBITION AGAINST RECORDING. This Lease shall not be recorded and any attempted recording of this Lease shall constitute an Event of Default hereunder.

43. INTERPRETATION. As used in this Lease and when required by context, each number (singular or plural) shall include all numbers, and each gender shall include all genders. Time is and shall be of essence of each term and provision of this Lease. The term "person" as used herein means person, firm, association or corporation, as the case may be. If Tenant is more than one person, all agreements, conditions, obligations, covenants, warrants of attorney, waivers and releases made by Tenant shall be joint and several, and shall bind and affect all persons who are defined as "Tenant" herein.

44. LIABILITY OF LANDLORD. The term "Landlord" as used herein means the fee owner of the Premises from time to time. In the event of the voluntary or involuntary transfer of such ownership to a successor-in-interest of the Landlord, the Landlord shall be automatically discharged and relieved of and from all liability and obligations hereunder which shall thereafter accrue, and Tenant shall look solely to such successor-in-interest for the performance and obligations of the Landlord hereunder which shall thereafter accrue. The liability of Landlord and its successors-in-interest under or with respect to this Lease shall be strictly limited to and enforceable solely out of its or their interest in the Premises and shall not be enforceable out of any other assets.

45. CAPTIONS AND HEADINGS. The captions and headings of the paragraphs contained herein are for convenience of reference only and in no way define, limit, describe, modify or amplify the interpretation, construction or meaning of any provision of or the scope or intent of this Lease nor in any way affect this Lease. All Exhibits are an integral part of this Lease and are attached hereto.

46. NO BROKERAGE COMMISSION. Landlord and Tenant represent and warrant that no brokerage commission or similar compensation is due to any party by reason of this Lease. Each party hereby agrees to indemnify and hold the other party harmless from and against any and all claims, costs, damages, expenses, judgments or liability resulting from any claim for brokerage commissions or similar compensation made by any party in connection with this Lease.

47. QUIET ENJOYMENT. Upon Tenant's compliance with the provisions of this Lease, including the payment of all rent hereunder, Tenant shall peaceably hold and enjoy the Premises during the term hereof without hinderance or interruption by Landlord or any person claiming under Landlord.

48. WAIVER OF TRIAL BY JURY. Each party to this Lease agrees that any suit, action, or proceeding, whether claim or counterclaim, brought or instituted by any party hereto or any successor or assign of any party hereto or with respect to this Lease or which in any way relates, directly or indirectly, to the Premises or any event, transaction, or occurrence arising out of or in any way in connection with the Premises, or the dealings of the parties with respect thereto, shall be tried only by a court and not by a jury. EACH PARTY HEREBY EXPRESSLY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY SUCH SUIT, ACTION OR PROCEEDING. TENANT ACKNOWLEDGES AND AGREES THAT THIS PARAGRAPH 48 IS A SPECIFIC AND MATERIAL ASPECT TO THIS LEASE BETWEEN THE PARTIES AND THAT LANDLORD WOULD NOT LEASE THE PREMISES TO THE TENANT IF THIS WAIVER OF JURY TRIAL SECTION WERE NOT A PART

OF THIS LEASE.

49. OWNERS' ASSOCIATION. This Lease and all terms and provisions hereof shall be under and subject, in all respects, to: (a) the Declaration of Covenants, Easements, Conditions and Restrictions for Wyomissing Corporate Center, which is recorded in the Recorder of Deeds Office of Berks County, Pennsylvania, and (b) the Articles of Incorporation and the Bylaws of The Wyomissing Corporate Center Owners' Association, Inc.. Tenant covenants and agrees to comply with the terms of such written instruments insofar as they pertain to any tenant of the Building and such tenant's agents, servants, employees, invitees, and business visitors. Landlord covenants and warrants that nothing in the documents referenced in (a) and (b) above inhibits Tenant's use, occupancy, access to or quiet enjoyment of the Premises or interferes with Tenant's rights granted under this Lease, and such documents shall not result in any additional financial obligation to Tenant under this Lease other than those Expenses defined herein and provided on Exhibit "B".

CONSENT

INTENDING to be legally bound hereby, The Owners' Association of Wyomissing Professional Center, Inc. (or *Wyomissing Corporate Center Owners' Association* or, *The Owners' Association of Wyomissing Professional Center, Inc.* or, *The Owner's Association of Wyomissing Professional Center, West Campus, Inc.*) hereby joins in and consents to the above Lease insofar as any of the above provisions concern the parking area and any other common areas maintained by it.

OWNER'S ASSOCIATION OF WYOMISSING
PROFESSIONAL CENTER, INC.

By: /s/ Stephen J. Najarian

Exhibits

- "A" - Preliminary Leased Premises
- "B" - Expense Budget
- "C" - Tenant Plans and Specifications
- "D" - Permitted Exterior Signage

EXHIBIT "A"

LEASED PREMISES
(PRELIMINARY PLAN)

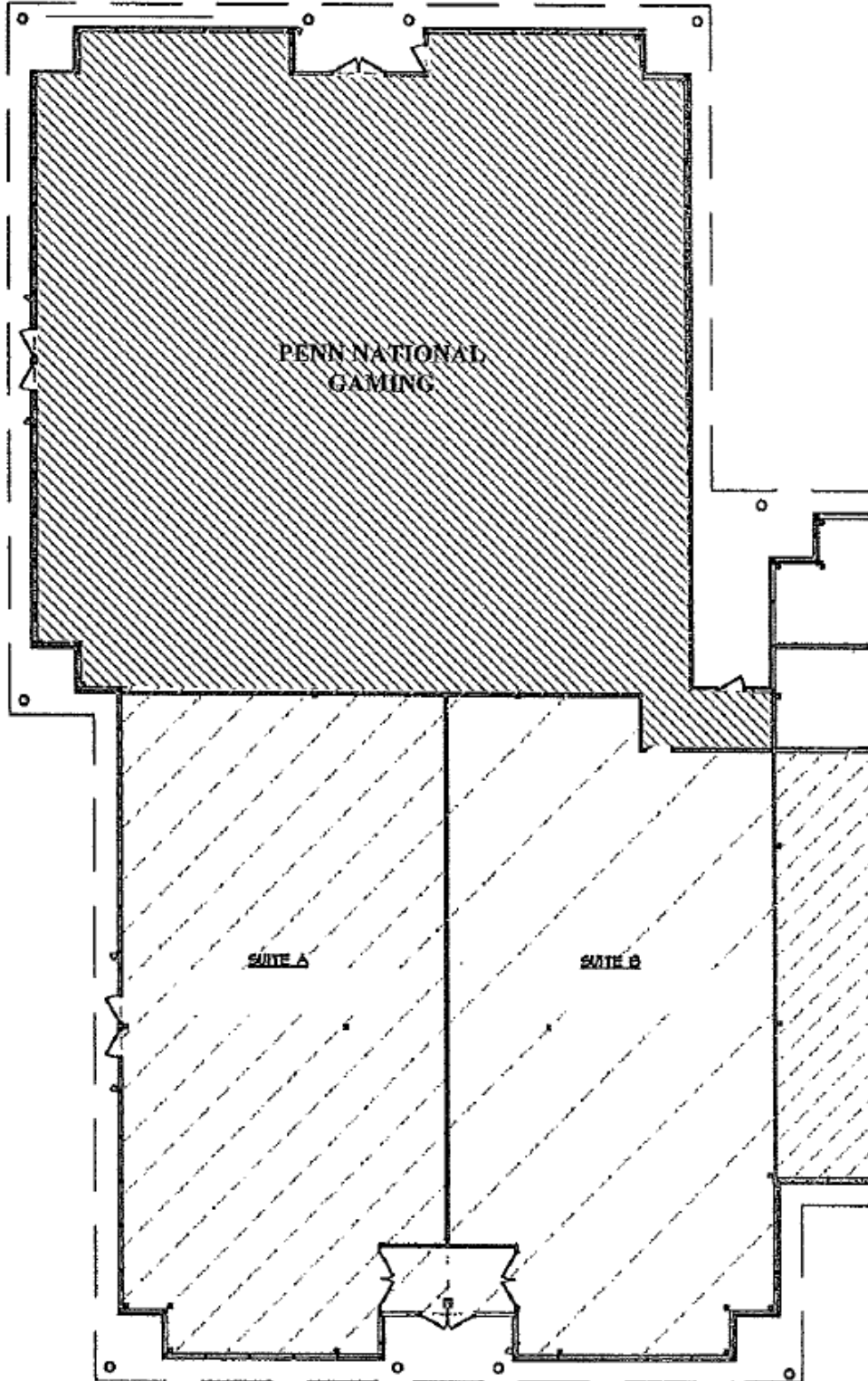


EXHIBIT "B"

**WYOMISSING PROFESSIONAL CENTER 875
2005 BUDGET**

Building RSF 27,702

| CATEGORY | \$/RSF |
|---|----------------|
| BUILDING EXPENSES: | |
| REAL ESTATE TAXES | \$ 2.06 |
| INSURANCE | \$ 0.28 |
| WATER/SEWER | \$ 0.12 |
| TRASH SERVICE | \$ 0.09 |
| MISCELLANEOUS REPAIRS & MAINTENANCE | \$ 0.35 |
| SERVICE CONTRACT/HVAC | \$ 0.07 |
| TOTAL BUILDING EXPENSES | \$ 2.96 |
| COMMON AREA EXPENSES: | |
| LANDSCAPING | \$ 0.37 |
| SNOW REMOVAL | \$ 0.21 |
| MAINTENANCE/PROPERTY MANAGEMENT | \$ 0.25 |
| ALARM & SECURITY SERVICES | \$ 0.08 |
| ELECTRIC & GAS | \$ 0.07 |
| TOTAL COMMON AREA EXPENSES | \$ 0.98 |
| TOTAL BUILDING AND COMMON AREA EXPENSES | \$ 3.94 |
| JANITORIAL EXPENSES (OPTIONAL IN-SUITE): | |
| JANITORIAL SERVICE | \$ 1.08 |
| JANITORIAL SUPPLIES | \$ 0.07 |
| TOTAL JANITORIAL EXPENSES | \$ 1.15 |
| TOTAL EXPENSES INCL JANITORIAL | \$ 5.09 |

EXHIBIT "C"

TENANT PLANS AND SPECIFICATIONS
(TO BE ATTACHED/REFERENCED)

EXHIBIT "D"

PERMITTED EXTERIOR SIGNAGE

Landlord will supply signage as follows: All one-story buildings include exterior tenant directories with the Tenant's name and suite number, Tenant's name and suite number in vinyl lettering directly on the entrance doors to the suite.

One-story buildings at Wyomissing Professional Center include the opportunity for tenant signage on the exterior face of the building or street-side monument sign as applicable. These signs are at tenant's option, with the availability, design, scope, and placement at Landlord's sole approval. The cost of the design, construction, installation, maintenance and removal of these signs is at tenant's sole cost.

AMENDMENT AND RESTATED LEASE AGREEMENT

THIS LEASE AMENDMENT (the "Amendment") made this 20th day of April, 2006, between **Penn National Gaming, Inc.**, a Pennsylvania corporation, hereinafter called "Tenant", having its principal place of business at 825 Berkshire Boulevard, Suite 200 and **Wyomissing Professional Center, Inc.**, a Pennsylvania corporation, hereinafter called "Landlord", having its principal place of business at 875 Berkshire Boulevard Suite 102 Wyomissing, Pennsylvania 19610.

WITNESSETH:

The Tenant and the Landlord have executed a Lease Agreement dated April 5, 2005, which includes Exhibits "A", "B", "C" and "D", relating to Leased Premises located at 875 Berkshire Boulevard, Suite 101, Wyomissing, Pennsylvania 19610.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease. Except to the extent to which the provisions of this Amendment modify the provisions of the Lease, the provisions of the Lease shall remain in full force and effect.
3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
4. **Leased Premises.** The amended Leased Premises shall be restated to be 11,100 square feet of rentable area by adding the adjacent approximately 5,600 square feet of rentable area as shown on Exhibit "A1-1" attached hereto.
5. **Effective Date.** The effective date for Tenant's increased space and rental payments shall be on the first to occur of (a) the date on which Tenant takes occupancy of or commences business at the Premises, or (b) the date of substantial completion, being the date when a certificate of occupancy for the Premises is issued by the applicable municipal authority, or (c) May 1, 2006.
6. **Fixed Annual Minimum Rent:** The Annual Minimum Rent for the amended Leased Premises, shall be as shown on attached Schedule "A1-1".
7. **Tenant's Share of Expenses.** All expenses for which Tenant is paying its pro rata share shall be adjusted to account for the increased square footage of the amended Leased Premises as of the Effective Date.
8. **Construction of Improvements.** Tenant shall contract with Landlord's contractor for the construction of improvements to the amended Leased Premises. All such

work shall be bid and performed by Landlord's contractor on an open book basis and billed at the rate of the subcontractor's or supplier's cost plus a total of 15% for construction management fee, overhead, and builder's profit and be subject to the approval of a budget prior to the commencement of any work.

9. **Binding effect.** This Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant and their respective successors and assigns.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed on the date first written above.

THIS LEASE MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

Wyomissing Professional Center, Inc., a Pennsylvania corporation

By: /s/ Peter W. Carlino

Name: Peter W. Carlino

Title: VP

TENANT:

Penn National Gaming, Inc., a Pennsylvania corporation

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito

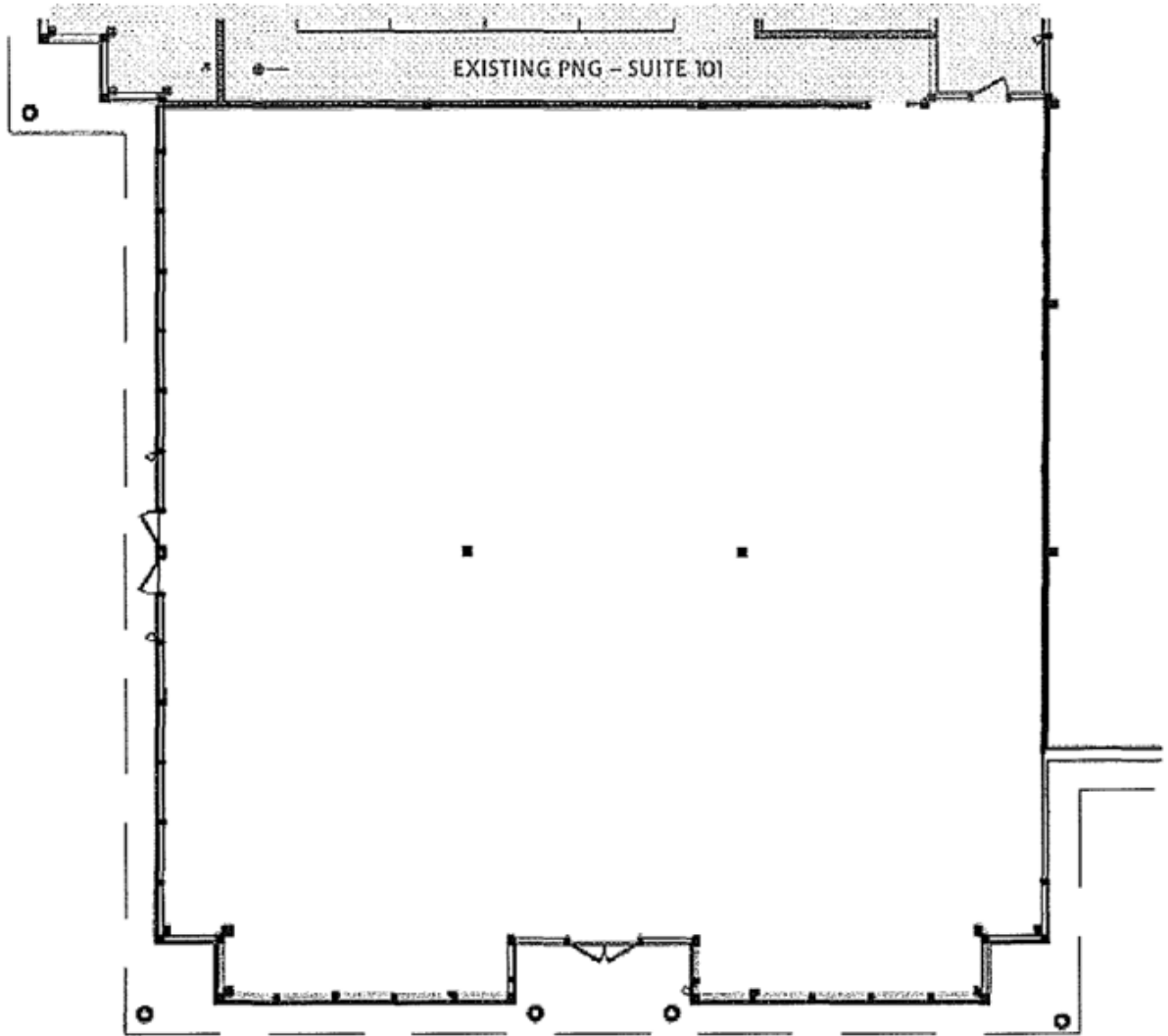
Title: VP/Sec/Treas

WITNESS:

By: /s/ Carl Sottosanti

Name: Carl Sottosanti

EXHIBIT "A1-1"



875 BERKSHIRE BOULEVARD
SUITE 107

No Scale, no existing interior
construction shown

SCHEDULE "A1-1"

ANNUAL MINIMUM RENT — AMENDED LEASED PREMISES

Space RSF: 11,100
 Yr 1 Rate PRSF: \$12.50
 Annual increase: 2.5%
 Term (years): 3

| Period | Lease Year | Approx. RSF | Rate PRSF | Annual Min Rent | Monthly Min Rent |
|--------------------------------|-------------------|--------------------|------------------|------------------------|-------------------------|
| Effective Date through 5/31/06 | 1 | 11,100 | \$ 12.50 | | \$ 11,562.50 |
| Initial Term | 2 | | \$ 12.81 | \$ 142,218.75 | \$ 11,851.56 |
| | 3 | | \$ 13.13 | \$ 145,774.22 | \$ 12,147.85 |
| | 4 08-09 | | \$ 13.46 | \$ 149,418.57 | \$ 12,451.55 |
| Renewal Period | 5 09-10 | | \$ 13.80 | \$ 153,154.04 | \$ 12,762.84 |
| | 6 10-11 | | \$ 14.14 | \$ 156,982.89 | \$ 13,081.91 |
| | 7 11-12 | | \$ 14.50 | \$ 160,907.46 | \$ 13,408.96 |
| | 8 12-13 | | \$ 14.86 | \$ 164,930.15 | \$ 13,744.18 |

SECOND LEASE AMENDMENT

THIS SECOND LEASE AMENDMENT (the “Amendment”) made this 25th day of May, 2012, between **Penn National Gaming, Inc.**, a Pennsylvania corporation, hereinafter called “Tenant”, having its principal place of business at 825 Berkshire Boulevard, Wyomissing, PA 19610 and **Wyomissing Professional Center, Inc.** (875), a Pennsylvania corporation, hereinafter called “Landlord”, having its principal place of business at 875 Berkshire Boulevard, Suite 102, Wyomissing, Pennsylvania 19610.

WITNESSETH:

The Tenant and the Landlord have executed a Lease Agreement dated April 5, 2005, which includes Exhibits “A”, “B”, “C” and “D”, and an Amendment and Restated Lease Agreement dated April 20, 2006 relating to Leased Premises located at 875 Berkshire Boulevard, Suite 101, Wyomissing, Pennsylvania 19610.

NOW, THEREFORE, INTENDING TO BE LEGALLY BOUND HEREBY and in consideration of the mutual covenants set forth herein, the Landlord, and Tenant agree as follows:

1. **Incorporation.** The recitals set forth above are incorporated herein by reference.
2. **Amendment.** This Amendment is an amendment to and shall be deemed an integral part of the Lease. Except to the extent to which the provisions of this Amendment modify the provisions of the Lease, the provisions of the Lease shall remain in full force and effect.
3. **Defined Terms.** All capitalized terms used in this Amendment without definition which are defined in the Lease shall have the meanings set forth in the Lease.
4. **Term of Lease.** The Renewal Period shall be extended for a period of seven (7) years (the “Second Renewal Period”) from June 1, 2012 to May 31, 2019 on the same terms and conditions as in effect on May 31, 2012.
5. **Fixed Annual Minimum Rent:** The Annual Minimum Rent for the Second Renewal Period shall be as shown on the table below.

| Second Renewal Period | RSF | per RSF | ANNUAL MINIMUM RENT | |
|-----------------------|--------|----------|---------------------|--------------|
| | | | Annual | Monthly |
| 6/1/12 - 5/31/13 | 11,100 | \$ 14.86 | \$ 164,946.00 | \$ 13,745.50 |
| 6/1/13 - 5/31/14 | 11,100 | \$ 15.23 | \$ 169,053.00 | \$ 14,087.75 |
| 6/1/14 - 5/31/15 | 11,100 | \$ 15.61 | \$ 173,271.00 | \$ 14,439.25 |
| 6/1/15 - 5/31/16 | 11,100 | \$ 16.00 | \$ 177,600.00 | \$ 14,800.00 |
| 6/1/16 - 5/31/17 | 11,100 | \$ 16.40 | \$ 182,040.00 | \$ 15,170.00 |
| 6/1/17 - 5/31/18 | 11,100 | \$ 16.81 | \$ 186,591.00 | \$ 15,549.25 |
| 6/1/18 - 5/31/19 | 11,100 | \$ 17.23 | \$ 191,253.00 | \$ 15,937.75 |

6. **Binding effect.** This Amendment shall be binding upon, and shall inure to the benefit of Landlord and Tenant and their respective successors and assigns.

IN WITNESS WHEREOF, and intending to be legally bound hereby, Landlord and Tenant have caused this Amendment of Lease Terms to be duly executed on the date first written above.

THIS LEASE MUST BE EXECUTED FOR TENANT, IF A CORPORATION, BY THE PRESIDENT OR VICE PRESIDENT AND ATTESTED BY THE SECRETARY OR ASSISTANT SECRETARY, UNLESS THE BY-LAWS OR A RESOLUTION OF THE BOARD OF DIRECTORS SHALL OTHERWISE PROVIDE, IN WHICH EVENT A CERTIFIED COPY OF THE BY-LAWS OR RESOLUTION, AS THE CASE MAY BE, MUST BE FURNISHED TO LANDLORD.

LANDLORD:

Wyomissing Professional Center, Inc., a Pennsylvania corporation

By: [ILLEGIBLE]

Name: _____

Title: _____

TENANT:

Penn National Gaming, Inc., a Pennsylvania corporation

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito

Title: VP/Sec/Treas

WITNESS:

By: /s/ Susan M. Montgomery

Name: Susan M. Montgomery



EIGHTH AMENDMENT TO MASTER LEASE

THIS EIGHTH AMENDMENT TO MASTER LEASE (this “**Amendment**”) is being entered into as of the 20th day of November, 2018 (the “**Effective Date**”), by and between Landlord and Tenant, as more fully set forth herein, and shall amend that certain Master Lease, dated November 1, 2013, as amended to the date hereof (collectively, the “**Master Lease**”), by and among GLP Capital, L.P. (together with its permitted successors and assigns, “**Landlord**”) and Penn Tenant, LLC (together with its permitted successors and assigns, “**Tenant**”), pursuant to which Tenant leases certain Leased Property, as further defined in the Master Lease (the “**Existing Leased Property**”). Landlord and Tenant each desire to remove certain portions of the Existing Leased Property as identified and defined in Annex A attached hereto and incorporated herein (the “**Removed Leased Property**”) from the terms, covenants and conditions of the Master Lease. Capitalized terms used herein and not otherwise defined herein shall have the meaning ascribed to them in the Master Lease.

BACKGROUND:

WHEREAS, Landlord and Tenant each desire to amend the Master Lease as more fully described herein.

NOW, THEREFORE, in consideration of the provisions set forth in the Master Lease as amended by this Amendment, including, but not limited to, the mutual representations, warranties, covenants and agreements contained therein and herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby respectively acknowledged, and subject to the terms and conditions thereof and hereof, the parties, intending to be legally bound, hereby agree that the Master Lease shall be amended as follows:

ARTICLE I REMOVAL OF REMOVED LEASED PROPERTY

1.1 Exhibit B to the Master Lease is hereby amended to remove the description of the Removed Leased Property as set forth in Annex A attached hereto and incorporated hereby by this reference from the description of the Land.

ARTICLE II AMENDMENT TO MEMORANDUM OF LEASE

Landlord and Tenant shall enter into an amendment to any memorandum of lease which may have been recorded in accordance with Article XXXIII of the Master Lease against the Removed Leased Property, in form suitable for recording in the county or other application location in which a Removed Leased Property is located which amendment is pursuant to this Amendment. Landlord shall pay all costs and expenses of recording any such amendment to memorandum.

ARTICLE III AUTHORITY TO ENTER INTO AMENDMENT

Each party represents and warrants to the other that: (i) this Amendment and all other documents executed or to be executed by it in connection herewith have been duly authorized and shall be binding upon it; (ii) it is duly organized, validly existing and in good standing under the laws of the state of its formation and

is duly authorized and qualified to perform this Amendment and the Master Lease, as amended hereby, within the State(s) where any portion of the Leased Property is located, and (iii) neither this Amendment, the Master Lease, as amended hereby, nor any other document executed or to be executed in connection herewith violates the terms of any other agreement of such party.

ARTICLE IV MISCELLANEOUS

4.1 **Brokers.** Tenant warrants that it has not had any contact or dealings with any Person or real estate broker which would give rise to the payment of any fee or brokerage commission in connection with this Amendment, and Tenant shall indemnify, protect, hold harmless and defend Landlord from and against any liability with respect to any fee or brokerage commission arising out of any act or omission of Tenant. Landlord warrants that it has not had any contact or dealings with any Person or real estate broker which would give rise to the payment of any fee or brokerage commission in connection with this Amendment, and Landlord shall indemnify, protect, hold harmless and defend Tenant from and against any liability with respect to any fee or brokerage commission arising out of any act or omission of Landlord.

4.2 **Costs and Expenses; Fees.** Each party shall be responsible for and bear all of its own expenses incurred in connection with pursuing or consummating this Amendment and the transactions contemplated by this Amendment, including, but not limited to, fees and expenses, legal counsel, accountants, and other facilitators and advisors.

4.3 **Choice of Law and Forum Selection Clause.** This Amendment shall be construed and interpreted, and the rights of the parties shall be determined, in accordance with the substantive Laws of the State of New York without regard to the conflict of law principles thereof or of any other jurisdiction.

4.4 **Counterparts; Facsimile Signatures.** This Amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. In proving this Amendment, it shall not be necessary to produce or account for more than one such counterpart signed by the party against whom enforcement is sought. Any counterpart may be executed by facsimile signature and such facsimile signature shall be deemed an original.

4.5 **No Further Modification.** Except as modified hereby, the Master Lease remains in full force and effect.

[Signature Page to Follow]

IN WITNESS WHEREOF, this Amendment has been duly executed and delivered by each of the undersigned as of the date first above written.

LANDLORD:

GLP CAPITAL, L.P.

By: /s/ Brandon J. Moore

Name: Brandon J. Moore,

Title: Senior Vice President, General Counsel and Secretary

TENANT:

PENN TENANT, LLC

By: Penn National Gaming, Inc.

its managing member

By: /s/ Carl Sottosanti

Name: Carl Sottosanti

Title: Executive Vice President, General Counsel and Secretary

ANNEX A

LEGAL DESCRIPTIONS REMOVED FROM EXHIBIT B

From Hollywood Casino St. Louis:

(See attached)

PROPERTY DESCRIPTION

A tract of land being part of Adjusted Amended Lot 1 and Adjusted Lot 1A of the Subdivision Plat of Amended Lot 1 and Lot 1A of the Subdivision of Consolidated Lot 1 of Riverside Center, according to the plat as recorded in Plat Book 355, Page 371 through 373, Adjusted Lot 2 of Riverside Center Consolidated Plat, according to the plat as recorded in Plat Book 355, Pages 20 through 23 and Lot 4A of the Subdivision of Lot 4 of Riverside Center, according to the plat as recorded in Plat Book 360, Page 29, located In U.S. Survey 2040, Township 46 North, Range 5 East of The Fifth Principal Meridian, City Of Maryland Heights, St. Louis County, Missouri being more particularly described as follows:

Beginning at the northwest corner of Re-Adjusted Lot 2, said point also being located on the eastern line of Casino Drive, a 100 feet wide private roadway, said point also being located on a curve to the left having a radius of 625.00 feet; thence northwesterly along said curve with an arc length of 16.61 and a chord which bears North 43 degrees 17 minutes 20 seconds West, 16.61 feet; thence departing last said curve, North 44 degrees 11 minutes 25 seconds East, 585.02 feet to a common corner of above said Adjusted Amended Lot 1 and Re-Adjusted Lot 2, said point also being located on a non-tangential curve to the right having a radius of 45.00 feet; thence along the common lines of above said Adjusted Amended Lot 1 and Re-Adjusted Lot 2 the following: along last said curve with an arc length of 6.23 feet and a chord which bears South 27 degrees 20 minutes 50 seconds East, 6.22 feet to a point of tangency and South 23 degrees 23 minutes 00 seconds East, 232.59 feet to the north line of said Re-Adjusted Lot 2; thence along said north line, South 66 degrees 37 minutes 00 seconds West, 535.55 feet to the POINT OF BEGINNING. Containing 68,847 square feet or 1.581 acres, more or less according to calculations performed by Stock & Associates Consulting Engineers, Inc. on September 26, 2018, revised October 10, 2018.

Subsidiaries of Penn National Gaming, Inc. (a Pennsylvania corporation)

| Name of Subsidiary | State or Other Jurisdiction of Incorporation |
|--|--|
| Abradoodle, LLC | Delaware |
| Absolute Games, LLC | Delaware |
| Alton Casino, LLC (d/b/a Argosy Casino Alton) | Illinois |
| Ameristar Casino Black Hawk, LLC (d/b/a Ameristar Black Hawk) | Colorado |
| Ameristar Casino Council Bluffs, LLC (d/b/a Ameristar Council Bluffs) | Iowa |
| Ameristar Casino East Chicago, LLC (d/b/a Ameristar East Chicago) | Indiana |
| Ameristar East Chicago Holdings, LLC | Indiana |
| Ameristar Interactive, LLC | Delaware |
| Ameristar Lake Charles Holdings, LLC | Louisiana |
| Argosy Development, LLC | Delaware |
| BCV (Intermediate), LLC | Delaware |
| Boomtown Biloxi Interactive, LLC | Delaware |
| Boomtown, LLC | Delaware |
| Bossier Casino Venture, LLC | Louisiana |
| BSLO, LLC (d/b/a Hollywood Casino Gulf Coast) | Mississippi |
| BTN, LLC (d/b/a Boomtown Biloxi) | Mississippi |
| Cactus Pete's, LLC (d/b/a Cactus Petes and Horseshu) | Nevada |
| Casino Magic, LLC | Minnesota |
| Casino Rama Services, Inc. | Ontario |
| CCR Pennsylvania Food Services, Inc | Pennsylvania |
| CCR Racing Management | Pennsylvania |
| Central Ohio Gaming Ventures, LLC (d/b/a Hollywood Casino Columbus) | Ohio |
| CHC Casinos Canada Limited | Nova Scotia |
| CHC Casinos Corp. | Florida |
| CRC Holdings, Inc. | Florida |
| Dayton Real Estate Ventures, LLC (d/b/a Hollywood Gaming at Dayton Raceway) | Ohio |
| Delvest, LLC | Delaware |
| Development Ventures, LLC | Delaware |
| Double Bogey, LLC | Texas |
| eBetUSA.com, Inc. | Delaware |
| First Jackpot Interactive, LLC | Delaware |
| Gaming Jet Services, LLC | Delaware |
| HC Aurora, LLC (d/b/a Hollywood Casino Aurora) | Illinois |
| HC Bangor, LLC (d/b/a Hollywood Casino Hotel & Raceway Bangor) | Maine |
| HC Joliet, LLC (d/b/a Hollywood Casino Joliet) | Illinois |
| Hollywood Casinos, LLC | Delaware |
| Hostile Grape Development, LLC | Delaware |
| Houston Gaming Ventures, Inc. | Texas |
| HWCC-Tunica, LLC (d/b/a Hollywood Casino Tunica) | Texas |
| Illinois Gaming Investors LLC (d/b/a Prairie State Gaming) | Delaware |
| Indiana Gaming Company, LLC (d/b/a Hollywood Casino Lawrenceburg) | Indiana |
| Kansas Entertainment, LLC (d/b/a Hollywood Casino at Kansas Speedway) | Delaware |
| L'Auberge Interactive, LLC | Delaware |
| Louisiana-I Gaming, a Louisiana Partnership in Commendam (d/b/a as Boomtown New Orleans) | Louisiana |
| LVGV, LLC (d/b/a M Resort Spa Casino) | Nevada |
| Magnum Pinnacle Interactive, LLC | Delaware |
| Marquee by Penn, LLC | Delaware |

Subsidiaries of Penn National Gaming, Inc. (a Pennsylvania corporation)
(Continued)

| Name of Subsidiary | State or Other Jurisdiction of Incorporation |
|---|---|
| Maryland Gaming Ventures, Inc. | Delaware |
| Massachusetts Gaming Ventures, LLC | Delaware |
| Mountain Laurel Racing, Inc | Delaware |
| Mountainview Thoroughbred Racing Association, LLC (d/b/a Hollywood Casino at Penn National Race Course) | Pennsylvania |
| Penn ADW, LLC | Delaware |
| Penn Hollywood Kansas, Inc. | Delaware |
| Penn Interactive Ventures, LLC | Delaware |
| Penn National GSFR, LLC | Delaware |
| Penn National Holdings, LLC | Delaware |
| Penn National Turf Club, LLC (d/b/a Hollywood Casino at Penn National Race Course) | Pennsylvania |
| Penn NJ OTW, LLC | New Jersey |
| Penn Online Entertainment, LLC | Delaware |
| Penn Sanford, LLC (d/b/a Sanford-Orlando Kennel Club) | Delaware |
| Penn Sports Interactive, LLC | Delaware |
| Penn Tenant II, LLC | Delaware |
| Penn Tenant III, LLC | Delaware |
| Penn Tenant, LLC | Pennsylvania |
| Pennwood Racing, Inc. | Delaware |
| PHK Staffing, LLC | Delaware |
| Pinnacle Entertainment, Inc. | Delaware |
| Pinnacle MLS, LLC | Delaware |
| Pinnacle Retama Partners, LLC (d/b/a Retama Park Racetrack) | Texas |
| Plainville Gaming and Redevelopment, LLC (d/b/a Plainridge Park Casino) | Delaware |
| PM Texas LLC | Delaware |
| PNGI Charles Town Gaming, LLC (d/b/a Hollywood Casino at Charles Town Races) | West Virginia |
| PNK (Baton Rouge) Partnership (d/b/a L'Auberge Baton Rouge) | Louisiana |
| PNK (BOSSIER CITY), L.L.C. (d/b/a Boomtown Bossier City) | Louisiana |
| PNK (LAKE CHARLES), L.L.C. (d/b/a L'Auberge Lake Charles) | Louisiana |
| PNK (River City), LLC (d/b/a River City) | Missouri |
| PNK (SA), LLC | Texas |
| PNK (SAM), LLC | Texas |
| PNK (SAZ), LLC | Texas |
| PNK Development 33, LLC | Delaware |
| PNK Development 7, LLC (d/b/a Heartland Poker Tour) | Delaware |
| PNK Development 8, LLC | Delaware |
| PNK Development 9, LLC | Delaware |
| PNK Vicksburg, LLC (d/b/a Ameristar Vicksburg) | Mississippi |
| RIH Acquisitions MS I, LLC (d/b/a Resorts Casino Tunica) | Mississippi |
| RIH Acquisitions MS II, LLC (d/b/a 1st Jackpot Casino Tunica) | Mississippi |
| Rocket Speed, Inc. | Delaware |
| San Diego Gaming Ventures, LLC | Delaware |
| SDGV Staffing, LLC | Delaware |
| Silver Screen Gaming, LLC | Delaware |
| SOKC, LLC (d/b/a Sanford-Orlando Kennel Club) | Delaware |
| St. Louis Gaming Ventures, LLC (d/b/a Hollywood Casino St. Louis) | Delaware |
| The Missouri Gaming Company, LLC (d/b/a Argosy Casino Riverside) | Missouri |
| The Shops at Tropicana Las Vegas, LLC | Nevada |
| Toledo Gaming Ventures, LLC (d/b/a Hollywood Casino Toledo) | Delaware |
| Tropicana Las Vegas Hotel and Casino, Inc. (d/b/a Tropicana Las Vegas) | Delaware |

Subsidiaries of Penn National Gaming, Inc. (a Pennsylvania corporation)
(Continued)

| Name of Subsidiary | State or Other Jurisdiction of Incorporation |
|--|---|
| Tropicana Las Vegas Intermediate Holdings Inc. | Delaware |
| Tropicana Las Vegas, Inc. | Nevada |
| Villaggio Development, LLC | Delaware |
| Washington Trotting Association, LLC (d/b/a the Meadows) | Delaware |
| Yankton Investments, LLC | Nevada |
| Youngstown Real Estate Ventures, LLC (d/b/a Hollywood Gaming at Mahoning Valley Race Course) | Ohio |
| Zia Park Interactive, LLC | Delaware |
| Zia Park LLC (d/b/a Zia Park Casino, Hotel and Racetrack) | Delaware |

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-226661) pertaining to the 2018 Long Term Incentive Compensation Plan,
2. Registration Statement (Form S-8 No. 333-198135) pertaining to the 2008 Long Term Incentive Compensation Plan,
3. Registration Statement (Form S-8 No. 333-176723) pertaining to the 2008 Long Term Incentive Compensation Plan, and
4. Registration Statement (Form S-8 No. 333-157669) pertaining to the 2008 Long Term Incentive Compensation Plan;

of our reports dated February 28, 2019, relating to the consolidated financial statements of Penn National Gaming, Inc. and Subsidiaries and the effectiveness of Penn National Gaming, Inc.'s internal control over financial reporting, appearing in this Annual Report on Form 10-K of Penn National Gaming, Inc. and Subsidiaries for the year ended December 31, 2018.

/s/ Deloitte & Touche LLP

Philadelphia, Pennsylvania
February 28, 2019

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-226661) pertaining to the 2018 Long Term Incentive Compensation Plan,
2. Registration Statement (Form S-8 No. 333-198135) pertaining to the 2008 Long Term Incentive Compensation Plan,
3. Registration Statement (Form S-8 No. 333-176723) pertaining to the 2008 Long Term Incentive Compensation Plan, and
4. Registration Statement (Form S-8 No. 333-157669) pertaining to the 2008 Long Term Incentive Compensation Plan;

of our report dated February 24, 2017, except for the classification adjustments to the Consolidated Statements of Cash Flows related to the adoption of Accounting Standards Update 2016-09, Compensation-Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, described in Note 4, as to which the date is March 1, 2018, the classification adjustments to the Consolidated Statements of Cash Flows related to the adoption of Accounting Standards Update No. 2016-18 Statement of Cash Flows (Topic 230): Restricted Cash, described in Note 4, as to which the date is February 28, 2019 and the classification adjustments to reportable segment information included in the Notes to the Consolidated Financial Statements, described in Note 15, as to which the date is February 28, 2019, with respect to the consolidated financial statements of Penn National Gaming, Inc. and Subsidiaries included in this Annual Report (Form 10-K) of Penn National Gaming, Inc. and Subsidiaries for the year ended December 31, 2018.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2019

Consent of Independent Auditors

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-226661) pertaining to the 2018 Long Term Incentive Compensation Plan,
2. Registration Statement (Form S-8 No. 333-198135) pertaining to the 2008 Long Term Incentive Compensation Plan,
3. Registration Statement (Form S-8 No. 333-176723) pertaining to the 2008 Long Term Incentive Compensation Plan, and
4. Registration Statement (Form S-8 No. 333-157669) pertaining to the 2008 Long Term Incentive Compensation Plan;

of our report dated August 31, 2018, relating to the financial statements of Kansas Entertainment, LLC as of and for the years ended June 30, 2018 and 2017, appearing in this Annual Report on Form 10-K of Penn National Gaming, Inc. for the year ended December 31, 2018.

/s/ Deloitte & Touche LLP

Davenport, Iowa
February 28, 2019

Consent of Independent Auditors

We consent to the incorporation by reference in the following Registration Statements:

1. Registration Statement (Form S-8 No. 333-226661) pertaining to the 2018 Long Term Incentive Compensation Plan,
2. Registration Statement (Form S-8 No. 333-198135) pertaining to the 2008 Long Term Incentive Compensation Plan,
3. Registration Statement (Form S-8 No. 333-176723) pertaining to the 2008 Long Term Incentive Compensation Plan, and
4. Registration Statement (Form S-8 No. 333-157669) pertaining to the 2008 Long Term Incentive Compensation Plan;

of our report dated August 29, 2016, with respect to the financial statements of Kansas Entertainment, LLC included in this Annual Report (Form 10-K) of Penn National Gaming, Inc. and Subsidiaries for the year ended December 31, 2018.

/s/ Ernst & Young LLP

Philadelphia, Pennsylvania
February 28, 2019

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934**

I, Timothy J. Wilmott, 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 (the registrant's fourth fiscal quarter in the case of the annual report) 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: February 28, 2019

/s/ Timothy J. Wilmott

Name: Timothy J. Wilmott

Title: *Chief Executive Officer*

**CERTIFICATION PURSUANT TO RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES
EXCHANGE ACT OF 1934**

I, William J. Fair, 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 (the registrant's fourth fiscal quarter in the case of the annual report) 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: February 28, 2019

/s/ William J. Fair

Name: William J. Fair

Title: Chief Financial Officer

**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, 2018 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, Timothy J. Wilmott, 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 results of operations of the Company.

/s/ Timothy J. Wilmott

Timothy J. Wilmott

Chief Executive Officer

February 28, 2019

**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, 2018 as filed with the U.S. Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Fair, 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 results of operations of the Company.

/s/ William J. Fair

William J. Fair

Chief Financial Officer

February 28, 2019

Description of Governmental Regulations

General

The ownership, operation, and management of our gaming and racing facilities are subject to significant 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 stringent 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 and maintain responsible accounting practices and procedures;
- maintain effective controls over their financial practices, including establishing 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 broad discretion in determining whether an applicant qualifies for licensing or should be deemed suitable. Criteria used in determining whether to grant or renew 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 regulatory 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. There can be no assurance that any of our licenses will be renewed. The failure to renew any of our licenses could have a material adverse effect on our gaming operations.

In addition, the legislation permitting riverboat gaming in Iowa authorizes the granting of licenses to “qualified sponsoring organizations, which is defined as a nonprofit corporation organized under the laws of the State of Iowa. The not-for-profit corporation is permitted to enter into operating agreements with persons qualified to conduct riverboat gaming operations. Such operators must be approved and licensed by the Iowa Racing and Gaming Commission. On January 27, 1995, the Iowa Racing and Gaming Commission authorized the issuance of a license to conduct gambling games on an excursion gambling boat to Iowa West Racing Association (the “Association”), a not-for-profit corporation organized for the purpose of facilitating riverboat gaming in Council Bluffs. The Association has entered into a sponsorship agreement with ACCB (the “Operator’s Contract”) authorizing ACCB to operate riverboat gaming operations in Council Bluffs under the Association’s gaming license, and the Iowa Racing and Gaming Commission has approved this contract. The initial term of the Operator’s Contract ran until March 31, 2015, and ACCB exercised an option to extend the term for an additional three-year period through March 31, 2018. In May 2017, the Association and ACCB extended the term of the Operator’s Contract through March 31, 2023.

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. 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” waiver is generally limited to certain non-individual investors acquiring and holding voting securities in the ordinary course of business as an institutional investor for passive investment purposes only, 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 passive 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 prior notice and 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 that 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 certain 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/or
- 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 Mississippi, for example, 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 was subsequently increased for any new casinos in Mississippi.

Our operating properties are also subject to various rules and regulations related to the prevention of financial crimes and combating terrorism, including the U.S. Patriot Act of 2001. These rules and regulations require us to, among other things, implement policies and procedures related to anti-money laundering, suspicious activities, currency transaction reporting and due diligence on customers. Although we have policies and procedures designed to comply with these rules and regulations, to the extent they are not fully effective or do not meet heightened regulatory standards or expectations, we may be subject to fines, penalties, restrictions on certain activities, reputational harm, or other adverse consequences.

Riverboat Casinos

In addition to all other regulations generally applicable to the gaming industry, certain of our riverboat casinos are also subject to regulations applicable to vessels operating on navigable waterways, including regulations of the U.S. Coast Guard, or alternative inspection requirements. 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; Washington, Pennsylvania; Hobbs, New Mexico; Austintown, Ohio; and at our harness racetracks in Bangor, Maine; Dayton, Ohio; and Plainville, Massachusetts. Through a joint venture agreement we have an ownership interest in a harness racetrack in Freehold, New Jersey, along with two off-track wagering facilities and a minority interest in an account wagering operations. In Texas, we have a joint venture agreement for the operation of a thoroughbred track in Houston and a greyhound racing facility in Harlingen, and another joint venture agreement for the operation of a quarter horse and thoroughbred track in San Antonio. We currently conduct greyhound racing in Seminole County, Florida, at our Sanford Orlando facility, although such operations are expected to cease at the end of 2020 due to a change in law in Florida. In Pennsylvania, we operate two off-track wagering facilities. We also conduct telephonic and electronic account wagering operations pursuant to pari-mutuel licensees or approvals issued to us or one of our subsidiaries in Pennsylvania, Oregon and Massachusetts. We currently operate video lottery terminals and table games at the Charles Town, West Virginia racetrack, and operate video lottery terminals at our racetracks in Austintown, Ohio and Dayton, Ohio. We operate slot machines and table games at our Grantville, Pennsylvania and Washington, Pennsylvania racetracks, operate slot machines and table games in Bangor, Maine at a facility located near the racetrack, operate slot machines at our Hobbs, New Mexico racetrack, and operate slot machines at our Plainville, Massachusetts racetrack. Generally, our slot and table 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 or meeting minimum live racing requirements.

Regulations governing our horse, harness, and greyhound racing operations are, in most jurisdictions, 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 certain contracts entered into by a racing licensee affecting racing, pari-mutuel wagering, account wagering and off track wagering operations.

Retail Gaming Operations

Our subsidiary Illinois Gaming Investors LLC d/b/a Prairie State Gaming is licensed in Illinois as a Video Gaming Terminal (“VGT”) Operator to install and operate gaming devices in certain non-casino licensed establishments (such as restaurants, bars, taverns). In addition, our subsidiary Marquee by Penn, LLC is conditionally licensed in Pennsylvania as a VGT Operator to own, service and/or maintain gaming devices for placement and operation on the premises of licensed truck stop establishments and expected to commence operations in 2019 pursuant to regulations adopted by the Pennsylvania Gaming Control Board. A VGT Operator may not have any ownership or control with respect to an establishment, and the regulations pertaining to VGT Operators are similar to those generally applicable to the gaming industry.

Sports Betting

In accordance with state gaming regulatory approvals, we currently offer retail sports wagering at our casinos in Nevada, Mississippi, Charles Town, West Virginia and Grantville, Pennsylvania in cooperation with a third party risk manager or a third party that leases and operates the sports books. Certain of the state gaming regulatory approvals also authorize future online sports wagering within the given jurisdiction. We anticipate having additional sports betting offerings, including online, intra-state sports wagering in the future as additional jurisdictions authorize the implementation of sports betting.

Interactive Business

We are subject to various federal, state and international laws and regulations that affect our interactive business, including those relating to the privacy and security of customer and employee personal information and those relating to the Internet, behavioral tracking, mobile applications, advertising and marketing activities, sweepstakes and contests. Additional laws in all of these areas are likely to be passed in the future, which could result in significant limitations on or changes to the ways in which we can collect, use, host, store or transmit the personal information and data of our customers or employees, communicate with our customers, and deliver products and services, or may significantly increase our compliance costs. As our business expands to include new uses or collection of data that is subject to privacy or security regulations, our compliance requirements and costs will increase and we may be subject to increased regulatory scrutiny.

Some of our social gaming products and features are based upon traditional casino games, such as slots and table games. Although we do not believe these products and features, including those available at HollywoodCasino.com, constitute gambling, it is possible that additional laws or regulations may be passed in the future that would restrict or impose additional requirements on our social gaming products and features.

In addition, an affiliate of the Company is expected to engage in lawful real money online internet gaming activity in Pennsylvania in 2019, including slots, table games and poker, pursuant to regulations adopted by the Pennsylvania Gaming Control Board. The Company also intends to offer online sports betting offerings in Pennsylvania and West Virginia during 2019.

Kansas Entertainment, LLC

Financial Statements for the
Years Ended June 30, 2018 and 2017 and
Independent Auditors' Report

KANSAS ENTERTAINMENT, LLC

TABLE OF CONTENTS

| | Page |
|---|--------------------------|
| <u>INDEPENDENT AUDITORS' REPORT</u> | <u>1</u> |
| <u>FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017:</u> | |
| <u>Balance Sheets</u> | <u>2</u> |
| <u>Statement of Operations</u> | <u>3</u> |
| <u>Statement of Members' Equity</u> | <u>4</u> |
| <u>Statements of Cash Flows</u> | <u>5</u> |
| <u>Notes to Financial Statements</u> | <u>6</u> |

INDEPENDENT AUDITORS' REPORT

Members of Kansas Entertainment, LLC:

We have audited the accompanying financial statements of Kansas Entertainment, LLC (the "Company"), which comprise the balance sheets as of June 30, 2018 and 2017, and the related statements of operations, members' equity, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kansas Entertainment, LLC as of June 30, 2018 and 2017, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

August 31, 2018

KANSAS ENTERTAINMENT, LLC

BALANCE SHEETS

| (In thousands) | As of June 30, | |
|--|-------------------|-------------------|
| | 2018 | 2017 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 11,686 | \$ 11,034 |
| Receivables | 2,995 | 2,520 |
| Prepaid maintenance | 398 | 286 |
| Prepaid marketing | 153 | 62 |
| Prepaid other | 2,458 | 2,420 |
| Inventory | 389 | 427 |
| Total current assets | 18,079 | 16,749 |
| Property and equipment, net | 136,679 | 144,995 |
| Other intangible assets | 25,000 | 25,000 |
| Other assets | 197 | 198 |
| Total assets | \$ 179,955 | \$ 186,942 |
| Liabilities and Members' Equity | | |
| Current liabilities | | |
| Accounts payable | \$ 3,824 | \$ 3,127 |
| Gaming, property, and other taxes | 5,013 | 4,742 |
| Accrued expenses | 3,621 | 2,812 |
| Accrued gaming expenses | 991 | 1,066 |
| Accrued players club | 1,468 | 1,565 |
| Accrued payroll and related | 722 | 1,146 |
| Chip liability | 485 | 447 |
| Other current liabilities | 130 | 120 |
| Total current liabilities | 16,254 | 15,025 |
| Members' Equity | | |
| Capital | 296,717 | 296,717 |
| Accumulated deficit | (133,016) | (124,800) |
| Total members' equity | 163,701 | 171,917 |
| Total liabilities and members' equity | \$ 179,955 | \$ 186,942 |

See accompanying notes to the financial statements.

KANSAS ENTERTAINMENT, LLC**STATEMENTS OF OPERATIONS**

| (In thousands) | For the Years Ended June 30, | |
|-----------------------------|-------------------------------------|------------------|
| | 2018 | 2017 |
| Revenue | | |
| Gaming revenue | \$ 148,713 | \$ 144,394 |
| Food, beverage, and other | 14,014 | 13,874 |
| Total revenue | 162,727 | 158,268 |
| Less promotional allowances | (5,369) | (5,326) |
| Net revenue | 157,358 | 152,942 |
| Operating expenses | | |
| Gaming | 60,191 | 58,996 |
| Food, beverage and other | 11,593 | 11,431 |
| General administrative | 30,973 | 30,106 |
| Depreciation | 10,317 | 16,742 |
| Total operating expenses | 113,074 | 117,275 |
| Net income | \$ 44,284 | \$ 35,667 |

See accompanying notes to the financial statements.

KANSAS ENTERTAINMENT, LLC

STATEMENTS OF MEMBERS' EQUITY

| (In thousands) | Capital | Accumulated Deficit | Total |
|------------------------------------|-------------------|--------------------------------|-------------------|
| Balance as of June 30, 2016 | \$ 296,717 | \$ (109,567) | \$ 187,150 |
| Net income | — | 35,667 | 35,667 |
| Distributions to members | — | (50,900) | (50,900) |
| Balance as of June 30, 2017 | 296,717 | (124,800) | 171,917 |
| Net income | — | 44,284 | 44,284 |
| Distributions to members | — | (52,500) | (52,500) |
| Balance as of June 30, 2018 | <u>\$ 296,717</u> | <u>\$ (133,016)</u> | <u>\$ 163,701</u> |

See accompanying notes to the financial statements.

KANSAS ENTERTAINMENT, LLC

STATEMENTS OF CASH FLOWS

| (In thousands) | For the Years Ended June 30, | |
|---|-------------------------------------|------------------|
| | 2018 | 2017 |
| Operating activities | | |
| Net income | \$ 44,284 | \$ 35,667 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 10,317 | 16,742 |
| Loss on disposal of fixed assets | 39 | 26 |
| Change in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Receivables | (475) | (773) |
| Prepaid expenses | (241) | 24 |
| Inventory | 38 | (6) |
| Other assets | 1 | — |
| (Decrease) increase in liabilities: | | |
| Accounts payable | 697 | (300) |
| Gaming, property, and other taxes | 271 | 549 |
| Accrued expenses | 213 | 1,192 |
| Other current liabilities | 48 | (150) |
| Net cash provided by operating activities | 55,192 | 52,971 |
| Investing activities | | |
| Expenditures for property and equipment | (2,041) | (2,013) |
| Proceeds from sale of property and equipment | 1 | 16 |
| Net cash used in investing activities | (2,040) | (1,997) |
| Financing activities | | |
| Distributions to members | (52,500) | (50,900) |
| Net cash used in financing activities | (52,500) | (50,900) |
| Net increase (decrease) in cash and cash equivalents | 652 | 74 |
| Cash and cash equivalents at the beginning of the year | 11,034 | 10,960 |
| Cash and cash equivalents at the end of the year | \$ 11,686 | \$ 11,034 |

See accompanying notes to the financial statements.

KANSAS ENTERTAINMENT, LLC

NOTES TO FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED JUNE 30, 2018 AND 2017

1. Business and Basis of Presentation

Kansas Entertainment, LLC (the “Company”) is a limited liability company, which is 50% owned by Penn Hollywood Kansas (“PHK”), a subsidiary of Penn National Gaming, Inc. (“Penn”), with the remaining 50% owned by Kansas Speedway Development Corporation (“KSDC”), a subsidiary of Kansas Speedway Corporation (“KSC”), a subsidiary of International Speedway Corporation (“ISC”). PHK, as the managing member, is responsible for running the day-to-day operations of the Company. However, as defined in the limited liability company agreement, PHK may not take any action without the prior written consent of KSDC with respect to any major action. Major actions consist of various significant actions such as, but not limited to, approving or modifying annual operating budgets, declaring or paying a dividend or distribution (including determining the amount and timing of such dividend or distribution), approving any agreement with an affiliate of any member, the admission of additional members to the Company, incurring debt obligations, and the retention or dismissal of certain executive positions of the Company.

The Company was established to develop and operate a Hollywood-themed entertainment destination facility overlooking Turn 2 at Kansas Speedway in the North East Gaming Zone in Wyandotte County, Kansas, which opened for business on February 3, 2012.

In December 2009, the Company was selected by the Kansas Lottery Gaming Facility Review Board to develop and operate a facility in the North East Gaming Zone in Wyandotte County, Kansas, and in February 2010, the Company received the final approval under the Kansas Expanded Lottery Act, along with its gaming license from the Kansas Racing and Gaming Commission, to proceed with the development of its facility. The Company entered into a 15-year management contract (which expires in February 2027) with the Kansas Lottery to develop, construct, and operate the facility. The management contract can be renewed by the Kansas Lottery with the Company at substantially the same terms and conditions, and is expected to be renewed indefinitely assuming the Company maintains the appropriate licensing requirements established by the Kansas Lottery.

The facility features a 95,000 square foot casino with approximately 2,000 slot machines, 41 table games and 12 poker tables, a 1,253-space parking structure, as well as a variety of dining and entertainment amenities. PHK and KSDC shared equally in the cost of developing and constructing the facility.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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.

2. 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.

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 funds that are exposed to minimal interest rate and credit risk. The Company has bank deposits that exceed federally insured limits.

Inventories—Inventories consist primarily of food and beverage, retail merchandise and operating supplies and are stated at the lower of cost and net realizable value. Cost is determined using the average cost method.

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 net income.

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

| | |
|------------------------------------|--------------|
| Land improvements | 5 – 15 years |
| Buildings and improvements | 5 – 40 years |
| Furniture, fixtures, and equipment | 3 – 7 years |

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 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. No impairment losses were recorded during the years ended June 30, 2018 and 2017.

Other Intangible Assets—At June 30, 2018 and 2017, the Company had \$25.0 million in other intangible assets on its balance sheets, resulting from the one-time privilege fee paid to the Kansas Lottery in conjunction with its management contract.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, *Intangibles—Goodwill and Other*, the Company considers its management contract as an indefinite-lived intangible asset that does not require amortization based on the Company's future expectations to operate the facility indefinitely, as the renewal of the management contract with the Kansas Lottery is assumed to be perfunctory. Rather, this intangible asset is tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the recorded asset to its carrying amount.

The Company completed its impairment test as of June 30, 2018 and determined that the fair value of the indefinite-lived intangible asset exceeded the carrying value, thus no impairment was recorded.

Income Taxes—Since the Company is taxed as a partnership, it is not subject to federal or state income tax. Taxable income is reported and the resultant tax liabilities, if any, are paid by the individual members. Consequently, no federal or state income taxes have been provided in the accompanying financial statements.

Revenue Recognition—Gaming revenue consists mainly of slot machine revenue as well as, to a lesser extent, table game and poker revenue. 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 "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 increases above the base amount.

Table game revenue is the aggregate of table drop adjusted for the change in aggregate table chip inventory. Table drop is the total dollar amount of the currency, coins and chips that are removed from the live gaming tables.

The Company offers "free slot play" to its customers, in the form of noncashable promotional credits, as part of its marketing programs. The total amount of noncashable promotional credits redeemed and earned by customers for the years ended June 30, 2018 and 2017, was approximately \$21.2 million and \$20.1 million, respectively, and are recorded as a direct reduction to gaming revenue.

Food, beverage and other revenue are recognized as services are performed.

The following table details the components of food, beverage and other revenue included in the statements of operations:

| (In thousands) | Year Ended June 30, | |
|--|---------------------|-----------|
| | 2018 | 2017 |
| Food and beverage | \$ 10,307 | \$ 10,288 |
| ATM and cash advance commissions | 3,022 | 2,872 |
| Retail and other | 685 | 714 |
| Total food, beverage and other revenue | \$ 14,014 | \$ 13,874 |

Revenues are recognized net of certain sales incentives in accordance with FASB ASC 605-50, *Revenue Recognition—Customer Payments and Incentives*. The Company recognizes incentives related to points earned in point-loyalty programs as direct reduction of revenue. Incentives earned in point-loyalty programs related to slot play are recorded within food, beverage and other expense since points can only be redeemed for retail services.

The retail value of food, beverage and other services furnished to guests without charge is included in revenues and then deducted as promotional allowances. The amounts included in promotional allowances and the cost of providing such promotional allowances (which is primarily included in food, beverage and other expense) are as follows:

| (In thousands) | Year Ended June 30, | |
|------------------------------|---------------------|----------|
| | 2018 | 2017 |
| Food and beverage | \$ 5,093 | \$ 5,006 |
| Other | 276 | 320 |
| Total promotional allowances | \$ 5,369 | \$ 5,326 |

| | | |
|--------------------------------------|----------|----------|
| Food and beverage | \$ 2,670 | \$ 2,573 |
| Other | 208 | 251 |
| Total cost of complimentary services | \$ 2,878 | \$ 2,824 |

Gaming Taxes—Upon the opening of the facility, the Company was required to pay monthly assessments equal to 1% of the Company’s gaming revenues after all related prizes are paid and excluding promotional credits to the Unified Government of Wyandotte County. As of June 30, 2018 and 2017, the Company had accrued \$0.9 million, within accrued expenses within the balance sheet. During the years ended June 30, 2018 and 2017, the Company recognized \$1.4 million of expense associated with these assessments, which is recorded within gaming expense on the accompanying statements of operations.

Pursuant to the management contract with the Kansas Lottery, the Company earns 73% of gaming revenues (after all related prizes are paid and excluding promotional credits) up to \$350.0 million per year; 70% on amounts above \$350.0 million up to \$400.0 million; and 67% on amounts above \$400.0 million. The Kansas Lottery remits the Company’s fees from the management contract on a weekly basis, in arrears, based on gaming revenues for the previous week. The Company had a receivable of \$2.1 million and \$1.8 million on its balance sheets as of June 30, 2018 and 2017, respectively, related to amounts due from the Kansas Lottery. Additionally, the Company recognized gaming tax expense of \$40.2 million and \$39.0 million for the years ended June 30, 2018 and 2017, respectively, related to the management contract with the Kansas Lottery, which was recorded within gaming expense on the accompanying statements of operations.

Pursuant to the Development Agreement between the Company and the Unified Government of Wyandotte County, the Company was to develop a hotel of at least 250 rooms prior to February 3, 2014 or incur a penalty of 1% of gaming revenues. As of June 30, 2018, the Company has not constructed a hotel. For the years ended June 30, 2018 and 2017, the Company has incurred and paid a penalty equal to \$1.5 million and \$1.4 million, respectively, which is recorded within general administration expense on the accompanying statements of operations.

Liability for Unredeemed Player Points—The Company offers promotional programs for slot play and, to a lesser extent, table games play.

Patrons who are members and utilize their “Marquee Rewards” membership card while playing slot machines earn both promotional points as well as noncashable promotional credits. The accumulated points can be redeemed for food and nonalcoholic beverages at restaurants and products offered at the retail store; whereas the credits can only be redeemed at the slot machine. The estimated liability for unredeemed points and credits is included in accrued expenses on the accompanying

balance sheets.

The estimated liability for unredeemed points and credits is based on expected redemption rates and for unredeemed points, the estimated costs of the services or merchandise to be provided. Management reviews the adequacy of the accrual for unredeemed points and credits by periodically evaluating the historical redemption and projected trends.

Management's estimate of the Marquee Rewards point accrual as of June 30, 2018 and 2017 was approximately \$0.8 million and \$0.9 million, respectively. The estimate for the noncashable promotional credit accrual as of June 30, 2018 and 2017 was \$0.7 million.

Self-Insurance Reserves—The Company has financial exposure for portions of the Company's employee benefits programs and legal liability reserves. The Company accrues for liabilities based on filed claims and estimates of claims incurred but not reported. As of June 30, 2018 and 2017, the Company has accrued \$0.8 million and \$1.2 million, respectively.

Fair Value of Financial Instruments—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.

Advertising Costs—Advertising costs are expensed as incurred. For the years ended June 30, 2018 and 2017, advertising costs incurred by the Company totaled \$2.7 million and \$2.8 million, respectively, and are included in gaming expense on the accompanying statements of operations.

Sponsorship Agreement—In February 2011, a sponsorship agreement was entered into between the Company and Kansas Speedway Corporation (the "Sponsorship Agreement") that will remain in effect until November 1, 2021. Under the Sponsorship Agreement, the Company acquired exclusive title sponsorship rights to the NASCAR Sprint Cup Series race scheduled to be conducted at the Kansas Speedway racetrack facility beginning in 2011 through November 1, 2021, as well as other promotional rights and opportunities. The Company is required to pay \$2.0 million per year (subject to annual increases based on the lesser of 3% a year or the consumer price index for the Kansas City Metropolitan area) to Kansas Speedway Corporation over the life of the Sponsorship Agreement. During the years ended June 30, 2018 and 2017, the Company recognized \$2.1 million, as gaming expense on the statements of operations. As of June 30, 2018 and 2017, \$1.1 million and \$1.0 million, respectively, is recorded in prepaid expenses on the accompanying balance sheets related to the Sponsorship Agreement.

Certain Risks and Uncertainties—The Company's operations are dependent on its continued licensing by the Kansas Racing and Gaming Commission. The loss of a license would have a material adverse effect on future results of operations. The gaming license is renewed every two years. If additional licenses are awarded in the Company's market, the Company's results of operations could be adversely affected.

The Company is also dependent upon a stable gaming tax structure in Kansas. Any change in the tax structure could have a material adverse effect on future results of operations.

The Company is dependent on the local market for a significant number of its patrons and revenues. If economic conditions in this area deteriorate, the Company's results of operations could be adversely affected.

New Accounting Pronouncements to be Implemented—In May 2014, the FASB issued Accounting Standards Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," amending revenue recognition guidance and requiring more detailed disclosures to enable users of financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of Topic 606 is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. For public business entities, the new guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2018. For all other entities (nonpublic entities), the new guidance is effective for annual reporting periods beginning after December 15, 2019, and interim periods within annual periods beginning after December 15, 2019. A nonpublic entity may elect to apply this guidance earlier, however, the earliest being an annual reporting period beginning after December 15, 2018, including interim periods within that reporting period. Additional ASUs have been issued that are part of the overall new revenue guidance including: (i) ASU No. 2016-08, "Principal versus Agent Considerations (Reporting Revenue Gross versus Net)", (ii) ASU No. 2016-10, "Identifying Performance Obligations and Licensing", (iii) ASU No. 2016-20, "Technical Corrections and Improvements to Topic 606, Revenue from Contracts" and, (iv) ASU No. 2016-12, "Narrow Scope Improvements and Practical Expedients", which clarified guidance on certain items such as reporting revenue as a principal or agent, identifying performance obligations, accounting for fixed odds wagering contracts associated with the Company's racing operations,

accounting for intellectual property licenses and accessing collectability and presentation of sales tax. Management has completed its assessment of the impact of the new standard on the Company's financial statements and has elected to adopt Topic 606 using the modified retrospective method on July 1, 2018. As a result of the early adoption, the following areas that are expected to result in significant changes to the Company's accounting are:

1. The new standard will change the accounting for loyalty points which are earned by our customers. The Company's loyalty reward programs allow members to utilize their rewards membership card to earn loyalty points that are redeemable for slot play and complimentary services such as food and beverages at our restaurants and products offered at our retail stores across the vast majority of the Company's casino properties. The estimated liability for unredeemed points is currently accrued based on expected redemption rates and the estimated costs of the services or merchandise to be provided. Under the new standard, the Company will use a deferred revenue model and defer revenue at the estimated fair value when the loyalty points are earned by our customers and recognize revenue when the loyalty points are deemed. The deferred revenue liability is based on the estimated standalone selling price of the loyalty points earned after factoring in the likelihood of redemption. The modification will result in a cumulative-effect adjustment to opening accumulated deficit, with an insignificant change to revenue on a go-forward basis. At the July 1, 2018 adoption date, we expect to record a reduction to the opening balance of accumulated deficit of approximately \$0.6 million on a pre-tax basis, and an increase to accrued expenses.
2. The new standard will change the accounting for promotional allowances. The Company will no longer be permitted to report revenue for goods and services provided to customers for free as an inducement to gamble as gross revenue with a corresponding reduction in promotional allowances to arrive at net revenues. Under the new standard, amounts will be recorded as a reduction to gaming revenues, and promotional allowances will no longer be netted on our statements of operations.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)," which will require, among other items, lessees to recognize a right-of-use asset and a lease liability for most leases. Extensive quantitative and qualitative disclosures, including significant judgments made by management, will be required to provide greater insight into the extent of expenses recognized and expected to be recognized from existing contracts. The accounting applied by a lessor is largely unchanged from that applied under the current standard. The standard must be adopted using a modified retrospective transition approach and provides for certain practical expedients. In January 2018, the FASB issued ASU No. 2018-1, "Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842," that provides an optional transitional practical expedient regarding land easements. For public business entities, the new guidance is effective for fiscal years, and for interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. Nonpublic business entities should apply the amendments for fiscal years beginning after December 15, 2019 (i.e., January 1, 2020, for a calendar year entity), and interim periods within fiscal years beginning after December 15, 2020. Early adoption is permitted for all nonpublic business entities. Management has not yet completed its assessment of the impact of the new standard on the Company's financial statements, however, the Company has operating leases which, under the new standard, will need to be reported as an asset and a liability on our balance sheet. The precise amount of this asset and liability will be determined based on the leases that exist on the date of adoption. The adoption of this standard is still being evaluated and we do not know how it will impact the financial statements at this time. Additionally, at this time, we expect to early adopt Topic 842 on July 1, 2019.

3. Property and Equipment

Property and equipment consists of the following:

| (In thousands) | June 30 | |
|------------------------------------|------------|------------|
| | 2018 | 2017 |
| Land and improvements | \$ 36,733 | \$ 36,678 |
| Building and improvements | 153,139 | 153,145 |
| Furniture, fixtures, and equipment | 69,239 | 68,190 |
| Construction in progress | 661 | 225 |
| Total property and equipment | 259,773 | 258,238 |
| Accumulated depreciation | (123,094) | (113,243) |
| Property and equipment, net | \$ 136,679 | \$ 144,995 |

Depreciation expense of \$10.3 million and \$16.8 million was recorded for the years ended June 30, 2018 and 2017, respectively.

4. Commitments and Contingencies

In February 2011, the Company entered into the Sponsorship Agreement in which the Company is required to pay \$2.0 million per year during every year of the term to escalate at the lesser of the consumer price index for the Kansas City metropolitan area or 3% per year. See [Note 2](#) for further details.

The Company has numerous operating leases for assets including a building, slot machines, table games, and equipment. Total rental expense under these agreements for the years ended June 30, 2018 and 2017 was \$1.7 million and is included primarily in gaming expense in the accompanying statements of operations. The future minimum lease commitments relating to the base lease rent portion of noncancelable operating leases at June 30, 2018, are as follows (in thousands):

| | | |
|-------|----|----|
| 2019 | \$ | 40 |
| 2020 | | 21 |
| Total | \$ | 61 |

The Company is subject to various legal and administrative proceedings relating to personal injuries, employment matters, commercial transactions and other matters arising in the ordinary 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 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 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.

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

5. Related-Party Transactions

In February 2011, the Company entered into the Sponsorship Agreement between the Company and Kansas Speedway Corporation (KSC), the parent of Kansas Speedway Development Corporation (KSDC). See [Note 2](#) for further details.

The Company entered into a Management Services Agreement (the "Agreement") with PHK in December 2011. The Agreement provides that the day-to-day operations of the casino facility will be managed by PHK subject to the terms of limited liability company agreement which requires that certain major actions be agreed upon jointly by the two members. The Agreement further provides that various services will be performed by PHK for the Company such as pre-opening plans, hiring and employment of personnel, establishment of operating policies and procedures (including the establishment of internal controls and risk management policies), and training of personnel. PHK is not entitled to any management fees in connection with the Agreement but may be reimbursed for expenses incurred in carrying out its obligations under the Agreement as well as reimbursements of third-party expenses that were incurred in connection with their responsibilities under the Agreement. The results of the Company's operations could be materially different without the management services obtained from PHK under the Agreement.

The Company reimbursed PHK, Penn, and certain Penn subsidiaries \$30.2 million and \$29.4 million for the years ended June 30, 2018 and 2017, respectively, primarily for payroll and benefit costs for the workforce employed at the casino facility by a subsidiary of Penn. At June 30, 2018 and 2017, the Company owed PHK, Penn, and subsidiaries of Penn \$3.8 million and \$2.9 million, respectively, primarily related to payroll and benefits. These amounts are included in accrued expenses in the accompanying balance sheets.

6. Subsequent Events

The Company evaluated all subsequent events through August 31, 2018, which is the date that the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2018, that required recognition or disclosure in the financial statements.

FINANCIAL STATEMENTS

Kansas Entertainment, LLC
Years Ended June 30, 2016 and 2015
With Report of Independent Auditors

Ernst & Young LLP



KANSAS ENTERTAINMENT, LLC
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2016 AND 2015
CONTENTS

| | |
|---|--------------------------|
| <u>Report of Independent Auditors</u> | <u>1</u> |
| <u>Audited Financial Statements</u> | |
| <u>Balance Sheets</u> | <u>2</u> |
| <u>Statements of Operations</u> | <u>3</u> |
| <u>Statements of Members' Equity</u> | <u>4</u> |
| <u>Statements of Cash Flows</u> | <u>5</u> |
| <u>Notes to Financial Statements</u> | <u>6</u> |



Ernst & Young LLP
One Commerce Square
Suite 700
2005 Market Street
Philadelphia, PA 19103

Tel: +1 215 448 5000
Fax: +1 215 448 5500
ey.com

Report of Independent Auditors

Members
Kansas Entertainment, LLC

We have audited the accompanying financial statements of Kansas Entertainment, LLC, which comprise the balance sheets as of June 30, 2016 and 2015, and the related statements of operations, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in conformity with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Kansas Entertainment, LLC at June 30, 2016 and 2015, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

August 29, 2016

KANSAS ENTERTAINMENT, LLC

BALANCE SHEETS

| | June 30, | |
|--|-------------------|-------------------|
| (In thousands) | 2016 | 2015 |
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 10,960 | \$ 12,318 |
| Receivables | 1,747 | 3,334 |
| Prepaid expenses | 2,792 | 2,692 |
| Inventory | 421 | 437 |
| Total current assets | 15,920 | 18,781 |
| Property and equipment, net | 159,766 | 178,329 |
| Other intangible assets | 25,000 | 25,000 |
| Other assets | 198 | 198 |
| Total assets | \$ 200,884 | \$ 222,308 |
| Liabilities and members' equity | | |
| Current liabilities | | |
| Accounts payable | \$ 3,427 | \$ 3,462 |
| Gaming, property and other taxes | 4,193 | 3,825 |
| Accrued expenses | 5,397 | 5,600 |
| Other current liabilities | 717 | 496 |
| Total current liabilities | 13,734 | 13,383 |
| Members' equity | | |
| Capital | 296,717 | 296,717 |
| Accumulated deficit | (109,567) | (87,792) |
| Total members' equity | 187,150 | 208,925 |
| Total liabilities and members' equity | \$ 200,884 | \$ 222,308 |

See accompanying notes.

KANSAS ENTERTAINMENT, LLC

STATEMENTS OF OPERATIONS

| (In thousands) | Year Ended June 30, | |
|-----------------------------|----------------------------|------------------|
| | 2016 | 2015 |
| Revenue | | |
| Gaming revenue | \$ 143,932 | \$ 142,643 |
| Food, beverage and other | 14,387 | 14,559 |
| Total revenue | 158,319 | 157,202 |
| Less promotional allowances | (5,899) | (5,749) |
| Net revenue | 152,420 | 151,453 |
| Operating expenses | | |
| Gaming | 59,509 | 60,133 |
| Food, beverage and other | 12,083 | 12,371 |
| General administrative | 29,226 | 29,050 |
| Depreciation | 20,377 | 22,358 |
| Total operating expenses | 121,195 | 123,912 |
| Net income | \$ 31,225 | \$ 27,541 |

See accompanying notes.

KANSAS ENTERTAINMENT, LLC
STATEMENTS OF MEMBERS' EQUITY

| <u>(In thousands)</u> | <u>Capital</u> | <u>Accumulated Deficit</u> | <u>Total</u> |
|---------------------------------|-------------------|--------------------------------|-------------------|
| Balance at June 30, 2014 | \$ 296,717 | \$ (63,333) | \$ 233,384 |
| Net income | — | 27,541 | 27,541 |
| Distribution to members | — | (52,000) | (52,000) |
| Balance at June 30, 2015 | 296,717 | (87,792) | 208,925 |
| Net income | — | 31,225 | 31,225 |
| Distribution to members | — | (53,000) | (53,000) |
| Balance at June 30, 2016 | <u>\$ 296,717</u> | <u>\$ (109,567)</u> | <u>\$ 187,150</u> |

See accompanying notes.

KANSAS ENTERTAINMENT, LLC

STATEMENTS OF CASH FLOWS

| (In thousands) | Year Ended June 30, | |
|---|---------------------|-----------|
| | 2016 | 2015 |
| Operating activities | | |
| Net income | \$ 31,225 | \$ 27,541 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation | 20,377 | 22,358 |
| Loss on disposal of fixed assets | 10 | 5 |
| Change in assets and liabilities: | | |
| (Increase) decrease in assets: | | |
| Receivables | 1,587 | (428) |
| Prepaid expenses | (100) | 1,437 |
| Inventory | 16 | (33) |
| (Decrease) increase in liabilities: | | |
| Accounts payable | (35) | (37) |
| Gaming, property and other taxes | 368 | 112 |
| Accrued expenses | (203) | 1,209 |
| Other current liabilities | 221 | 132 |
| Net cash provided by operating activities | 53,466 | 52,296 |
| Investing activities | | |
| Expenditures for property and equipment | (1,863) | (2,229) |
| Proceeds from sale of property and equipment | 39 | 51 |
| Net cash used in investing activities | (1,824) | (2,178) |
| Financing activities | | |
| Distribution to members | (53,000) | (52,000) |
| Net cash used in financing activities | (53,000) | (52,000) |
| Net decrease in cash and cash equivalents | (1,358) | (1,882) |
| Cash and cash equivalents at the beginning of the year | 12,318 | 14,200 |
| Cash and cash equivalents at the end of the year | \$ 10,960 | \$ 12,318 |

See accompanying notes.

KANSAS ENTERTAINMENT, LLC
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

1. Business and Basis of Presentation

Kansas Entertainment, LLC (the "Company") is a limited liability company, which is 50% owned by Penn Hollywood Kansas ("PHK"), a subsidiary of Penn National Gaming, Inc. ("Penn"), with the remaining 50% owned by Kansas Speedway Development Corporation ("KSDC"), a subsidiary of International Speedway Corporation. PHK, as the managing member, is responsible for running the day-to-day operations of the Company. However, as defined in the limited liability company agreement, PHK may not take any action without the prior written consent of KSDC with respect to any major action. Major actions consist of various significant actions such as, but not limited to, approving or modifying annual operating budgets, declaring or paying a dividend or distribution (including determining the amount and timing of such dividend or distribution), approving any agreement with an affiliate of any member, the admission of additional members to the Company, incurring debt obligations, and the retention or dismissal of certain executive positions of the Company.

The Company was established to develop and operate a Hollywood-themed entertainment destination facility overlooking Turn 2 at Kansas Speedway in the North East Gaming Zone in Wyandotte County, Kansas, which opened for business on February 3, 2012.

In December 2009, the Company was selected by the Kansas Lottery Gaming Facility Review Board to develop and operate a facility in the North East Gaming Zone in Wyandotte County, Kansas, and in February 2010, the Company received the final approval under the Kansas Expanded Lottery Act, along with its gaming license from the Kansas Racing and Gaming Commission, to proceed with the development of its facility. The Company entered into a 15-year management contract (which expires in February 2027) with the Kansas Lottery to develop, construct, and operate the facility. The management contract can be renewed by the Kansas Lottery Commission with the Company at substantially the same terms and conditions.

The facility features a 95,000 square-foot casino with approximately 2,000 slot machines, 40 table games and 12 poker tables, a 1,253-space parking structure, as well as a variety of dining and entertainment amenities. PHK and KSDC shared equally in the cost of developing and constructing the facility.

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

2. 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.

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 funds that are exposed to minimal interest rate and credit risk. The Company has bank deposits that exceed federally insured limits.

Inventories

Inventories consist primarily of food and beverage, retail merchandise and operating supplies and are stated at the lower of cost or market. Cost is determined using the average cost method.

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 net income.

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

| | |
|------------------------------------|--------------|
| Land improvements | 5 – 15 years |
| Buildings and improvements | 5 – 40 years |
| Furniture, fixtures, and equipment | 3 – 7 years |

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 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.

Other Intangible Assets

At June 30, 2016 and 2015, the Company had \$25.0 million in other intangible assets on its balance sheets, resulting from the fee paid to the Kansas Lottery Commission in conjunction with its gaming license.

In accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 350, *Intangibles – Goodwill and Other*, the Company considers its gaming license as an indefinite-lived intangible asset that does not require amortization based on the Company's future expectations to operate the facility indefinitely. Rather, this intangible asset is tested annually, or more frequently if indicators of impairment exist, for impairment by comparing the fair value of the recorded asset to its carrying amount.

The Company completed its impairment test as of June 30, 2016, and determined that the fair value of the indefinite-lived intangible asset exceeded the carrying value, thus no impairment was recorded.

Income Taxes

Since the Company is taxed as a partnership, it is not subject to federal or state income tax. Taxable income is reported and the resultant tax liabilities, if any, are paid by the individual members. Consequently, no federal or state income taxes have been provided in the accompanying financial statements.

Revenue Recognition

Gaming revenue consists mainly of slot machine revenue as well as to a lesser extent table game and poker revenue. 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 "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 increases above the base amount.

Table game revenue is the aggregate of table drop adjusted for the change in aggregate table chip inventory. Table drop is the total dollar amount of the currency, coins and chips that are removed from the live gaming tables.

The Company offers "free slot play" to its customers, in the form of noncashable promotional credits, as part of its marketing programs. The total amount of noncashable promotional credits redeemed and earned by customers for the years ended June 30, 2016 and 2015, was approximately \$19.5 million and \$19.1 million, respectively, and are recorded as a direct reduction to gaming revenue.

Food, beverage and other revenue are recognized as services are performed.

The following table details the components of food, beverage and other revenue included in the statements of operations:

| (In thousands) | Year Ended June 30, | |
|----------------------------------|---------------------|------------------|
| | 2016 | 2015 |
| Food and beverage | \$ 11,032 | \$ 11,443 |
| ATM and cash advance commissions | 2,584 | 2,499 |
| Retail and other | 771 | 617 |
| | <u>\$ 14,387</u> | <u>\$ 14,559</u> |

Revenues are recognized net of certain sales incentives in accordance with FASB ASC 605-50, *Revenue Recognition – Customer Payments and Incentives*. The Company recognizes incentives related to points earned in point-loyalty programs as a direct reduction of revenue. Incentives earned in point-loyalty programs related to slot play are recorded within food, beverage and other expense since points can only be redeemed for retail services.

The retail value of food, beverage and other services furnished to guests without charge is included in revenues and then deducted as promotional allowances. The amounts included in promotional allowances and the cost of providing such promotional allowances (which is primarily included in food, beverage and other expense) are as follows:

| (In thousands) | Year Ended June 30, | |
|--------------------------------------|---------------------|-----------------|
| | 2016 | 2015 |
| Food and beverage | \$ 5,511 | \$ 5,396 |
| Other | 388 | 353 |
| Total promotional allowances | <u>\$ 5,899</u> | <u>\$ 5,749</u> |
| Food and beverage | \$ 2,713 | \$ 2,798 |
| Other | 261 | 277 |
| Total cost of complimentary services | <u>\$ 2,974</u> | <u>\$ 3,075</u> |

Gaming Taxes

Upon the opening of the facility, the Company was required to pay monthly assessments equal to 1% of the Company's gaming revenues after all related prizes are paid and excluding promotional credits to the Unified Government of Wyandotte County. As of June 30, 2016 and 2015, the Company had accrued \$0.9 million and \$0.7 million, respectively, within accrued expenses within the balance sheet. During the years ended June 30, 2016 and 2015, the Company recognized \$1.4 million of expense associated with these assessments, which is recorded within gaming expense on the accompanying statements of operations.

Pursuant to the management contract with the Kansas Lottery, the Company earns 73% of gaming revenues (after all related prizes are paid and excluding promotional credits) up to \$350.0 million per year; 70% on amounts above \$350.0 million up to \$400.0 million; and 67% on amounts above \$400.0 million. The Kansas Lottery remits the Company's fees from the management contract on a weekly basis, in arrears, based on gaming revenues for the previous week. The Company had a receivable of \$1.1 million and \$2.6 million on its balance sheets as of June 30, 2016 and 2015, respectively, related to amounts due from the Kansas Lottery. Additionally, the Company recognized gaming tax expense of \$38.8 million and \$38.5 million for the years ended June 30, 2016 and 2015, respectively, related to the management contract with the Kansas Lottery, which was recorded within gaming expense on the accompanying statements of operations.

Pursuant to the Development Agreement between the Company and the Unified Government of Wyandotte County, the Company was to develop a hotel of at least 250 rooms prior to February 3, 2014 or incur a penalty of 1% of gaming revenues. As of June 30, 2016, the Company has not constructed a hotel. For the years ended June 30, 2016 and 2015, the Company has incurred and paid a penalty equal to \$1.4 million.

Liability for Unredeemed Player Points

The Company offers promotional programs for slot play and to a lesser extent table games play.

Patrons who are members and utilize their "Marquee Rewards" membership card while playing slot machines earn both promotional points as well as noncashable promotional credits. The accumulated points can be redeemed for food and nonalcoholic beverages at restaurants and products offered at the retail store; whereas the credits can only be redeemed at the

slot machine. The estimated liability for unredeemed points and credits is included in accrued expenses on the accompanying balance sheets.

The estimated liability for unredeemed points and credits is based on expected redemption rates and for unredeemed points, the estimated costs of the services or merchandise to be provided. Management reviews the adequacy of the accrual for unredeemed points and credits by periodically evaluating the historical redemption and projected trends. Management's estimate of the Marquee Rewards point accrual as of June 30, 2016 and 2015 was approximately \$0.9 million and \$0.9 million, respectively. The estimate for the noncashable promotional credit accrual as of June 30, 2016 and 2015 was \$0.7 million.

Self-Insurance Reserves

The Company has financial exposure for portions of the Company's employee benefits programs and legal liability reserves. The Company accrues for liabilities based on filed claims and estimates of claims incurred but not reported. As of June 30, 2016 and 2015, the Company has accrued \$0.3 million and \$0.5 million, respectively.

Fair Value of Financial Instruments

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.

Advertising Costs

Advertising costs are expensed as incurred. For the years ended June 30, 2016 and 2015, advertising costs incurred by the Company totaled \$3.2 million and \$3.3 million, respectively, and are included in gaming expense on the accompanying statements of operations.

Sponsorship Agreement

In February 2011, a sponsorship agreement was entered into between the Company and Kansas Speedway Corporation (the "Sponsorship Agreement") that will remain in effect until November 1, 2021. Under the Sponsorship Agreement, the Company acquired exclusive title sponsorship rights to the NASCAR Sprint Cup Series race scheduled to be conducted at the Kansas Speedway racetrack facility beginning in 2011 through November 1, 2021, as well as other promotional rights and opportunities. The Company is required to pay \$2.0 million per year (subject to annual increases based on the lesser of 3% a year or the consumer price index for the Kansas City Metropolitan area) to Kansas Speedway Corporation over the life of the

Sponsorship Agreement. During the years ended June 30, 2016 and 2015, the Company recognized \$2.1 million, as gaming expense on the accompanying statements of operations. As of June 30, 2016 and 2015, \$1.0 million is recorded in prepaid expenses on the accompanying balance sheets related to the Sponsorship Agreement.

Certain Risks and Uncertainties

The Company's operations are dependent on its continued licensing by the Kansas Racing and Gaming Commission. The loss of a license would have a material adverse effect on future results of operations. The gaming license is renewed every two years. If additional licenses are awarded in the Company's market, the Company's results of operations could be adversely affected.

The Company is also dependent upon a stable gaming tax structure in Kansas. Any change in the tax structure could have a material adverse effect on future results of operations.

The Company is dependent on the local market for a significant number of its patrons and revenues. If economic conditions in this area deteriorate, the Company's results of operations could be adversely affected.

New Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which impacts virtually all aspects of an entity's revenue recognition. The core principle of Topic 606 is that revenue should be recognized to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In July 2015, the FASB deferred the effective date of the standard by one year which results in the new standard being effective for the Company at the beginning of its first quarter of fiscal year 2018. In addition, during March, April and May 2016, the FASB issued ASU 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue*

Gross versus Net), ASU 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, and ASU 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients*, respectively, which clarified the guidance on certain items such as reporting revenue as a principal versus agent, identifying performance obligations, accounting for intellectual property licenses, assessing collectability and presentation of sales taxes. The Company is currently assessing the impact that the adoption of the new standard will have on its financial statements and related disclosures, including possible transition alternatives.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, which will require, among other items, lessees to recognize a right-of-use asset and a lease liability for most leases. Extensive quantitative and qualitative disclosures, including significant judgments made by management, will be required to provide greater insight into the extent of revenue and expense recognized and expected to be recognized from existing contracts. The accounting applied by a lessor is largely unchanged from that applied under the current standard. The standard must be adopted using a modified retrospective transition approach and provides for certain practical expedients. The ASU is effective for the Company for fiscal years beginning after December 15, 2019, with early adoption permitted. Management has not yet completed its assessment of the impact of the new standard on the Company's financial statements.

3. Property and Equipment

Property and equipment consists of the following:

| (In thousands) | June 30 | |
|------------------------------------|------------|------------|
| | 2016 | 2015 |
| Land and improvements | \$ 36,664 | \$ 36,664 |
| Building and improvements | 152,437 | 152,062 |
| Furniture, fixtures, and equipment | 67,900 | 66,563 |
| Construction in progress | 2 | 51 |
| Total property and equipment | 257,003 | 255,340 |
| Accumulated depreciation | (97,237) | (77,011) |
| Property and equipment, net | \$ 159,766 | \$ 178,329 |

Depreciation expense of \$20.4 million and \$22.4 million was recorded for the years ended June 30, 2016 and 2015, respectively.

4. Commitments and Contingencies

In February 2011, the Company entered into the Sponsorship Agreement in which the Company is required to pay \$2.0 million per year during every year of the term to escalate at the lesser of the consumer price index for the Kansas City metropolitan area or 3% per year. See Note 2 for further details.

The Company has numerous operating leases for assets including a building, slot machines, table games, and equipment. Total rental expense under these agreements for each of the years ended June 30, 2016 and 2015 was \$1.6 million, and is included primarily in gaming expense in the accompanying statements of operations. The future minimum lease commitments relating to the base lease rent portion of noncancelable operating leases at June 30, 2016, are as follows (in thousands):

| Years ending June 30, | |
|-----------------------|-------|
| 2017 | \$ 58 |
| 2018 | 2 |
| Total | \$ 60 |

5. Related-Party Transactions

In February 2011, the Company entered into the Sponsorship Agreement between the Company and Kansas Speedway Corporation, which is the parent of KSDC. See Note 2 for further details.

The Company entered into a Management Services Agreement (the "Agreement") with PHK in December 2011. The Agreement provides that the day-to-day operations of the casino facility will be managed by PHK subject to the terms of a limited liability company agreement which requires that certain major actions be agreed upon jointly by the two members. The

Agreement further provides that various services will be performed by PHK for the Company such as pre-opening plans, hiring and employment of personnel, establishment of operating policies and procedures (including the establishment of internal controls and risk management policies), and training of personnel. PHK is not entitled to any management fees in connection with the Agreement but may be reimbursed for expenses incurred in carrying out its obligations under the Agreement as well as reimbursements of third-party expenses that were incurred in connection with their responsibilities under the Agreement. The results of the Company's operations could be materially different without the management services obtained from PHK under the Agreement.

The Company reimbursed PHK, Penn, and certain Penn subsidiaries \$33.4 million and \$35.2 million for the years ended June 30, 2016 and 2015, respectively, primarily for payroll and benefit costs for the workforce employed at the casino facility by a subsidiary of Penn. At June 30, 2016 and 2015, the Company owed PHK, Penn, and subsidiaries of Penn \$3.0 million and \$2.9 million, respectively, primarily related to payroll and benefits. These amounts are included in accrued expenses in the accompanying balance sheets.

6. Subsequent Events

The Company evaluated all subsequent events through August 29, 2016, which is the date that the financial statements were available to be issued. No material subsequent events have occurred since June 30, 2016, that required recognition or disclosure in the financial statements.

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2016 Ernst & Young LLP.
All Rights Reserved.

ey.com

