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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, 2004

OR

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

For the transition period from to

Commission File Number 0-24206

Penn National Gaming, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of Incorporation or Organization)	**23-2234473** (I.R.S. Employer Identification No.)
Wyomissing Professional Center **825 Berkshire Blvd., Suite 200** **Wyomissing, Pennsylvania** (Address of principal executive offices)	**19610** (Zip Code)

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

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

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

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

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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes ☒ No o

As of June 30, 2004, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $1.3 billion. Such aggregate market value was computed by reference to the closing price of the Common Stock as reported on the Nasdaq National Market on June 30, 2004. For purposes of making this calculation only, the registrant has defined affiliates as including all directors, executive officers and beneficial owners of more than ten percent of the Common Stock of the Company.

The number of shares of the registrant's Common Stock outstanding as of March 28, 2005 was 82,815,086.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2005 annual meeting of shareholders are incorporated by reference into Part III.

TABLE OF CONTENTS

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

- our expectations of future results of operations or financial condition;
- our expectations for our properties and the facility that we manage in Canada;
- the timing, cost and expected impact on our market share and results of operations of our planned capital expenditures;
- our expectations with respect to the closing date for the acquisition, integration and results of operations of Argosy Gaming Company;
- the impact of our regional diversification;
- our expectations with regard to further acquisitions and the integration of any companies we have acquired or may acquire;

- the outcome and financial impact of the litigation in which we are involved;
- the actions of regulatory, legislative, executive or judicial decisions at the federal, state or local level with regard to our business and the impact of any such actions;
- our ability to maintain regulatory approvals for our existing businesses and our ability to receive regulatory approval for our new businesses; and
- our expectations of the continued availability and cost of capital resources.

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

- the passage of state, federal or local legislation that would expand, restrict, further tax or prevent gaming operations in the jurisdictions in which we do business;
- the activities of our competitors;
- increases in our effective rate of taxation at any of our properties or at the corporate level;
- successful completion of capital projects at our gaming and pari-mutuel facilities;
- the existence of attractive acquisition candidates and the costs and risks involved in the pursuit of those acquisitions;
- the maintenance of agreements with our horsemen and pari-mutuel clerks;
- our dependence on key personnel; and
- the impact of terrorism and other international hostilities.

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

PART I

ITEM 1. BUSINESS

Overview

We are a leading, diversified, multi-jurisdictional owner and operator of gaming properties, as well as horse racetracks and associated off-track wagering facilities, or OTWs, which we collectively refer to in this document as our pari-mutuel operations. The Company was incorporated in Pennsylvania in 1982 as PNRC Corp. and adopted its current name in 1994. In 1997, we began our transition from a pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. We now own or operate nine gaming properties located in Colorado, Illinois, Louisiana, Mississippi, Ontario and West Virginia that are focused primarily on serving customers within driving distance of the properties. We also own one racetrack and six OTWs in Pennsylvania, one racetrack in West Virginia, one racetrack in Maine, and, through a joint venture, own and operate a racetrack in New Jersey. We believe that our portfolio of assets provides us with a diversified cash flow from operations. We intend to continue to expand our gaming operations through the implementation of a disciplined capital expenditure program at our existing properties and the continued pursuit of strategic acquisitions of gaming properties in attractive regional markets.

The following table summarizes certain features of our properties and our managed facility as of March 1, 2005:

	Location	Type of Facility	Approx. Gaming Square Footage	Gaming Machines	Table Games	Hotel Rooms
Owned Gaming Properties:(1)						
Charles Town Entertainment Complex	Charles Town, WV	Land-based gaming/Thoroughbred racing	121,700	3,793	—	—
Hollywood Casino Aurora	Aurora, IL	Dockside gaming	53,000	1,161	22	—
Casino Rouge	Baton Rouge, LA	Dockside gaming	28,000	1,065	31	—
Casino Magic—Bay St. Louis	Bay St. Louis, MS	Dockside gaming	39,500	1,204	30	494
Hollywood Casino Tunica	Tunica, MS	Dockside gaming	54,000	1,620	31	492
Boomtown Biloxi	Biloxi, MS	Dockside gaming	33,600	1,100	21	—
Bullwhackers	Black Hawk, CO	Land-based gaming	20,700	910	—	—
Operated Gaming Property:						
Casino Rama	Orillia, Ontario	Land-based gaming	92,000	2,300	121	300
Racing Properties:						
Penn National Race Course(2)	Harrisburg, PA	Thoroughbred racing	—	—	—	—
Bangor Historic Track	Bangor, ME	Harness racing	—	—	—	—
Freehold Raceway(3)	Monmouth, NJ	Harness racing	—	—	—	—
Total			442,500	13,153	256	1,286

(1) Excludes Hollywood Casino Shreveport which is accounted for as discontinued operations.

(2) In addition to our racetrack, Penn National Race Course operates six off-track wagering facilities, located throughout Pennsylvania.

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

Recent Developments

—Pending Acquisition of Argosy Gaming Company and Anticipated Acquisition Financing

On November 3, 2004, we announced that our and Argosy Gaming Company's ("Argosy's"), boards of directors unanimously approved the Merger Agreement under which we will acquire all of the outstanding shares of Argosy for an all-cash price of $47.00 per share. The transaction is valued at approximately $2.2 billion, including approximately $805 million of long-term debt of Argosy and its subsidiaries. On January 20, 2005, Argosy's stockholders approved the Merger Agreement.

The Argosy merger is subject to approval by each of our and Argosy's respective state regulatory bodies, and to certain other necessary regulatory approvals and other customary closing conditions contained in the Merger Agreement. As expected, Penn National and Argosy have received a request from the Federal Trade Commission for more information relating to the merger. Based on current staffing issues at the Illinois Gaming Board, the Illinois regulatory environment may pose some delays.

If the Argosy merger is consummated, the combined company would be the third largest operator of gaming properties in the U.S. with annual revenue in excess of $2 billion, over 20,000 slot machines, and approximately 700,000 square feet of gaming space. Upon completion of the Argosy merger, and reflecting previously announced divestitures, acquisitions and projects under development, we would own thirteen gaming facilities, four pari-mutuel horse racing facilities, six off-track wagering sites and a 50% interest in a fifth pari-mutuel horse racing facility, and hold a management contract for a casino in Canada. Argosy owns and operates casinos and related entertainment and hotel facilities in the midwestern and southern U.S.: the Alton Belle Casino in Alton, Illinois, serving the St. Louis metropolitan market; the Argosy Casino-Riverside in Missouri, serving the greater Kansas City metropolitan market; the Argosy Casino-Baton Rouge in Louisiana; the Argosy Casino-Sioux City in Iowa; the Argosy Casino-Lawrenceburg in Indiana, serving the Cincinnati and Dayton metropolitan markets; and the Empress Casino Joliet in Illinois serving the greater Chicagoland market.

Anticipated Financing for Argosy Acquisition

Concurrently with the closing of the Argosy merger we plan to enter into new senior secured credit facilities upon terms and conditions to be negotiated. We have received commitments from Deutsche Bank Trust Company Americas, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P., Lehman Brothers Inc. and Lehman Commercial Paper Inc. to provide up to $2.725 billion of senior secured credit facilities (which we may elect to increase to up to $3.025 billion as described below) to finance the transactions contemplated by the Merger Agreement, refinance certain of our and Argosy's indebtedness and pay certain fees and expenses in connection therewith. It is contemplated that such senior secured credit facilities would be comprised of a $750.0 million revolving credit facility, up to a $325.0 million term loan A facility and up to a $1.65 billion term loan B facility. During the first three years of the term of the senior secured credit facilities, we may elect to increase the senior secured credit facilities by up to $300.0 million in the aggregate, subject to some limitations; provided that any increase in commitments under the new revolving credit facility cannot exceed $100 million. The senior secured credit facilities are to be guaranteed by substantially all domestic subsidiaries of Penn National and Argosy and secured by substantially all of our, Argosy's, and such guarantors' assets, in each case except to the extent prohibited by relevant gaming authorities after we have used commercially reasonable efforts to arrange for such guarantees or collateral or as otherwise excluded. Material conditions to funding include, without limitation, absence of a material adverse change at Argosy, refinancing of Argosy's existing indebtedness and our existing senior secured credit facility, receipt of necessary regulatory approvals and consummation of the Argosy merger in compliance in all material respects with the Merger Agreement.

Penn National Race Course

We continue to develop and refine our design proposal for a completely new gaming and racing facility at Penn National Race Course to take advantage of the opportunities afforded by Pennsylvania's new slot machine legislation. On July 5, 2004 Pennsylvania Governor Edward G. Rendell signed into law the Pennsylvania Race Horse Development and Gaming Act. Subsequently, the members of the Pennsylvania Gaming Control Board were named. The Pennsylvania Gaming Control Board held its fourth meeting in March 2005, and is currently focused on staffing so that it may develop the regulatory, application, licensing and approval processes. The Pennsylvania Gaming Control Board does not expect to issue operator licenses prior to December, 2005. The Pennsylvania Department of Revenue has selected GTECH Corporation to supply a central control computer system to monitor slot

machine gaming in Pennsylvania. The new law is the subject of a lawsuit which challenges the validity of the law on various constitutional grounds. Certain dispositive motions relative to this challenge were argued before the Pennsylvania Supreme Court on March 9, 2005. We expect to open the new slots facility within approximately one year after receiving a license.

—Pocono Downs Sale

On January 25, 2005, we completed the sale of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority ("MTGA") for approximately $280 million. Reflecting taxes, post closing adjustments, fees and other expenses, we realized net cash proceeds of approximately $170.6 million, which we intend to apply to a combination of debt reduction and previously announced development projects.

Under the terms of the agreement, MTGA acquired The Downs Racing, Inc. and its subsidiaries including Pocono Downs (a standardbred horse racing facility located on approximately 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania OTW facilities located in Carbondale, East Stroudsburg, Erie, Hazleton and the Lehigh Valley (Allentown). The agreement also provides MTGA with certain post-closing termination rights in the event of certain materially adverse legislative or regulatory events. Under U.S. generally accepted accounting principles, the transaction will not be recorded as a sale until the post-closing termination rights have expired.

We have reflected the results of this transaction by classifying the assets, liabilities and results of operations of The Downs Racing, Inc. as assets and liabilities held for sale and discontinued operations in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." A gain or loss on this transaction has not been recorded or recognized at this time since the sale has not yet been deemed completed. Financial information for The Downs Racing, Inc. was previously reported as part of the racing reporting segment.

—Bangor Historic Track

The Maine Harness Racing Commission has granted us an unconditional racing license for Bangor Historic Track, Inc. for the 2004 and 2005 racing seasons. The annual license represents the first regulatory approval necessary for us to proceed with our proposed $74 million development project at the track including the construction of Maine's first and presently only gaming facility where we intend to place up to 1,500 slot machines. In October, we also submitted our licensing application to the Maine Gambling Control Board for a slot operator's license. On November 4, 2004, the Maine Gambling Control Board granted us a conditional slot operator license. The license is conditioned on us not commencing gaming operations while the Board and the Department of Public Safety pursue legislation to protect confidential corporate and personal information in the same manner as other U.S. gaming and racing jurisdictions, and until we have submitted such information to the Board after passage of such legislation by the legislature and subsequent gubernatorial execution. On February 9, 2005, the Joint Standing Committee on Legal and Veterans Affairs voted to pass a form of such legislation. Pending passage of the legislation by the full legislature, subsequent execution by the Governor and appropriate implementation by the Maine Gaming Control Board, we intend to continue to move forward with developing our plans for construction of a state-of-the-art racing and gaming facility in Bangor.

—Stock Split

On February 3, 2005 the Company announced that its Board of Directors approved a 2-for-1 split of the Company's common stock. The stock split was in the form of a stock dividend of one additional share of the Company's common stock for each share held. The additional shares were distributed on March 7, 2005 to shareholders of record on February 14, 2005. As a result of the stock dividend, the number of outstanding shares of our common stock increased to approximately 82.8 million. All

references in the financial statements to number of shares and net income per share amounts of our common stock have been restated to reflect the increased number of common stock shares outstanding.

—Redemption of 11 1/8% Senior Subordinated Notes due 2008; Issuance of 6 3/4% Senior Subordinated Notes due 2015

On February 8, 2005, we called for redemption all of the $200 million aggregate principal amount of our outstanding 11 1/8% Senior Subordinated Notes due March 1, 2008, in accordance with the related indenture. The redemption price was $1,055.63 per $1,000 principal amount, plus accrued and unpaid interest and payment was made on March 10, 2005.

On March 9, 2005, we completed an offering of $250 million of 6 3/4% senior subordinated notes due 2015. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2005. These notes mature on March 1, 2015. We used the net proceeds from this offering to redeem the $200 million 11 1/8% Senior Subordinated Notes due March 1, 2008 and repay a portion of the term loan indebtedness under our current senior secured credit facility. The 6 3/4% notes are general unsecured obligations and are not guaranteed by our subsidiaries.

—Hollywood Casino Shreveport Bankruptcy and Disposition

On August 27, 2004, our unrestricted subsidiary, Hollywood Casino Shreveport, or HCS, in cooperation with an Ad Hoc Committee representing a majority of its noteholders, entered into an agreement with Eldorado Resorts LLC ("Eldorado") providing for acquisition of HCS by certain affiliates of Eldorado ("Eldorado Transaction"). On October 28, 2004, HCS filed a joint plan and disclosure statement that incorporates the Eldorado Transaction. On September 10, 2004, a group of creditors led by Black Diamond Capital Management, LLC filed an involuntary Chapter 11 case against HCS. On October 30, 2004, HCS agreed to the entry of an order for relief in the Chapter 11 case that has been filed against it, and HCS I, Inc., HCS II, Inc., HWCC-Louisiana, Inc. and Shreveport Capital Corporation commenced voluntary cases under Chapter 11 of the Bankruptcy Code.

HCS filed a revised reorganization plan and disclosure statement with the Bankruptcy Court on March 3, 2005. The plan continues to provide for the acquisition of the hotel and casino by Eldorado under the agreement announced last year. The Official Bondholder Committee in the Chapter 11 case has joined HCS as a proponent of the plan. The Bankruptcy Court has set a hearing on the approval of the Disclosure Statement for April 11, 2005. Black Diamond Capital Management, LLC and KOAR International (Paul Alanis) continue to express interest in acquiring the hotel and casino and have asked the Bankruptcy Court for permission to file their own competing plan. HCS intends to oppose that request.

We have reflected the results of this transaction by classifying the assets, liabilities and results of operations of Hollywood Casino Shreveport as assets and liabilities held for sale and discontinued operations in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." A gain or loss on this transaction has not been recorded or recognized at this time since the sale has not yet been completed and is subject to various approvals. Financial information for Hollywood Casino Shreveport was previously reported as part of our gaming reporting segment.

Owned Gaming Properties

Charles Town Entertainment Complex

The Charles Town Entertainment Complex in Charles Town, West Virginia was our most profitable property in 2004. The Charles Town Entertainment Complex features approximately 3,793 gaming machines (up from 3,500 in 2003), live thoroughbred racing, simulcast wagering and dining. The facility is located within approximately a one-hour drive from Baltimore, Maryland and Washington, D.C. and

is the only gaming property located conveniently west of these two cities. The complex is located on a portion of a 250-acre parcel and includes a newly refurbished 3/4-mile all-weather, lighted thoroughbred racetrack with a 3,000-person grandstand.

We have undertaken a number of initiatives that will continue to drive growth at Charles Town. In 2004, we increased customer parking by expanding our parking garage and adding 1,050 spaces, converted 899 slot machines to ticket-in-ticket-out format to provide better customer service and added 300 slot machines to our floor count. In 2005, we plan to add another 200 machines to our gaming floor and continue to convert our machines to the ticket-in-ticket-out format.

Hollywood Casino Aurora

Hollywood Casino Aurora is located in Aurora, Illinois, the third largest city in Illinois, approximately 35 miles west of Chicago. The facility is easily accessible from major highways, can be reached by train from downtown Chicago, and is approximately 30 miles from both the O'Hare International and Midway airports. The principal target markets are Chicago and the surrounding northern and western suburbs.

Hollywood Casino Aurora has 53,000 square feet of gaming space at a single-level dockside casino facility with 22 gaming tables and 1,161 gaming machines. The facility features a glass-domed, four-story atrium with two upscale lounges, the award-winning Fairbanks® gourmet steakhouse, the Hollywood Epic Buffet®, a high-end customer lounge and a private dining room for premium players. Hollywood Casino Aurora also has two parking garages with approximately 1,564 parking spaces. In addition, Hollywood Casino Aurora has retail items at the Hollywood Casino Studio Store®, a highly themed shopping facility that offers movies on video, soundtrack compact discs and logo merchandise from major Hollywood studios.

Casino Rouge

Casino Rouge is currently one of two dockside riverboat gaming facilities operating in Baton Rouge, Louisiana. The property features a four-story, 47,000-square foot riverboat casino, reminiscent of a nineteenth century Mississippi River paddlewheel steamboat, and a two-story, 58,000-square foot dockside embarkation building. The riverboat features approximately 28,000 square feet of gaming space, 1,065 gaming machines, 31 table games, and a deli. In early 2005, we plan to complete the renovation of the riverboat's interior decor. The dockside embarkation facility offers a variety of amenities, including a steakhouse, a 268-seat buffet, a snack bar, a premium players' lounge, a public lounge area that includes a band stage and dance floor, meeting and planning space and a gift shop.

Casino Magic—Bay St. Louis

Casino Magic—Bay St. Louis currently offers 39,500 square feet of gaming space, with 1,204 slot machines and 30 table games. Casino Magic—Bay St. Louis is located on the Mississippi Gulf Coast, within driving distance of New Orleans, Louisiana, Mobile, Alabama and other cities in the Southeast. We were the first dockside casino in Mississippi to operate on a barge rather than a traditional riverboat. The casino is located on a 17-acre marina with the adjoining land-based facilities situated on 591 acres. The property includes the 292-room Bay Tower Hotel, the 202-room Casino Magic Inn, banquet and meeting space, a 10,000 square foot conference facility, an 1,800-seat entertainment facility, an 18-hole Arnold Palmer-designed championship golf course, five restaurant venues and a live entertainment lounge. There remains ample room for expansion, to the extent the market grows.

Hollywood Casino Tunica

Hollywood Casino Tunica is located in Tunica, Mississippi. Tunica County is the closest gaming jurisdiction to, and is easily accessible from, the Memphis, Tennessee metropolitan area. The Tunica market has become a regional destination resort, attracting customers from surrounding markets such

as Nashville, Tennessee, Atlanta, Georgia, St. Louis, Missouri, Little Rock, Arkansas, and Tulsa, Oklahoma.

Hollywood Casino Tunica features 54,000 square feet of gaming space at a single-level casino with approximately 1,620 slot machines and 31 table games. Hollywood Casino Tunica's 492-room hotel and 123-space recreational vehicle park provide overnight accommodations for its patrons.

The casino includes the highly-themed Adventure Slots® gaming area, featuring multimedia displays of memorabilia from famous adventure motion pictures and over 200 slot machines. Additional entertainment amenities include the award-winning Fairbanks gourmet steakhouse, the Hollywood Epic Buffet, a 1950's-style diner named the Hollywood Diner, an entertainment lounge, a premium players' club, a themed bar facility, an indoor pool and showroom as well as banquet and meeting facilities. There is also an 18-hole championship golf course adjacent to the facility that is owned and operated through a joint venture with Resorts International Hotel and Casino, Inc. and Boyd Gaming. In addition, Hollywood Casino Tunica offers parking for 1,635 cars.

Boomtown Biloxi

Boomtown Biloxi, also located in the Mississippi Gulf Coast, offers 33,600 square feet of gaming space, with 1,100 slot machines and 21 table games. In addition, the property includes a full service buffet restaurant, a 125-seat menu-service restaurant, a full-service bakery, an ice cream parlor, a western cabaret and a 20,000-square foot family entertainment center.

Boomtown Biloxi offers gaming and entertainment amenities to primarily local, middle-income customers and tourists. The casino has an "old west" theme with western memorabilia, country/western music and employees dressed in western attire. Our strategy is to continue to focus on this market by providing moderately priced, quality amenities and by utilizing a broad array of marketing programs.

Bullwhackers

The Bullwhackers properties include the Bullwhackers Casino, the adjoining Bullpen Sports Casino and the Silver Hawk Saloon and Casino. The Bullwhackers properties include 20,700 square feet of gaming space consisting of 910 slot machines. These casinos are located on leased land and 3.75 acres of owned land, most of which is utilized for a 340-car parking area.

Hollywood Casino Shreveport

Hollywood Casino Shreveport is located in Shreveport, Louisiana, and is 190 miles east of Dallas, Texas. The principal target markets for Hollywood Casino Shreveport are Dallas, Fort Worth and other communities in East Texas. We lease approximately nine acres of land in Shreveport, Louisiana. The Hollywood Casino Shreveport resort consists of a 403-room, all suites, art deco-style hotel, and a three-level riverboat dockside casino. The casino contains approximately 59,000 square feet of space with approximately 1,434 slot machines and 71 table games. The centerpiece of the resort is a 170,000 square foot land-based pavilion housing numerous restaurants and entertainment amenities. Hollywood Casino Shreveport competes directly with five casinos and a racetrack in the Shreveport market.

On August 27, 2004, our unrestricted subsidiary, Hollywood Casino Shreveport, in cooperation with an Ad Hoc Committee representing a majority of its noteholders, entered into an agreement with Eldorado providing for acquisition of Hollywood Casino Shreveport by certain affiliates of Eldorado. On September 10, 2004, a group of creditors led by Black Diamond Capital Management, LLC filed an involuntary Chapter 11 case against HCS. On October 28, 2004, Hollywood Casino Shreveport filed a joint plan and disclosure statement that incorporates the Eldorado transaction. On October 30, 2004, Hollywood Casino Shreveport agreed to the entry of an order for relief in the Chapter 11 case that has been filed against it and HCS I, Inc., HCS II, Inc., HWCC-Louisiana, Inc. and Shreveport Capital Corporation commenced voluntary cases under Chapter 11 of the Bankruptcy Code. Based on this

transaction, the financial results of Hollywood Casino Shreveport are reported as discontinued operations for all periods presented. (See the discussion of discontinued operations in "Management's Discussion and Analysis of Financial Condition and Results of Operations.")

Operated Gaming Property

Casino Rama

Through CHC Casinos Canada Limited, or CHC Casinos, our indirectly wholly-owned subsidiary, we operate Casino Rama, a full service gaming and entertainment facility, on behalf of the Ontario Lottery and Gaming Corporation, an agency of the Province of Ontario. Casino Rama was established in July 1996 and is located on the lands of the Mnjikaning First Nation, approximately 90 miles north of Toronto. The property has approximately 92,000 square feet of gaming space, 2,300 gaming machines and 121 table games. A 5,000-seat entertainment facility was opened in July 2001 and a 300-room hotel was opened on June 30, 2002. The majority of the capital for this expansion was financed by an affiliate of the Mnjikaning First Nation, and is projected to be repaid out of the revenue of Casino Rama pursuant to the terms of the management contract. We were not required to commit any capital to these projects.

The Development and Operating Agreement under which CHC Casinos operates the facility, which we refer to as the management contract for Casino Rama, sets out the duties, rights and obligations of CHC Casinos. As the operator, CHC Casinos is entitled to a base fee equal to 2.0% of gross revenues of the casino and an incentive fee equal to 5.0% of the casino's net operating profit. The agreement terminates on July 31, 2011, and the Ontario Lottery and Gaming Corporation has the option to extend the term of the agreement and CHC Casinos' appointment as operator for two successive periods of five years each commencing on August 1, 2011.

Racing Properties

Racing Property Overview

In addition to our gaming assets, including the Charles Town Entertainment Complex which owns and operates a thoroughbred racetrack, we own and operate Penn National Race Course and six OTWs in Pennsylvania, Bangor Raceway in Maine and, through our joint venture, Freehold Raceway in New Jersey.

Penn National Race Course is located on approximately 225 acres and is 15 miles northeast of Harrisburg, 100 miles west of Philadelphia and 200 miles east of Pittsburgh. Penn National is one of only two thoroughbred racetracks in Pennsylvania. The property includes a one-mile all-weather, lighted thoroughbred racetrack, a $^{7}/_{8}$-mile turf track, a grandstand and a clubhouse. The property also includes approximately 400 acres that are available for future expansion or development.

Our OTWs and racetracks provide areas for viewing import simulcast races of thoroughbred and harness horse racing, televised sporting events, placing pari-mutuel wagers and dining. We operate six of the twenty-one OTWs in operation in Pennsylvania; two remaining OTWs are authorized for operation. Only licensed racing associations can operate OTWs or accept customer wagers on simulcast races. We have been transmitting simulcasts of our races to other OTWs, thoroughbred and harness horse racing tracks, and greyhound dog race tracks, throughout the United States, and receiving simulcasts of races from other thoroughbred and harness horse racing tracks for wagering by customers at our OTW locations and our horse race track facilities, year-round, for more than eleven years. Import simulcasts typically include races from premier horse racetracks such as Belmont Park, Churchill Downs, Gulfstream Park, Hollywood Park, Santa Anita and Saratoga.

Bangor Raceway is located at historic Bass Park in downtown Bangor, Maine. Harness racing has been conducted continuously at Bass Park since 1893 and it was once part of racing's Grand Circuit during the Roaring Twenties. Today Bangor hosts 27 days of harness racing during mid-summer on its

one-half mile track. With over 12,000 square feet of space, the facility can seat 3,500 patrons and features a restaurant and cocktail lounge.

Through our joint venture, we own a 51-acre site in Freehold in Western Monmouth County, New Jersey where Freehold Raceway in located. The property features a half-mile oval harness track and a 150,000 square foot grandstand.

Telephone Account Wagering/Internet Wagering

In 1983, we pioneered Telebet®, the complete account wagering operation for Penn National Race Course. The platform offers account wagering on more than 70 U.S. racetracks, and currently has more than 8,900 active telephone account betting customers from the 17 states that permit account wagering.

We have also developed strategic relationships to further our wagering activities. In August 1999, we entered into an agreement with eBet Limited, an Internet wagering operation in Australia, to license their eBetUSA.com technology in the U.S. Through eBetUSA.com, Inc., our wholly-owned subsidiary, we use the eBetUSA.com technology to permit on-line pari-mutuel horseracing wagering over the internet in selected jurisdictions with the approval of the Pennsylvania State Horse Racing Commission and as permitted by applicable federal and state laws, rules and regulations. We currently accept wagers from residents of 17 U.S. jurisdictions.

Trademarks

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

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

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

As a result of our acquisition of Hollywood Casino Corporation, we own the service mark "Hollywood Casino" which is registered with the U.S. Patent and Trademark Office. We have been informed that our rights to the "Hollywood Casino" service mark are well established and have significant competitive value to the Hollywood casino properties. We have also acquired other trademarks used by the Hollywood Casino facilities and their related services. These marks are either registered or are the subject of pending applications with the U.S. PTO.

Competition

—Gaming Operations

The gaming industry is characterized by a high degree of competition among a large number of participants, many of which have financial and other resources that are greater than our resources. Competitive gaming activities include casinos, video lottery terminals and other forms of legalized gaming in the U.S. and other jurisdictions.

Legalized gambling is currently permitted in various forms throughout the U.S. and in several Canadian provinces. Other jurisdictions may legalize gaming in the near future. In addition, established gaming jurisdictions could award additional gaming licenses or permit the expansion of existing gaming operations. New or expanded operations by other persons will increase competition for our gaming operations and could have a material adverse impact on us.

Charles Town, West Virginia. Our gaming machine operations at the Charles Town Entertainment Complex face competition from other gaming machine venues in West Virginia and in neighboring

states (including, but not limited to, Dover Downs, Delaware Park and Harrington Raceway in Delaware and the casinos in Atlantic City, New Jersey). The venues in these neighboring states are permitted to offer significantly higher stakes for their gaming machines than are permitted in West Virginia. Atlantic City, New Jersey does not have a per-pull limit on its gaming machines, while Delaware has a $25 per-pull limit. The per-pull limit in West Virginia is currently $5 per gaming machine. In addition, Maryland is currently considering legislation permitting slot machines and Pennsylvania has recently passed legislation permitting slot machines at various locations. The failure to attract or retain gaming machine customers at the Charles Town Entertainment Complex, whether arising from such competition or from other factors, could have a material adverse effect on our business, financial condition and results of operations. The West Virginia Legislature is currently considering a bill to allow counties to determine, by local election, whether to permit certain table games at racetracks in the state.

Aurora, Illinois. Aurora is part of the Chicago-area market that includes properties in the Chicago suburbs in both Illinois and northern Indiana. Hollywood Casino Aurora faces competition from eight other riverboat casinos in the Chicago-area market, three dockside casinos that are located in Illinois and five dockside casinos that are located in Indiana. Due to the significantly higher gaming taxes imposed on Illinois riverboats in 2002 and 2003, the Indiana riverboats are generally able to spend greater amounts on marketing and other amenities, which has significantly increased their ability to compete with the Illinois riverboats.

New competition in the region is currently limited by state legislation. The Illinois Riverboat Gambling Act and the regulations promulgated by the Illinois Gaming Board under the Riverboat Gambling Act authorize only ten owners' licenses for riverboat gaming operations in Illinois and permit a maximum of 1,200 gaming positions at any time for each of the ten licensed sites. All authorized owners' licenses have been granted; however, one of the licenses is dormant due to a pending bankruptcy proceeding and ongoing dispute among the investors in such license, their host city, the Illinois Gaming Board and Illinois government. Illinois is currently seeking to sell this tenth license. In the event that these disputes are fully resolved and a sale is consummated, this license will likely become operational. We may face additional competition if such a licensee were to open a gaming facility near Hollywood Casino Aurora.

Baton Rouge, Louisiana. Casino Rouge faces competition from land-based and riverboat casinos throughout Louisiana and on the Mississippi Gulf Coast, casinos on Native American lands and from non-casino gaming opportunities within Louisiana. The principal competitor to Casino Rouge is the Argosy Casino, which is the only other licensed riverboat casino in Baton Rouge. We also face competition from three major riverboat casinos, one land-based casino in the New Orleans area, which is approximately 75 miles from Baton Rouge, and three Native American casinos in Louisiana. The two closest Native American casinos are land-based facilities located approximately 45 miles southwest and approximately 65 miles northwest of Baton Rouge. In addition, we face competition from a racetrack located approximately 55 miles from Baton Rouge that began operating approximately 1,500 gaming machines in December 2003. We also face competition from the truck stop gaming facilities located in certain surrounding parishes, each of which are authorized to operate up to 50 video poker machines.

Mississippi Gulf Coast. Our Mississippi Gulf Coast casino operations, Boomtown Biloxi and Casino Magic-Bay St. Louis, face intense competition. Dockside gaming has grown rapidly on the Mississippi Gulf Coast, increasing from no dockside casinos in March 1992 to twelve operating dockside casinos on December 31, 2004. Nine of these facilities are located in Biloxi, two are located in Gulfport and one is located in Bay St. Louis. In addition, the Mississippi Gaming Control Act does not limit the number of licenses that may be granted and there are a number of additional sites located in the Gulf Coast region that are in various stages of development. Any significant increase in the competition in the region could negatively impact our existing operations.

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

Hollywood Casino Tunica also competes to some extent with a land-based casino complex operated by the Mississippi Band of Choctaw Indians in central Mississippi, approximately 200 miles south and east of Memphis, TN. In addition, Hollywood Casino Tunica may eventually face competition from the opening of gaming casinos closer to Memphis, such as in DeSoto County, Mississippi, which is the only county between Tunica County and the Tennessee border. DeSoto County has defeated gaming proposals on three separate occasions, most recently in November 1996. Casino gaming is not currently legalized in Tennessee or Arkansas; however, the legalization of gaming in either Tennessee or Arkansas could have a material adverse impact on Hollywood Casino Tunica.

Black Hawk, Colorado. The Black Hawk gaming market is characterized by intense competition. The primary competitive factors in the market are location, availability and convenience of parking, number of slot machines and gaming tables, promotional incentives, types and pricing of non-gaming amenities, name recognition and overall atmosphere. There are currently 21 gaming facilities in the Black Hawk market and six gaming facilities in nearby Central City. Central City and Black Hawk gaming facilities compete for visitors, but historically, Black Hawk has enjoyed an advantage over Central City because customers have to drive through Black Hawk to reach Central City. During 2004 Central City completed construction of and opened a road directly connecting Central City and Black Hawk with Interstate 70, which allows customers to reach Central City without driving through Black Hawk.

Ontario. Our operation of Casino Rama through CHC Casinos Canada Limited faces competition in Ontario from three other commercial casinos, six charity casinos and at least 16 racetracks with gaming machines in the province. All of the casinos (including Casino Rama) and gaming machine facilities are operated by or on behalf of the Ontario Lottery and Gaming Corporation, an agency of the Province of Ontario. The Ontario Lottery and Gaming Corporation also operates several province-wide lotteries.

There are two charity casinos and five racetracks with gaming machine facilities that directly affect Casino Rama. The two charity casinos together have 105 gaming tables and 902 gaming machines. The number of gaming machines at the racetracks ranges from 100 to over 1,700 each. There is a permanent casino located in Niagara Falls, Ontario, 80 miles southwest of Toronto that opened in June 2004 with 151 gaming tables and 2,986 gaming machines.

—Racing and pari-mutuel operations

Our racing and pari-mutuel operations face significant competition for wagering dollars from other racetracks and OTWs, some of which also offer other forms of gaming, as well as other gaming venues such as casinos and state-sponsored lotteries, including the Pennsylvania, New Jersey, Delaware and West Virginia lotteries. Our telephone account and internet wagering operations compete with other providers of such services throughout the country. We also may face competition in the future from new OTWs, new racetracks or new providers of telephone account or internet wagering. From time to time, states consider legislation to permit other forms of gaming. If additional gaming opportunities become available near our racing and pari-mutuel operations, such gaming opportunities could have a material adverse effect on our business, financial condition and results of operations.

U.S. and Foreign Revenues

Our revenues from continuing operations in the U.S. for 2002, 2003 and 2004 were approximately $618.9 million, $1,013.0 million and $1,140.7 million, respectively. Our revenues from operations in Canada for 2002, 2003 and 2004 were approximately $11.5 million, $13.7 million and $16.3 million, respectively. We currently do not derive revenue from any countries other than the U.S. and Canada.

Segments

We operate in two segments, gaming and racing. For financial data about our segments for the years ended December 31, 2002, 2003 and 2004, please see Note 11 to our Consolidated Financial Statements.

Management

Name	Age	Position
Peter M. Carlino	58	Chairman and Chief Executive Officer
Kevin G. DeSanctis	52	President and Chief Operating Officer
Leonard M. DeAngelo	53	Executive Vice President of Operations
William J. Clifford	47	Senior Vice President-Finance and Chief Financial Officer
Robert S. Ippolito	53	Vice President, Secretary and Treasurer
Jordan B. Savitch	39	Senior Vice President and General Counsel

Peter M. Carlino. Mr. Carlino has served as our Chairman and Chief Executive Officer since April 1994. From 1984 to 1994, he devoted a substantial portion of his time to developing, building and operating residential and commercial real estate projects located primarily in central Pennsylvania. Since 1976, Mr. Carlino has been President of Carlino Financial Corporation, a holding company that owns and operates various Carlino family businesses, in which capacity he has been continuously active in strategic planning for Carlino Financial Corporation and monitoring its operations.

Kevin G. DeSanctis. Mr. DeSanctis joined us in February 2001 as our President and Chief Operating Officer. From 1995 to 2000, Mr. DeSanctis served as Chief Operating Officer, North America, for Sun International Hotels Limited where he was responsible for complete oversight of day-to-day operations of the company's gaming properties in North America and the Bahamas. Prior to joining Sun International, Mr. DeSanctis' experience included management and pre-opening responsibilities for gaming operations in Las Vegas, Nevada, Atlantic City, New Jersey, New Orleans, Louisiana and Colorado.

Leonard M. DeAngelo. Mr. DeAngelo joined us in July 2003 as Executive Vice President of Operations. From, December 2000 to July 2003, Mr. DeAngelo served as President of the Atlantic City

Hilton Casino Resort. Prior to being named President of the Atlantic City Hilton, Mr. DeAngelo served for three years as Corporate Senior Vice President of Casino Marketing with Sun International where, in addition to his marketing responsibilities, he also oversaw information technology initiatives relating to the casinos, including operations, marketing, data warehousing and online projects. From November 1995 to December 1997, Mr. DeAngelo was President of the Sands Hotel and Casino in Atlantic City. He served with the Sands in other executive positions beginning in 1983, holding the titles of Director of Casino Administration, Vice President Casino Administration and Senior Vice President before being named President. He began his career in the gaming and hotel industry in 1979 at Bally's Park Place Hotel and Casino in Atlantic City.

William J. Clifford. Mr. Clifford joined us in August 2001 and was appointed to his current position as Senior Vice President-Finance and Chief Financial Officer in October 2001. From March 1997 to July 2001, Mr. Clifford served as the Chief Financial Officer and Senior Vice President of Finance with Sun International Resorts, Inc., Paradise Island, Bahamas. From November 1993 to February 1997, Mr. Clifford was Financial, Hotel and Operations Controller for Treasure Island Hotel and Casino in Las Vegas. From May 1989 to November 1993, Mr. Clifford was Controller for Golden Nugget Hotel and Casino, Las Vegas. Prior to May 1989, Mr. Clifford held the positions of Controller for the Dunes Hotel and Casino, Las Vegas, Property Operations Analyst with Aladdin Hotel and Casino, Las Vegas, Casino Administrator with Las Vegas Hilton, Las Vegas, Senior Internal Auditor with Del Webb, Las Vegas, and Agent, Audit Division, of the Nevada Gaming Control Board, Las Vegas and Reno.

Robert S. Ippolito. In July 2001, we appointed Mr. Ippolito to the position of Vice President. Mr. Ippolito has served as our Secretary and Treasurer since April 1994 and as our Chief Financial Officer from April 1994 until July 2001. Mr. Ippolito brings more than 21 years of gaming and racing experience to the management team both as a manager at a major accounting firm and as an officer of companies in the racing business.

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

Governmental Regulations

The gaming and racing industry 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 in one jurisdiction could result in disciplinary action in other jurisdictions. A more detailed description of the regulations to which we are subject is contained in Exhibit 99.1 to this Annual Report on Form 10-K, which exhibit is incorporated herein by reference.

Our businesses are subject to various federal, state and local laws and regulations in addition to gaming regulations. These laws and regulations include, but are not limited to, restrictions and conditions concerning alcoholic beverages, environmental matters, employees, currency transactions, taxation, zoning and building codes, and marketing and advertising. Such laws and regulations could change or could be interpreted differently in the future, or new laws and regulations could be enacted.

Material changes, new laws or regulations, or material differences in interpretations by courts or governmental authorities could adversely affect our operating results.

Employees and Labor Relations

As of March 7, 2005, we had 12,126 full- and part-time employees.

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

At the Charles Town Entertainment Complex, we have an agreement with the Charles Town horsemen that expires on December 31, 2007 and an agreement with the breeders that expires on June 30, 2005. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks which expires on April 30, 2005. We are in active discussions with the pari-mutuel clerks at Charles Town regarding a new agreement or an extension of the existing agreement, however, there can be no assurance that we will be able to enter into a new agreement or an extension of the existing agreement on satisfactory terms or at all.

Our agreement with the Pennsylvania thoroughbred horsemen at Penn National Race Course expires on September 30, 2011. We have an agreement with Local 137 at Penn National Race Course with respect to pari-mutuel clerks and admissions and Telebet personnel that expires on December 31, 2007. We also have an agreement in place with the Sports Arena Employees Local 137 (AFL-CIO) with respect to pari-mutuel clerks and admission personnel at our OTWs. That agreement expires on September 30, 2005.

Pennwood Racing also has an agreement in effect with the horsemen at Freehold Raceway which expires in May, 2006.

Risks Related to Our Business

A substantial portion of our revenues and income from operations is derived from our Charles Town, West Virginia and Aurora, Illinois facilities.

For the fiscal year ended December 31, 2004, approximately 35.1% and 44.9% of our net revenue and income from operations, respectively, were derived from our Charles Town operations, and approximately 20.4% and 27.8% of our net revenue and income from operations, respectively, were derived from our Aurora operations. We expect that a substantial portion of our revenues and income from operations for the immediate future will be derived from our Charles Town and Aurora facilities. Our ability to meet our operating and debt service requirements is substantially dependent upon the continued success of these facilities. The operations at these facilities could be adversely affected by numerous factors including:

- risks related to local and regional economic and competitive conditions, such as a decline in the number of visitors to the facility, a downturn in the overall economy in the market, a decrease in gaming activities in the market or an increase in competition;
- changes in local and state governmental laws and regulations (including changes in laws and regulations affecting gaming operations and taxes) applicable to a facility;
- impeded access to the facility due to weather, road construction or closures of primary access routes; and
- the occurrence of floods and other natural disasters.

If any of these events occurs, our operating revenues and cash flow could decline significantly. For example, in July 2003, the State of Illinois increased certain tax rates and added new tax brackets for

gaming licensees. We have taken steps to mitigate the Illinois tax increase through a variety of methods including employee reduction, marketing and promotional programs reductions, other cost reductions and the adoption of admission fees. While these steps have been beneficial to us, we cannot assure you that we will be able to successfully mitigate the tax increase.

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

On November 3, 2004, we entered into a Merger Agreement pursuant to which we intend to acquire Argosy Gaming Company. In addition, we expect to continue pursuing expansion and acquisition opportunities, and we regularly evaluate opportunities for acquisition of other properties, which evaluations may include discussions and the review of confidential information after the execution of nondisclosure agreements with potential acquisition candidates, some potentially significant in relation to our size.

We could face significant challenges in managing and integrating the expanded or combined operations of Penn National and Argosy and any other properties we may acquire. The integration of the Argosy operations and any other properties we may acquire will require the dedication of management resources that may temporarily divert attention from our day-to-day business. The process of integrating Argosy, and other properties we may acquire, also may interrupt the activities of those businesses, which could have a material adverse effect on our business, financial condition and results of operations. We cannot assure you that the Argosy merger or the acquisition of any other properties will be completed or that Argosy or any other properties will be integrated successfully.

Management of new properties, especially in new geographic areas, may require that we increase our managerial resources. We cannot assure you that we will be able to manage the combined operations effectively or realize any of the anticipated benefits of our acquisitions. We also cannot assure you that if the Argosy merger or any other acquisitions are completed, that Argosy or any other acquired businesses will generate sufficient revenue to offset the associated costs or other adverse effects.

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

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

We face the risks that we may not consummate the Argosy merger.

We cannot assure you that the Argosy merger will be consummated on the terms described herein, at a date certain or at all. The completion of the Argosy merger is subject to the satisfaction of certain conditions precedent, including receiving the various federal, state and local regulatory approvals, which may or may not occur. If we do not consummate the Argosy merger, then we will not receive the expected benefits of such merger.

In addition, we have incurred and will continue to incur substantial costs in connection with the proposed Argosy merger. These costs are primarily associated with the fees of attorneys, accountants and our financial advisors. We have also diverted significant management resources in an effort to complete the merger. If the merger is not completed, we will have incurred significant costs, including the diversion of management resources, for which we will have received little or no benefit, which could negatively impact our financial results and operations.

Because of the complex conditions which must be satisfied in order to complete acquisitions in the gaming industry and the regulatory approvals required in connection with such acquisitions, our

planned acquisition of Argosy, as well as our involvement in potential acquisitions in the future, may result in uncapitalized expenses, non-recurring charges, litigation, substantial obligations and a substantial risk of loss.

If we consummate the Argosy merger then we will be subject to additional risks, including, without limitation, all of the business, financial, operational, environmental, competitive, regulatory, economic and other risks related to Argosy and its properties and operations that are included in Argosy's filings with the SEC. In addition, the risks that our current operations face may increase or intensify. Information concerning Argosy is publicly available via the SEC's website and EDGAR system. None of Argosy's public information has been incorporated by reference herein and we do not make any representations with respect to, or assume any responsibility for the accuracy or completeness of the information contained in, any filings by Argosy with the SEC.

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

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

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

No assurance can be given that the expected timetable for opening new gaming facilities will be met in light of the uncertainties inherent in the development of the regulatory framework, the licensing process, legislative action and litigation.

We face significant competition from other gaming operations and racing and pari-mutuel operations.

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

Gaming competition is particularly intense in each of the markets where we operate or where we may operate in the future. As competing properties have opened, our operating results may be negatively affected. Some of our competitors have more gaming industry experience, are larger and have significantly greater financial and other resources. In addition, some of our direct competitors in certain markets may have superior facilities and/or operating conditions. There could be further

competition in our markets as a result of the upgrading or expansion of facilities by existing market participants, the entrance of new gaming participants into a market or legislative changes.

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

Racing and pari-mutuel operations. Our racing and pari-mutuel operations face significant competition for wagering dollars from other racetracks and off-track wagering facilities, some of which also offer other forms of gaming, as well as other gaming venues such as casinos and state sponsored lotteries, including the Pennsylvania, New Jersey, Delaware and West Virginia lotteries. Our telephone account and Internet wagering operations compete with providers of such services throughout the country. We also may face competition in the future from new off-track wagering facilities, new racetracks or new providers of telephone account or Internet wagering. From time to time, states consider legislation to permit other forms of gaming. If additional gaming opportunities become available near our racing and pari-mutuel operations, such gaming opportunities could have a material adverse effect on our business, 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.

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 and others in the ordinary course of business. As with all litigation, no assurance can be provided as to the outcome of these matters and in general, litigation can be expensive and time consuming. We may not be successful in the defense of these lawsuits, which could result in settlements or damages that could significantly impact our business, financial condition and results of operations. (For example, those lawsuits listed in Item 3 below).

We face extensive regulation from gaming and other regulatory authorities.

Licensing requirements. As owners and operators of gaming and pari-mutuel wagering facilities, we are subject to extensive state, local and, in Canada, provincial regulation. State, local and provincial authorities require us and our subsidiaries to demonstrate suitability to obtain and retain various licenses and require that we have registrations, permits and approvals to conduct gaming operations. Various regulatory authorities, including the Colorado Limited Gaming Control Commission, the Illinois Gaming Board, the Louisiana Gaming Control Board, the Mississippi State Tax Commission, the Mississippi Gaming Commission, the New Jersey Casino Control Commission, the New Jersey Racing Commission, the Alcohol and Gaming Commission of Ontario, the Pennsylvania State Horse Racing Commission, the West Virginia Racing Commission, the West Virginia Lottery Commission, the Maine Gambling Control Board and the Maine Harness Racing Commission, have broad discretion, and may, for any reason set forth in the applicable legislation, rules and regulations, limit, condition, suspend, fail to renew or revoke a license or registration to conduct gaming operations or prevent us from owning the securities of any of our gaming subsidiaries or prevent another person from owning an equity interest in us. Like all gaming operators in the jurisdictions in which we operate, we must periodically apply to renew our gaming licenses or registrations and have the suitability of certain of our directors, officers and employees approved. We cannot assure you that we will be able to obtain such renewals or approvals. Regulatory authorities have input into our operations, for instance, hours of operation, location or relocation of a facility, numbers and types of machines and loss limits. Regulators may also levy substantial fines against or seize our assets or the assets of our subsidiaries or the people involved in violating gaming laws or regulations. Any of these events could have a material adverse effect on our business, financial condition and results of operations.

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

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

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

Moreover, legislation to prohibit or limit gaming may be introduced in the future in states where gaming has been legalized. In addition, from time to time, legislators and special interest groups have proposed legislation that would expand, restrict or prevent gaming operations or which may otherwise adversely impact our operations in the jurisdictions in which we operate. Any expansion of gaming or restriction on or prohibition of our gaming operations or enactment of other adverse regulatory changes could have a material adverse effect on our operating results.

Taxation and fees. We believe that the prospect of significant revenue is one of the primary reasons that jurisdictions permit legalized gaming. As a result, gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and provincial income taxes, and such taxes and fees are subject to increase at any time. We pay substantial taxes and fees with respect to our operations. From time to time, federal, state, local and provincial legislators and officials have proposed changes in tax laws, or in the administration of such laws, affecting the gaming industry. In addition, worsening economic conditions could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws. Such changes, if adopted, could have a material adverse effect on our business, financial condition and results of operations. For example, effective July 1, 2003, the State of Illinois increased the graduated gaming tax rate structure by increasing certain tax rates, adding new tax brackets and raising the highest marginal tax rate from 50% to 70%. Additionally, Illinois increased the admission tax from $3 to $5 per person. The large number of state and local governments with significant current or projected budget deficits makes it more likely that those governments that currently permit gaming will seek to fund such deficits with new or increased gaming taxes, and worsening economic conditions could intensify those efforts. Any material increase, or the adoption of additional taxes or fees, could have a material adverse effect on our future financial results.

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

We depend on our key personnel.

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

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

New or changing laws and regulations relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and NASDAQ National Market rules, are creating uncertainty for companies. These new or changed laws and regulations are subject to varying interpretations in many cases due to their lack of specificity, recent issuance and/or lack of guidance. As a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty and higher costs regarding compliance matters. Due to our commitment to maintain high standards of compliance with laws and public disclosure, our efforts to comply with evolving laws, regulations and standards have resulted in and are likely to continue to result in increased general and administrative expenses. In addition, we are subject to different parties' interpretation of our compliance with these new and changing laws and regulations. A failure to comply with any of these new laws or regulations, including Section 404 of the Sarbanes-Oxley Act of 2002, could have a materially adverse effect on the company. For instance, if our gaming authorities, the SEC, our independent auditors or our shareholders and potential shareholders conclude that our compliance with the regulations is unsatisfactory, this may result in a negative public perception of our company, subject us to increased regulatory scrutiny, penalties or otherwise adversely affect us.

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

The operations of our facilities are subject to disruptions or reduced patronage as a result of severe weather conditions, natural disasters and other casualties. Because many of our gaming operations are located on or adjacent to rivers, these facilities are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, forces of nature, mechanical failure, extended or extraordinary maintenance, flood, hurricane or other severe weather conditions. For example, in September 2004, Casino Rouge in Baton Rouge, Louisiana, Casino Magic-Bay St. Louis in Bay St. Louis, Mississippi, and Boomtown Biloxi in Biloxi, Mississippi were closed on a precautionary basis in anticipation of Hurricane Ivan. In addition, several of our casinos are subject to risks generally associated with the movement of vessels on inland waterways, including risks of collision or casualty due to river turbulence and traffic. Many of our casinos operate in areas which are subject to periodic flooding that has caused us to experience decreased attendance and increased operating expenses. Any flood or other severe weather condition could lead to the loss of use of a casino facility for an extended period. Reduced patronage and the loss of a dockside casino or riverboat from service for any period of time could adversely affect our business, financial condition and results of operations.

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

We are subject to various federal, state and local environmental laws and regulations that govern our operations, including emissions and discharges into the environment, and the handling and disposal of hazardous and nonhazardous substances and wastes. Failure to comply with such laws and

regulations could result in costs for corrective action, penalties or the imposition of other liabilities or restrictions. From time to time, we have incurred and are incurring costs and obligations for correcting environmental noncompliance matters. To date, none of these matters have had a material adverse effect on our business, financial condition or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

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

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

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

We believe that a substantial majority of the slot machines sold in the U.S. in 2004 were manufactured by a few select companies. In addition, we believe that one company in particular provided a majority of all slot machines sold in the U.S. in 2004.

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

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

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

The Federal Interstate Horseracing Act of 1978, as amended, the West Virginia Racing Act and the Pennsylvania Racing Act require that, in order to simulcast races, we have written agreements with

the horse owners and trainers at our West Virginia and Pennsylvania race tracks. In addition, in order to operate gaming machines in West Virginia, we are required to enter into written agreements regarding the proceeds of the gaming machines with a representative of a majority of the horse owners and trainers, a representative of a majority of the pari-mutuel clerks and a representative of a majority of the horse breeders.

Effective October 1, 2004, we signed an agreement with the Pennsylvania Thoroughbred Horsemen at Penn National Race Course that expires on September 30, 2011. At the Charles Town Entertainment Complex, we have an agreement with the Charles Town Horsemen that became effective on January 1, 2005 and expires on December 31, 2007. Our agreement with the pari-mutuel clerks at Charles Town expires on April 30, 2005. We are in active discussions with the pari-mutuel clerks at Charles Town regarding a new agreement or an extension of the existing agreement, however, there can be no assurance that we will be able to enter into a new agreement or an extension of the existing agreement on satisfactory terms or at all.

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

Energy and fuel price increases may adversely affect our costs of operations and our revenues.

Our casino properties use significant amounts of electricity, natural gas and other forms of energy. While no shortages of energy have been experienced, the recent substantial increases in the cost of electricity in the United States will negatively affect our results of operations. In addition, energy and fuel price increases in cities that constitute a significant source of customers for our properties could result in a decline in disposable income of potential customers and a corresponding decrease in visitation to our properties, which would negatively impact our revenues. The extent of the impact is subject to the magnitude and duration of the energy and fuel price increases, but this impact could be material.

We Face Risks Related to Our Capital Structure.

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

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

- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business;
- require us to dedicate a substantial portion of our cash flow from operations to debt service, thereby reducing the availability of our cash flow to fund working capital, capital expenditures 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 debt or fail to comply with the financial and other restrictive covenants contained in our debt, which event of default could result in all of our debt becoming immediately due and payable and could permit certain of our lenders to foreclose on our assets securing such debt.

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

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

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

Our indebtedness imposes restrictive covenants on us.

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

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

Based on our current level of operations, we believe our cash flow from operations, available cash and available borrowings under our existing senior secured credit facility will be adequate to meet our future liquidity needs for the next few years.

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

The price of our common stock may fluctuate significantly.

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

An Event of Default has occurred under the indentures governing the Hollywood Casino Shreveport notes.

Our subsidiaries, HCS and Shreveport Capital Corporation, are issuers of $39 million aggregate principal amount of 13% senior secured notes due 2006 and $150 million aggregate principal amount of 13% first mortgage notes due 2006 (together, the "HCS notes"). The HCS issuers and the other obligors under the HCS notes are unrestricted subsidiaries under our existing senior secured credit facility, the existing note indentures. The HCS notes are non-recourse to us and our subsidiaries (other than the HCS issuers, HCS I, HCS II and HWCC-Louisiana).

On August 27, 2004, HCS, in cooperation with an Ad Hoc Committee representing a majority of its noteholders, entered into an agreement with Eldorado Resorts LLC ("Eldorado") providing for Eldorado's acquisition of HCS. On September 10, 2004, a group of creditors led by Black Diamond Capital Management, LLC filed an involuntary Chapter 11 case against HCS. On October 28, 2004, HCS filed a joint plan and disclosure statement that incorporates the Eldorado transaction. On October 30, 2004, HCS agreed to the entry of an order for relief in the Chapter 11 case that has been filed against it and HCS I, HCS II, HWCC-Louisiana and Shreveport Capital commenced voluntary cases under Chapter 11 of the Bankruptcy Code.

HCS filed a revised reorganization plan and disclosure statement with the Bankruptcy Court on March 3, 2005. The plan continues to provide for the acquisition of the hotel and casino by Eldorado under the agreement announced last year. The Official Bondholder Committee in the Chapter 11 case has joined HCS as a proponent of the plan. The Bankruptcy Court has set a hearing on the approval of the Disclosure Statement for April 11, 2005. Black Diamond Capital Management, LLC and KOAR International (Paul Alanis) continue to express interest in acquiring the hotel and casino and have

asked the Bankruptcy Court for permission to file their own competing plan. HCS intends to oppose that request.

It is uncertain at this time what the outcome of the bankruptcy proceedings will be, whether the Eldorado transaction will be consummated or what the timing or terms of the proceedings or transaction would be, or what the effect on HCS or us or any of our other subsidiaries will be. The outcome of the proceedings and transaction could include a sale, liquidation and dissolution, bankruptcy and/or further litigation filed with respect to HCS and its affiliates.

Available Information

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

ITEM 2. PROPERTIES

The following describes our principal real estate properties:

Charles Town Entertainment Complex. We own a 250-acre parcel in Charles Town, West Virginia, a portion of which contains the Charles Town Entertainment Complex. The property also includes a newly refurbished $^{3}/_{4}$-mile thoroughbred racetrack and an enclosed grandstand/clubhouse.

Hollywood Casino Aurora. We own an 117,000 square foot dockside barge structure and land based pavilion with 53,000 square feet of gaming space in Aurora, Illinois. The property also includes two parking garages under capital lease agreements.

Casino Rouge. We own five acres of a 23-acre site on the east bank of the Mississippi River in the East Baton Rouge Downtown Development District. The remaining 18 acres of the site are currently leased. The property site serves as the dockside embarkation for the Casino Rouge and features a two-story, 58,000 square foot building. The Casino Rouge is a four-story 47,000 square foot riverboat casino, which we own.

Casino Magic—Bay St. Louis. We own approximately 591 acres in the city of Bay St. Louis, Mississippi, including the 17-acre marina where the gaming barge is moored. The property includes an 18-hole golf course, two hotels, and other land-based facilities, all of which we own.

Hollywood Casino Tunica. We lease approximately 70 acres of land in Tunica, Mississippi, which contains a single-level casino with 54,000 square feet of gaming space and other land-based facilities. Hollywood Casino Tunica is located amongst a cluster of gaming facilities, including those operated by Resorts International Hotel and Casino, Inc. and Boyd Gaming Corporation.

Boomtown Biloxi. We lease substantially all of the 19 acres on which Boomtown Biloxi is located under a 99-year lease that began in 1994. We also lease approximately 5 acres of submerged tidelands at the casino site from the State of Mississippi under a ten-year lease with a five-year option to renew. We own the barge on which the casino with 33,600 square feet of gaming space is located and all of the land-based facilities. In January 2004, we completed the acquisition of an adjacent property which we plan to utilize for additional parking and to develop the property in the event we move the casino barge.

Bullwhackers. Our Bullwhackers Casino, the adjoining Bullpen Sports Casino and the Silver Hawk Saloon and Casino are located on an approximately four-acre site. We own the Bullwhackers Casino

and Silver Hawk Saloon and Casino properties and lease Bullpen Sports Casino property. The casinos on the property have 20,700 square feet of gaming space.

Casino Rama. We do not own any of the land located at or near the casino or Casino Rama's facilities and equipment. The Ontario Lottery and Gaming Corporation has a long-term ground lease with an affiliate of the Mnjikaning First Nation, for the land on which Casino Rama is situated. Under the Development and Operating Agreement, CHC Casinos has been granted a license coupled with an interest in land pursuant to which it, as the operator, has been granted full access to Casino Rama during the term of the Development and Operating Agreement to perform its services under the Agreement. The Casino Rama facilities are located on approximately 57 acres.

Penn National Race Course. We own approximately 225 acres in Grantville, Pennsylvania where the Penn National Race Course is located. The property includes a one-mile all-weather thoroughbred racetrack and a $^{7}/_{8}$-mile turf track, a clubhouse and a grandstand. The property also includes approximately 400 acres surrounding the Penn National Race Course that are available for future expansion or development.

Freehold Raceway. Through our joint venture, we own a 51-acre site in Freehold in Western Monmouth County, New Jersey where Freehold Raceway in located. The property features a half-mile oval harness track and a 150,000 square foot grandstand.

Bangor Historic Track. We lease approximately 27 acres located at Bass Park in Bangor, Maine, which consists of over 12,000 square feet of grandstand space with seating for 3,500 patrons.

OTWs. We own one of our existing OTW facilities and lease the remaining five facilities. The following is a list of our OTW facilities and their locations:

Our OTW Locations

Location	Size (Sq. Ft.)	Owned/Leased	Date Opened
Reading, PA	22,500	Leased	May, 1992
Chambersburg, PA	12,500	Leased	April, 1994
York, PA	25,000	Leased	March, 1995
Lancaster, PA	24,000	Leased	July, 1996
Williamsport, PA	14,000	Owned	February, 1997
Johnstown, PA	14,220	Leased	September, 1998

Other. We lease approximately 19,196 square feet of office and warehouse space in three office buildings in Wyomissing, Pennsylvania for our executive offices. The office buildings are owned by an affiliates of Peter M. Carlino, our Chairman and Chief Executive Officer. We believe the lease terms for the executive office and warehouse to be no less favorable than such lease terms that could have been obtained from unaffiliated third parties.

ITEM 3. LEGAL PROCEEDINGS

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

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

In August 2002, the lessor of the property on which Casino Rouge conducts a significant portion of its dockside operations filed a lawsuit against us in the 19th Judicial District Court for the Parish of East Baton Rouge, Louisiana seeking a declaratory judgment that the plaintiff landlord is entitled to terminate the lease and/or void our option to renew the lease due to certain alleged defaults by us or our predecessors-in-interest. The term of our lease expired in January 2004 and we exercised our automatic right to renew for an additional five-year term (which, as previously noted, is being contested by the landlord). In September 2003, the court granted us a partial motion for summary judgment. On October 26, 2004, in ruling on a motion for summary judgment filed by the plaintiff, the court determined that we were in default of an obligation in the lease and that the lease is dissolved. We plan to vigorously appeal this decision, which suspends any effect of the October 26, 2004 order during the pendency of the appeal. Depending on the outcome of the appeal, we may eventually choose from options which may include entering into a new lease with the plaintiff, purchasing the property from the plaintiff or relocating. Any of these options are likely to involve significant costs. A relocation of the boat will require regulatory and/or local approvals, which we may not be able to obtain. In March 2005, the plaintiff filed an additional lawsuit against us seeking (i) a ruling that additional rent is due to the landlord as a result of the default, (ii) that a lessor's lien should be recognized as encumbering certain property to secure the payment of such rent, and (iii) a declaration that certain improvements revert to the landlord upon termination of the lease. A hearing regarding the lessor's lien is scheduled for May 2005.

In October 2002, in response to our plans to relocate the river barge underlying the Boomtown Biloxi casino to an adjacent property, the lessor of the property on which the Boomtown Biloxi casino conducts a portion of its dockside operations, filed a lawsuit against us in the U.S. District Court for the Southern District of Mississippi seeking a declaratory judgment that (i) we must use the leased premises for a gaming use or, in the alternative, (ii) after the move, we will remain obligated to make the revenue based rent payments to plaintiff set forth in the lease. The plaintiff filed this suit immediately after the Mississippi Gaming Commission approved our request to relocate the barge. Since such approval, the Mississippi Department of Marine Resources and the U.S. Army Corps of Engineers have also approved our plan to relocate the barge. We filed a motion for summary judgment in October 2003 and the plaintiff filed its own motion for summary judgment in January 2004. In March 2004, the trial court ruled in favor of us on all counts. The plaintiff's subsequent motion for reconsideration was denied and plaintiff has appealed the decision to the Fifth Circuit. A hearing on the appeal is scheduled for April 4, 2005.

On August 27, 2004, our unrestricted subsidiary, Hollywood Casino Shreveport, or HCS, in cooperation with an Ad Hoc Committee representing a majority of its noteholders, entered into an agreement with Eldorado Resorts LLC ("Eldorado") providing for acquisition of HCS by certain

affiliates of Eldorado. On September 10, 2004, certain creditors of the Hollywood Casino Shreveport filed with the U.S. Bankruptcy Court, Western District of Louisiana, located in Shreveport, Louisiana, an involuntary petition against Hollywood Casino Shreveport for relief under Chapter 11 of the U.S. Bankruptcy Code. On October 28, 2004, HCS filed a joint plan and disclosure statement that incorporates the Eldorado Transaction. On October 30, 2004, the Bankruptcy Court entered an order for relief. Hollywood Casino Shreveport continues to manage its assets and business as a "debtor in possession" subject to the powers and supervision of the Bankruptcy Court pursuant to Chapter 11. In addition, on October 30, 2004, HCS I, Inc. and HCS II, Inc., the general partners of Hollywood Casino Shreveport, HWCC-Louisiana, Inc., the parent company of both HCS I, Inc. and HCS II, Inc., and Shreveport Capital Corporation commenced voluntary cases under Chapter 11 in the U.S. Bankruptcy Court, Western District of Louisiana.

HCS filed a revised reorganization plan and disclosure statement with the Bankruptcy Court on March 3, 2005. The plan continues to provide for the acquisition of the hotel and casino by Eldorado under the agreement announced last year. The Official Bondholder Committee in the Chapter 11 case has joined HCS as a proponent of the plan. The Bankruptcy Court has set a hearing on the approval of the Disclosure Statement for April 11, 2005. Black Diamond Capital Management, LLC and KOAR International (Paul Alanis) continue to express interest in acquiring the hotel and casino and have asked the Bankruptcy Court for permission to file their own competing plan. HCS intends to oppose that request.

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

None.

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Range of Market Price

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

	High	Low
2004		
First Quarter	$ 14.78	$ 11.51
Second Quarter	16.60	13.63
Third Quarter	20.20	15.99
Fourth Quarter	31.17	19.34
2003		
First Quarter	$ 9.71	$ 7.35
Second Quarter	11.80	7.38
Third Quarter	11.73	9.77
Fourth Quarter	12.98	10.51

The closing sale price per share of common stock on The NASDAQ National Market on March 28, 2005, was $29.60. As of March 28, 2005, there were approximately 638 holders of record of common stock. All references to sales prices of our common stock have been retroactively restated to reflect the increased number of common stock shares outstanding pursuant to the March 7, 2005 stock split.

Dividend Policy

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial and operating data for the years ended December 31, 2000, 2001, 2002, 2003 and 2004 are derived from our consolidated financial statements that have been audited by BDO Seidman, LLP, an independent registered public accounting firm. The selected consolidated financial and operating data should be read in conjunction with our consolidated financial statements and Notes thereto, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the other financial information included herein.

	Year Ended December 31,				
	2000(1)	2001(2)	2002(3)	2003(4)	2004
	(In thousands, except per share data)				
Income statement data:(5)					
Net Revenues	$ 254,302	$ 478,258	$ 618,856	$ 1,012,998	$ 1,140,689
Total operating expenses	214,811	406,155	520,612	836,463	926,909
Income from operations	39,491	72,103	98,244	176,535	213,780
Other (expenses), net	(27,645)	(40,525)	(52,381)	(76,878)	(76,152)
Income before income taxes	11,846	31,578	45,863	99,657	137,628
Taxes on income	3,682	10,916	17,534	37,463	50,288
Net income from continuing operations	8,164	20,662	28,329	62,194	87,340
Income (Loss) from discontinued operations	3,828	3,096	2,534	(10,723)	(15,856)
Net income	$ 11,992	$ 23,758	$ 30,863	$ 51,471	$ 71,484

Per share data:(6)					
Earnings (loss) per share—basic					
Income from continuing operations	$ 0.14	$ 0.34	$ 0.38	$ 0.79	$ 1.09
Discontinued operations, net of tax	$ 0.06	$ 0.05	$ 0.03	$ (0.14)	$ (0.20)
Basic net income per share	$ 0.20	$ 0.39	$ 0.41	$ 0.65	$ 0.89
Earnings (loss) per share—diluted					
Income from continuing operations	$ 0.13	$ 0.32	$ 0.36	$ 0.77	$ 1.05
Discontinued operations, net of tax	$ 0.06	$ 0.05	$ 0.03	$ (0.14)	$ (0.19)
Diluted net income per share	$ 0.19	$ 0.37	$ 0.39	$ 0.63	$ 0.86
Weighted shares outstanding—basic	59,872	61,306	75,550	78,946	80,510
Weighted shares outstanding—diluted	61,772	63,674	78,188	81,224	83,508
Other data:					
Net cash provided by operating activities	$ 40,976	$ 84,784	$ 101,641	$ 140,036	$ 195,454
Net cash used in investing activities	(229,027)	(216,039)	(102,064)	(330,864)	(65,404)
Net cash provided by (used in) financing activities	201,810	145,593	18,312	217,459	(124,177)
Depreciation and amortization	9,908	29,751	34,518	57,471	65,785
Interest expense	20,644	46,096	42,104	76,616	75,720
Capital expenditures	27,295	41,511	88,533	56,733	68,957
Balance sheet data:					
Cash and cash equivalents(7)	$ 22,299	$ 36,637	$ 54,536	$ 81,567	$ 87,620
Total assets	439,900	679,377	765,480	1,609,599	1,643,407
Total debt(7)	309,299	458,909	375,018	990,123	858,909
Shareholders' equity	79,221	103,265	247,000	309,878	398,092

(1) Reflects operations included since the August 8, 2000 acquisition of Casino Magic—Bay St. Louis casino and Boomtown Biloxi casino.

(2) Reflects operations included since the April 27, 2001 acquisition of all of the gaming assets of CRC Holdings, Inc. and the minority interest in Louisiana Casino Cruises, Inc.

(3) Reflects operations included since the April 25, 2002 acquisition of Bullwhackers.

(4) Reflects the operations of the Hollywood Casino properties since the March 3, 2003 acquisition date.

(5) Certain prior year amounts have been reclassified to conform to the current year presentation.

(6) Per share data has been retroactively restated to reflect the increased number of common stock shares outstanding as a result of our June 25, 2002 and March 7, 2005 stock splits.

(7) Does not include discontinued operations.

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

Our Operations

We are a leading, diversified, multi-jurisdictional owner and operator of gaming properties, as well as horse racetracks and associated off-track wagering facilities, or OTWs. We own or operate nine gaming properties located in Colorado, Illinois, Louisiana, Mississippi, Ontario and West Virginia that are focused primarily on serving customers within driving distance of the properties. We also own one racetrack and six OTWs in Pennsylvania, one racetrack in West Virginia, one racetrack in Maine, and through a joint venture, own and operate a racetrack in New Jersey. On February 12, 2004, we completed the purchase of Bangor Historic Track, Inc. which operates harness racing at the city owned track at Bass Park in Bangor, Maine. We operate in two segments, gaming and racing, and derive substantially all of our revenues from such operations. We believe that our portfolio of assets provides us with a diversified cash flow from operations.

We have made significant acquisitions in the past few years and expect to continue to pursue additional acquisition and development opportunities in the future. On March 3, 2003, we completed our largest acquisition to date, the acquisition of Hollywood Casino Corporation. The Hollywood Casino Corporation acquisition significantly increased our revenues and cash flow. In Maine, subsequent to our February 12, 2004 purchase of Bangor Historic Track, Inc., we were granted an unconditional racing license for 2004 (and a renewal for 2005) and operated a 27-day harness meet at Bass Park in Bangor. The annual license represents the first regulatory approval necessary for us to proceed with our anticipated $74 million development project for a 1,500 slot machine gaming facility and to satisfy a condition precedent to completing our purchase of Bangor Historic Track. On July 5, 2004, Pennsylvania Governor Edward G. Rendell signed into law the Pennsylvania Race Horse Development and Gaming Act. Our plan is to develop a completely new gaming and racing facility at our Penn National Race Course in Grantville, Pennsylvania. Under this plan, we expect to open in a new permanent facility with 2,000 slot machines within approximately one year after receiving a license at an estimated cost of $240 million, inclusive of the $50 million gaming license fee, and expand to up to 5,000 machines based on demand. While we would have preferred to develop the site, as a result of the ownership restrictions on a second slot license in the Pennsylvania gaming law, on October 15, 2004 we announced our agreement to sell our Pocono Downs facilities, land and OTWs to the Mohegan Tribal Gaming Authority. This sale was completed on January 25, 2005. Most notably, on November 3, 2004, we and Argosy Gaming Company announced that our boards of directors unanimously approved a definitive merger agreement under which we will acquire all of the outstanding shares of Argosy for $47.00 per share in cash. The transaction is valued at approximately $2.2 billion, including approximately $805 million of long-term debt of Argosy and its subsidiaries. Upon closing, the transaction is expected to be immediately accretive to our earnings per share. On January 20, 2005, Argosy's shareholders approved the Merger Agreement. This transaction is an extremely significant step for us.

The vast majority of our revenue is gaming revenues derived primarily from gaming on slot machines and, to a lesser extent, table games. Racing revenues are derived from wagering on our live races, wagering on import simulcasts at our racetracks and OTWs and through telephone account wagering, and fees from wagering on export simulcasting our races. Other revenues are derived from hotel, dining, retail, admissions, program sales, concessions and certain other ancillary activities.

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

Key performance indicators related to revenues are:

- Gaming revenue indicators—slot handle (volume indicator), table game drop (volume indicator) and "win" or "hold" percentages, which are not fully controllable by us. Our typical slot win percentage is in the range of 5% to 9% of slot handle and our typical table games win percentage is in the range of 15% to 21% of table game drop; and

- Racing revenue indicators—pari-mutuel wagering commissions (volume indicator) earned on wagering on our live races, wagering on import simulcasts at our racetracks and OTWs and through telephone account wagering, and fees from wagering on export simulcasting our races.

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

We have reflected the results of the transactions for the disposition of Hollywood Casino Shreveport and The Downs Racing, Inc. by classifying the assets, liabilities and results of operations of Hollywood Casino Shreveport and The Downs Racing, Inc. as assets and liabilities held for sale and discontinued operations in accordance with the provisions of Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." A gain or loss on either of these transactions has not been recorded or recognized as of December 31, 2004 since the sales have not yet been deemed completed. Financial information for HCS was previously reported as part of the gaming reporting segment and financial information for The Downs Racing, Inc. and its subsidiaries was previously reported as part of the racing reporting segment. For a discussion of these discontinued operations please see the subsection entitled "Discontinued Operations" below.

Results of Continuing Operations

The results of continuing operations for the years ended December 31, 2002, 2003, and 2004 are summarized below (in thousands):

	2002	2003	2004
Revenue:			
Gaming	$ 491,930	$ 871,218	$ 992,088
Racing	56,116	52,075	49,948
Management service fee	11,479	13,726	16,277
Food, beverage and other revenue	87,136	131,915	147,991
Gross revenues	646,661	1,068,934	1,206,304
Less: Promotional allowances	(27,805)	(55,936)	(65,615)
Net Revenues	618,856	1,012,998	1,140,689
Operating expenses:			
Gaming	289,448	475,407	544,746
Racing	41,777	41,752	38,997
Food, beverage and other expenses	57,743	92,663	97,712
General and administrative	97,126	169,170	179,669
Depreciation and amortization	34,518	57,471	65,785
Total operating expenses	520,612	836,463	926,909
Income from continuing operations	$ 98,244	$ 176,535	$ 213,780

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

- Most of our properties operate largely in mature competitive markets. As a result, we expect a majority of our future growth to come from acquisitions of gaming properties at reasonable valuations, jurisdictional expansions and, to a lesser extent, property expansion in under-penetrated markets.

- The continued pressure on governments to balance their budgets could intensify the efforts of state and local governments to raise revenues through increases in gaming taxes, as illustrated by our experience in Illinois in 2003.

- Consistent with the consolidation trend in the gaming industry, the Company has been very active in acquisitions. We have acquired five casino properties, the Casino Rama management contract, and Bangor Historic Track, Inc. since January 1, 2001, and on November 3, 2004 we announced the proposed acquisition of Argosy Gaming Company.

- A number of states are currently considering or implementing legislation to legalize or expand gaming. Such legislation presents both potential opportunities to establish new properties (for instance in Pennsylvania and Maine) and potential competitive threats to business at our existing properties (such as Maryland). The timing and occurrence of these events remain uncertain. Legalized gaming from casinos located on Native American lands can also have a significant competitive effect.

- The continued demand for, and the Company's emphasis on, slot wagering entertainment at our properties, which revenue is the consistently profitable segment of the gaming industry.

- The continued expansion and revenue gains at our Charles Town Entertainment Complex.

- Financing in a favorable interest environment and under an improved credit profile facilitates our growth.

- The racing revenues continue to decline at each of our racing properties. However, our gaming revenues have increased and, as a result, our racing revenues represent a less significant percentage of our overall revenue.

The results of continuing operations by reporting segment and property level for the years ended December 31, 2002, 2003, and 2004 are summarized below (in thousands):

	Revenues(1)			Income from operations		
Gaming Segment	2002	2003	2004	2002	2003	2004
Charles Town Entertainment Complex	$ 253,539	$ 329,147	$ 400,129	$ 56,891	$ 72,929	$ 96,031
Hollywood Casino Aurora(2)	—	201,938	232,584	—	54,547	59,372
Casino Rouge(3)	105,034	106,940	108,409	21,608	23,650	25,543
Casino Magic-Bay St. Louis	95,756	106,641	106,236	10,333	12,333	9,996
Hollywood Casino Tunica(2)	—	96,648	117,509	—	11,041	18,525
Boomtown Biloxi	73,225	72,644	70,391	9,264	9,766	8,739
Bullwhackers(4)	16,723	26,467	32,035	948	1,626	3,206
Casino Rama Management Contract(4)	11,479	13,726	16,277	10,608	12,343	15,485
Corporate overhead	—	—	—	(17,005)	(26,210)	(26,318)
Total Gaming Segment	555,756	954,151	1,083,570	92,647	172,025	210,579
Racing Segment						
Pennsylvania Racing Operations	63,100	58,847	57,119	5,597	4,510	3,552
Bangor Historic Track	—	—	—	—	—	(351)
Total Racing Segment	$ 618,856	$ 1,012,998	$ 1,140,689	$ 98,244	$ 176,535	$ 213,780

(1) Net revenues are net of promotional allowances.

(2) Reflects results since the March 3, 2003 acquisition. For the year ended December 31, 2003, Hollywood Casino Aurora revenues were $248.1 million and income from operations was $65.7 million and Hollywood Casino Tunica revenues were $113.0 million and income from operations was $12.2 million.

(3) Reflects results since the April 27, 2001 acquisition.

(4) Reflects results since the April 25, 2002 acquisition.

Year Ended December 31, 2004 Compared to Year Ended December 31, 2003

Revenues

Net revenues, year ended December 31, 2004
(In thousands)

	Gaming	Racing	Total
Gaming	$ 992,088	$ —	$ 992,088
Racing	—	49,948	49,948
Management Service fee	16,277	—	16,277
Food, beverage and other revenue	140,820	7,171	147,991
Gross revenue	1,149,185	57,119	1,206,304
Less: Promotional allowances	(65,615)	—	(65,615)
Net revenues	$ 1,083,570	$ 57,119	$ 1,140,689

Net revenues, year ended December 31, 2003
(In thousands)

	Gaming	Racing	Total
Gaming	$ 871,218	$ —	$ 871,218
Racing	—	52,075	52,075
Management Service fee	13,726	—	13,726
Food, beverage and other revenue	125,143	6,772	131,915
Gross revenue	1,010,087	58,847	1,068,934
Less: Promotional allowances	(55,936)	—	(55,936)
Net revenues	$ 954,151	$ 58,847	$ 1,012,998

Net revenues increased in 2004 by $127.7 million, or 12.6%, to $1,140.7 million from $1,013.0 million in 2003. The two Hollywood Casino properties contributed $51.5 million of the increase primarily due to comparing a full year of operations in 2004 to a ten-month period of operations in 2003. Had we owned the properties for the full year 2003, the Hollywood Casino properties revenues would have decreased by $11.0 million between 2003 and 2004 primarily due to the effects of the increase in the gaming tax structure at the Hollywood Casino Aurora property. From the properties we owned prior to the acquisition of the Hollywood Casino properties, revenues increased by $76.2 million, or 11.7%. The Charles Town Entertainment Complex had another record year as revenues increased by $71.0 million due to a full year of results from the 2003 gaming area expansion and the addition of 300 new slot machines during 2004.

Gaming Revenues

Gaming revenue increased in 2004 by $120.9 million, or 13.9%, to $992.1 million from $871.2 million in 2003. The Hollywood Casino properties contributed $47.9 million of the increase and the properties we owned prior to the acquisition contributed the remaining $73.0 million of the increased gaming revenue. Of this total, Charles Town Entertainment Complex increased gaming revenue by $68.6 million as a result of the expansion that added 700 gaming machines in July 2003 and the addition of 300 new slot machines during 2004. The average number of gaming machines in play at Charles Town Entertainment Complex increased to 3,659 in 2004 from 3,089 in 2003, with the average win per machine increasing to $273 in 2004 from $264 per day in 2003 as a result of increased patronage by mid-week and drive-in customers due to the success of our marketing program targeted

toward such customers. At Bullwhackers Casinos gaming revenue increased by $5.0 million in 2004. The revenue gains were a result of an increase in patronage from more effective marketing programs and a change in product mix that resulted in a higher hold percentage and average win per unit per day. Casino Rouge had an increase in gaming revenue of $1.3 million even though there was a decrease in visitation in 2004. The revenue increase was a result of a change in product mix to more low denomination video slot machines which generated higher win per day and hold percentages than higher denomination machines and an increase in table game play. These revenue gains were partially offset by a $1.6 million decline at Boomtown Biloxi caused by a loss of patronage to our competitors and Hurricane Ivan in September 2004.

Management service fees from Casino Rama increased in 2004 by $2.6 million, or 18.6%, to $16.3 million from $13.7 million in 2003. The increase in management service fees is a result of continued emphasis on marketing programs which focus on trip generation, favorable weather (mild winter months and rainy summer months), favorable table games hold percentages, compressed prior year business levels resulting from SARS and increased patronage resulting from the institution of a no-smoking policy at the largest race track beginning in June 2004. These factors more than offset the opening of the permanent Niagara Fallsview Casino and Resort.

Food, beverage and other revenue increased in 2004 by $15.7 million, or 12.5%, to $140.8 million from $125.1 million in 2003. The Hollywood Casino properties contributed $10.6 million of the increase and the properties we owned prior to the acquisition contributed $5.1 million. Charles Town increased its food, beverage and other revenue by $4.1 million as a result of expanded food court and restaurant operations, increased attendance and increased revenues from other ancillary services. At Casino Magic-Bay St. Louis, food, beverage and other revenue, including hotel revenues, increased by $1.1 million primarily as a result of marketing programs that were implemented to increase hotel occupancy and feature our dining outlets. Bullwhackers had a $.8 million, or 50%, increase in food, beverage and other revenues as a result of better food quality, the opening of a new bakery and deli on the casino floor and offering additional cash services for our patrons. At Boomtown Biloxi, revenues decreased by $.9 million as a result of lost business from Hurricane Ivan and a change in our food and beverage marketing programs.

Promotional allowances increased in 2004 by $9.7 million to $65.6 million from $55.9 million in 2003. The Hollywood Casino properties accounted for $6.9 million of the increase and the properties we owned prior to the acquisition increased by $2.8 million. Charles Town had an increase in its promotional allowance costs of $1.6 million primarily due to the increase in slot machine play and attendance at the expanded facility and increased membership in its players' club. Casino Magic-Bay St. Louis also had an increase of $1.3 million in promotional allowances as a result of changes to our marketing programs that focus on increasing casino play and facility utilization.

Racing revenues

Racing revenues decreased in 2004 by $2.1 million, or 4.1%, to $49.9 million from $52.0 million in 2003. In 2004, due to inclement weather, we lost thirteen race days at Penn National Race Course and had a decline in attendance at the OTWs that remained open during any inclemency. We also experienced a decline in our call center revenue as a result of restrictions placed on telephone and internet wagering account activity by various state gaming regulatory agencies. These factors caused a decrease in racing revenue of $2.9 million in Pennsylvania. In Bangor, Maine, we ran a 27-day harness meet and had racing revenues of $.8 million in 2004.

Food, beverage and other revenues increased by approximately $.2 million in Pennsylvania and were approximately $.2 million at the Bangor Historic Track.

Operating Expenses

Operating Expenses, year ended December 31, 2004
(In thousands)

	Gaming	Racing	Total
Gaming	$ 544,746	$ —	$ 544,746
Racing	—	38,997	38,997
Food, beverage and other expenses	93,029	4,683	97,712
General and administrative	171,070	8,599	179,669
Depreciation and amortization	64,149	1,636	65,785
Total operating expenses	$ 872,994	$ 53,915	$ 926,909

Operating Expenses, year ended December 31, 2003
(In thousands)

	Gaming	Racing	Total
Gaming	$ 475,407	$ —	$ 475,407
Racing	—	41,752	41,752
Food, beverage and other expenses	88,054	4,609	92,663
General and administrative	162,720	6,450	169,170
Depreciation and amortization	55,936	1,535	57,471
Total operating expenses	$ 782,117	$ 54,346	$ 836,463

Total operating expenses increased in 2004 by $90.4 million, or 10.8%, to $926.9 million from $836.5 million in 2003. The two Hollywood Casino properties contributed $39.2 million of the increase primarily due to comparing a full year of operations in 2004 to a ten-month period of operations in 2003. However, had we owned the properties for the full year 2003, the Hollywood Casino properties operating expenses would have decreased by $11.0 million between 2003 and 2004 primarily due to the effects of the increase in the gaming tax structure at the Hollywood Casino Aurora property. From the properties we owned prior to the acquisition of the Hollywood Casino properties, operating expenses increased by $51.2 million, or 8.5%.

Gaming operating expenses

Gaming expenses increased in 2004 by $69.3 million, or 14.4%, to $544.7 million from $475.4 million in 2003. The Hollywood Casino properties accounted for $26.1 million of the increase and the expenses at the properties we owned prior to the acquisition increased by $43.2 million. At Charles Town, gaming expenses increased by $41.8 million and included gaming taxes attributable to the increased gaming revenue and salaries, wages and benefits due to the additional staffing levels needed to accommodate the expanded gaming floor area and increased customer volumes. Gaming expenses increased at Casino Magic-Bay St. Louis by $2.0 million as a result of marketing expenditures, primarily for entertainment expenses, promotional giveaways and VIP function-related expenses that were focused on driving attendance and slot machine play. Boomtown Biloxi had a decrease in gaming expenses of $2.1 million resulting primarily from changes made in the marketing and promotion programs and a decrease in gaming taxes that were directly attributable to lower gaming revenues. Casino Rouge also had a decrease in gaming expenses of $1.7 million in 2004. The decrease was a result of a change in product mix that also included a reduction in the number of participation games on the floor and lower participation fees, lower marketing costs and lower labor costs as a result of a change to ticket-in-ticket-out slot machines. At the Bullwhackers Casinos, gaming expenses increased by

$3.3 million in 2004 as a result of an increase in gaming taxes that resulted from higher gaming revenues and a higher effective gaming tax rate and an increase in marketing expenses.

Food, beverage and other expenses increased in 2004 by $5.0 million to $93.0 million from $88.0 million in 2003. The Hollywood Casino properties accounted for $1.4 million of the increase and the properties we owned prior to the acquisition produced the remaining $3.6 million increase. These expenses increased at Charles Town by $3.5 million due to increased food and beverage volumes from increased attendance, increases in food costs and increases in staffing. Boomtown Biloxi had a decrease in expenses primarily as a result of decreased food and beverage revenues. The other properties had minor fluctuations in food, beverage and other expenses as a result of volume changes and higher food costs.

General and administrative expenses increased by $8.4 million to $171.1 million in 2004 from $162.7 million in 2003. The increase was generated entirely by our gaming properties and corporate overhead. The addition of the two Hollywood properties increased general and administrative expenses by $8.8 million, the properties we owned prior to acquisition had an decrease in general and administrative expenses of $1.3 million and corporate overhead increased by $.9 million. General and administrative expenses at the properties includes facility maintenance, utilities, property and liability insurance, housekeeping, and all administration departments such as accounting, purchasing, human resources, legal and internal audit. The general and administrative expenses at Charles Town increased by $1.5 million primarily due to additional payroll related costs for the expanded facility and increased property and general liability insurance costs. Our other properties had small decreases in general and administrative expenses due to decreases in property and general liability expenses, and payroll related expenses. Corporate overhead expenses increased by $.9 million in 2004 as compared to 2003. Corporate expenses such as payroll and employees benefits, outside services and travel have increased as a result of the Hollywood Casino acquisition in 2003. Lobbying expenses in connection with Pennsylvania slot legislation and Maine gaming regulations also increased corporate costs. However, our corporate overhead as a percentage of our net revenues decreased.

Depreciation and amortization expense increased by $8.2 million, or 14.7%, to $64.1 million in 2004 from $55.9 million in 2003. The addition of the Hollywood Casino properties increased depreciation and amortization expense by $3.0 million. The remaining increase of $5.2 million was primarily a result of the expansion at Charles Town for additional gaming space and the parking structure and the purchase of new slot machines at many of our properties.

Racing operating expenses

Racing expenses decreased in 2004 by $2.8 million, or 6.6%, to $39.0 million from $41.8 million in 2003. The decrease in Pennsylvania racing expenses were partially offset by $.9 million in racing expenses at the Bangor Historic Track in Maine. Expenses that have a direct relationship to racing revenue such as purse expense, pari-mutuel taxes, simulcast fees and totalisator expense all decreased with the decrease in racing revenues.

Other racing related expenses such as food, beverage and other expenses, general and administrative expenses and depreciation expenses decreased slightly or have remained at the same levels as the prior year.

Income from operations

Income from operations increased by $37.3 million, or 21.1%, to $213.8 million in 2004 from $176.5 million in 2003. The increase was generated entirely by our gaming properties. The Hollywood Casino properties contributed $12.3 million. Our overall profit margin increased to 18.7% in 2004 from 17.4% in 2003. We credit our property management teams for these results as their continued focus on customer and employee satisfaction, market share gains and operating margin improvements contribute to our consolidated improvement in income from continuing operations and operating margins.

Other income (expense) summary (in thousands):

Year ended December 31,	2003	2004
Other income (expense):		
Interest expense	$ (76,616)	$ (75,720)
Interest income	1,649	2,093
Earnings from joint venture	1,825	1,634
Other	(1,899)	(392)
Loss on change in fair values of interest rate swaps	(527)	—
Loss on early extinguishment of debt	(1,310)	(3,767)
Total other expense	$ (76,878)	$ (76,152)

Interest expense

Interest expense decreased by $.9 million in 2004 primarily due to the principal payments of $129.7 million we made on our senior secured credit facility term loans. In conjunction with the accelerated principal loan payments, we recorded a loss on early extinguishment of debt of $3.8 million for deferred finance fees. Subject to the availability of attractive acquisition or project opportunities, we expect to continue to accelerate our principal payments as free cash flow allows.

Other non-recurring expenses

In 2003, we incurred other expenses of $1.9 million. These expenses included costs for the write-off of an option on a greyhound race track and costs incurred for due diligence in connection with the Wembley plc potential acquisition. There were no charges incurred in 2004.

Discontinued Operations

Discontinued operations reflect the results of Hollywood Casino Shreveport and Pocono Downs. We had a loss, net of tax benefit, from discontinued operations of $15.9 million and $10.7 million in 2004 and 2003, respectively, and a gain, net of tax, from discontinued operations of $2.5 million in 2002. On August 27, 2004 Hollywood Casino Shreveport entered into an agreement of sale with Eldorado Resorts LLC. On September 10, 2004, a group of creditors led by Black Diamond Capital Management, LLC filed an involuntary Chapter 11 case against HCS. As a result of the Chapter 11 bankruptcy filing by Hollywood Casino Shreveport, the sale has not yet been consummated. On October 15, 2004 we announced the sale of Pocono Downs and its related OTW facilities to the Mohegan Tribal Gaming Authority. The sale was completed on January 25, 2005. We have reflected the results of these transactions by classifying the assets, liabilities and results of operations as assets and liabilities held for sale and discontinued operations. 2002 and 2003 results from these properties have been reclassified to conform to the 2004 presentation. (See Note 15 to our Consolidated Financial Statements).

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues

Net revenues, year ended December 31, 2003
(In thousands)

	Gaming	Racing	Total
Gaming	$ 871,218	$ —	$ 871,218
Racing	—	52,075	52,075
Management Service fee	13,726	—	13,726
Food, beverage and other revenue	125,143	6,772	131,915
Gross revenue	1,010,087	58,847	1,068,934
Less: Promotional allowances	(55,936)	—	(55,936)
Net revenues	$ 954,151	$ 58,847	$ 1,012,998

Net revenues, year ended December 31, 2002
(In thousands)

	Gaming	Racing	Total
Gaming	$ 491,930	$ —	$ 491,930
Racing	—	56,116	56,116
Management Service fee	11,479	—	11,479
Food, beverage and other revenue	80,152	6,984	87,136
Gross revenue	583,561	63,100	646,661
Less: Promotional allowances	(27,805)	—	(27,805)
Net revenues	$ 555,756	$ 63,100	$ 618,856

Net revenues increased in 2003 by $394.1 million, or 64.2%, to $1,013.0 million from $618.9 million in 2002. The two new Hollywood Casino properties contributed $298.6 million of the increase. From the properties we owned prior to the acquisition of the Hollywood Casino properties, revenues increased by $95.5 million. The Charles Town Entertainment Complex had another record year as revenues increased by $75.6 million due to the opening of an additional 38,000 square feet of gaming space with 700 new slot machines in July and a full year of results from the 2002 expansion. At Casino Magic-Bay St. Louis revenues increased by $10.9 million due to the impact of a full year of operations of the 291-room Bay Tower Hotel and Conference Center that opened in May of 2002.

Gaming Revenues

Gaming revenue increased in 2003 by $379.3 million, or 77.1%, to $871.2 million from $491.9 million in 2002. The Hollywood Casino properties contributed $286.9 million of the increase and the properties we owned prior to the acquisition contributed the remaining $92.4 million of the increased gaming revenue. Of this total, Charles Town Entertainment Complex increased gaming revenue by $74.5 million as a result of the expansion that added 715 gaming machines in September 2002 and another 700 gaming machines in July 2003. The average number of gaming machines in play increased to 3,089 in 2003 from 2,312 in 2002 with the average win per machine remaining at $264 per day. At Casino Magic-Bay St. Louis, gaming revenue increased by $6.5 million due to the impact of a full year of operations for the Bay Tower Hotel and Conference Center that opened in May 2002. The increase in occupancy at the hotel was the major volume driver for the increase in revenue from gaming machines. At Bullwhackers Casinos, our April 2002 acquisition,

gaming revenue increased by $9.7 million in 2003 and reflects a comparison of a full year of operations in 2003 to eight months of operations in 2002.

Management service fees from Casino Rama increased by $2.2 million, or 19.6%, to $13.7 million from $11.5 million in 2002. The increase in management service fees is a result of marketing programs that focus on trip generation, recent visitors and the hotel and convention center that opened in July 2002. These programs have increased attendance, hotel occupancy and slot play in the casino.

Food, beverage and other revenue increased in 2003 by $45.0 million, or 56.1%, to $125.1 million from $80.1 million in 2002. The Hollywood Casino properties contributed $36.6 million of the increase and the properties we owned prior to the acquisition contributed $8.4 million. Charles Town increased its food, beverage and other revenue by $1.8 million as a result of a full year of operations for the new food court that opened in July 2002 and increased revenues from other ancillary services. At Casino Magic-Bay St. Louis, food, beverage and other revenue, including hotel revenues, increased by $6.2 million as a result of a full year of operations for the hotel and convention center and the marketing programs that were implemented to increase hotel occupancy and feature our dining outlets.

Promotional allowances increased in 2003 by $28.1 million to $55.9 million from $27.8 million in 2002. The Hollywood Casino properties accounted for $24.9 million of the increase and the properties we owned prior to the acquisition increased by $3.2 million. Of the $3.2 million, over $1.7 million was attributable to the marketing of the new hotel and convention center at Casino Magic-Bay St. Louis.

Racing revenues

Racing revenues at our Pennsylvania facilities decreased in 2003 by $4.0 million, or 7.2%, to $52.1 million from $56.1 million in 2002. In 2003, due to inclement weather, we lost thirteen race days at Penn National Race Course and had a decline in attendance at the OTWs that remained open during any inclemency. We also experienced a decline in our call center revenue as a result of restrictions placed on telephone and internet wagering account activity by various state gaming regulatory agencies.

There was no significant changes in food, beverage and other revenues at our racing properties.

Operating expenses

Operating Expenses, year ended December 31, 2003
(In thousands)

	Gaming	Racing	Total
Gaming	$ 475,407	$ —	$ 475,407
Racing	—	41,752	41,752
Food, beverage and other expenses	88,054	4,609	92,663
General and administrative	162,720	6,450	169,170
Depreciation and amortization	55,936	1,535	57,471
Total operating expenses	$ 782,117	$ 54,346	$ 836,463

Operating Expenses, year ended December 31, 2002
(In thousands)

	Gaming	Racing	Total
Gaming	$ 289,448	$ —	$ 289,448
Racing	—	41,777	41,777
Food, beverage and other expenses	53,225	4,518	57,743
General and administrative	90,744	6,382	97,126
Depreciation and amortization	32,823	1,695	34,518
Total operating expenses	$ 466,240	$ 54,372	$ 520,612

Gaming operating expenses

Gaming expenses increased in 2003 by $186.0 million, or 64.2%, to $475.4 million from $289.4 million in 2002. The Hollywood Casino properties accounted for $137.8 million of the increase and the expenses at the properties we owned prior to the acquisition increased by $48.2 million. At Charles Town, gaming expenses increased by $45.3 million and included gaming taxes attributable to the increased gaming revenue and salaries, wages and benefits due to the additional staffing levels needed to accommodate the expanded gaming floor area and increased customer volumes. Gaming expenses increased at Casino Magic-Bay St. Louis by $4.4 million as a result of gaming taxes attributable to increased gaming revenue and marketing expenditures, primarily for entertainment expenses, promotional giveaways and VIP function-related expenses that were focused on driving attendance and slot machine play. Boomtown Biloxi had a decrease in gaming expenses of $2.2 million resulting primarily from changes made in the marketing and promotion programs. At Bullwhackers Casinos, gaming expenses increased by $6.5 million in 2003 as a result of comparing a full year of operations in 2003 to eight months of operations in 2002.

Food, beverage and other expenses increased in 2003 by $34.8 million to $88.0 million from $53.2 million in 2002. The Hollywood Casino properties accounted for $30.4 million of the increase and the properties we owned prior to the acquisition produced the remaining $4.4 million increase. Most of the remaining increase is attributable to Charles Town and Casino Magic-Bay St. Louis, which had expansion projects that increased capacity that resulted in gains in attendance during the year, and Bullwhackers Casinos which we operated for a full year in 2003, compared to eight months in 2002.

General and administrative expenses increased by $72.0 million to $162.7 million in 2003 from $90.7 million in 2002. The increase was generated entirely by our gaming properties and corporate overhead. The addition of the Hollywood Casino properties increased general and administrative expenses by $50.7 million, the properties we owned prior to the acquisition had an increase in general and administrative expenses of $12.1 million and corporate overhead increased by $9.2 million. General and administrative expenses at the properties includes facility maintenance, utilities, property and liability insurance, housekeeping, and all administration departments such as accounting, purchasing, human resources, legal and internal audit. At the properties, general and administrative expenses increased at Charles Town and Casino Magic-Bay St. Louis primarily as a result of the expansion projects that added new gaming space and a new hotel at these properties and at Bullwhackers Casinos which had a full year of operations in 2003, compared to eight months in 2002. The other properties did not have any significant changes in these expenses. Corporate overhead expenses increased by $9.2 million in 2003, primarily due to additional CRC acquisition cost, lobbying and site development expenses in connection with Pennsylvania slot legislation, Scarborough, Maine referendum expenses, and legal fees. Other corporate expenses also increased as a result of the Hollywood Casino acquisition in March of 2003. However, our corporate overhead as a percentage of our net revenues decreased.

Depreciation and amortization expense increased by $23.1 million, or 70.4%, to $55.9 million in 2003 from $32.8 million in 2002. The addition of the Hollywood Casino properties increased

depreciation and amortization expense by $14.1 million. The remaining increase of $9.0 million was primarily a result of the expansion at Charles Town for additional gaming space and the parking structure, the new hotel at Casino Magic-Bay St. Louis and the purchase of new slot machines at many of our properties.

Racing operating expenses

Racing expenses at our Pennsylvania properties were $41.8 million in 2003 and 2002. Expenses that have a direct relationship to racing revenue such as purse expense, pari-mutuel taxes, simulcast fees and totalisator expense all decreased with the decrease in racing revenues, but were offset by increases in other operating expenses.

Other racing related expenses such as food, beverage and other expenses, general and administrative expenses and depreciation expenses decreased slightly or have remained at the same levels as the prior year.

Income from operations

Income from operations increased by $78.3 million, or 79.7%, to $176.5 million in 2003 from $98.2 million in 2002. The increase was generated entirely by our gaming properties. The Hollywood Casino properties contributed $65.6 million. Our overall profit margin increased to 17.4% in 2003 from 15.9% in 2002. For properties we owned for more than one year, our operating margins, not including corporate overhead, improved to 19.2% from 18.6% in 2002. We credit our property management teams for these results as their continued focus on customer and employee satisfaction, market share gains and operating margin improvements contribute to the consolidated improvement in income from operations and operating margins.

Other income (expense) summary (in thousands):

Year ended December 31,	2002	2003
Other income (expense):		
Interest expense	$ (42,104)	$ (76,616)
Interest income	1,553	1,649
Earnings from joint venture	1,965	1,825
Other	(52)	(1,899)
Loss on change in fair values of interest rate swaps	(5,819)	(527)
Loss on early extinguishment of debt	(7,924)	(1,310)
Total other expense	$ (52,381)	$ (76,878)

Interest expense

Interest expense increased by $34.5 million in 2003 due to borrowing an additional $700 million for the acquisition of Hollywood Casino Corporation. During 2003 we restructured our debt by reducing the principal amount due on the credit facility by $100 million, negotiating a reduction in the interest rate applicable to loans under the credit facility and replacing approximately $200 million in term loans under the credit facility with new $6^{7}/_{8}$% senior subordinated notes. Subject to the availability of attractive acquisition or project opportunities, we expect to continue to accelerate our principal payments as free cash flow allows.

Other non-recurring expenses

In 2003, we incurred other expenses of $1.9 million. These expenses included costs for the write-off of an option on a greyhound race track and costs incurred for due diligence in connection with the Wembley plc potential acquisition. During 2002, we incurred a $5.8 million pre-tax charge to earnings as a result of the change in fair value of our interest rate swaps. The financial institutions that provided

our $350 million senior credit facility required the interest rate swap agreements for the variable rate term loans. The term loans were repaid in March 2002 from the proceeds of our equity and senior subordinated note offerings. Generally accepted accounting principles require the change in fair value of the swaps be recognized in our financial statements as if they were settled at the end of each reporting period until the agreements expire. Also in 2002, as part of our debt restructuring, we charged operations for deferred financing costs of $5.9 million related to the prepayment of the variable rate term loans provided by our $350 million senior credit facility. In addition, we paid a prepayment penalty of $2.0 million.

Liquidity and Capital Resources

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

Net cash provided by operating activities was $195.5 million for the year ended December 31, 2004. This consisted of net income from continuing operations of $87.3 million, non-cash reconciling items of $101.9 million and net decreases in current liability accounts along with net decreases in current asset accounts of $6.3 million, net of assets and liabilities acquired in the Bangor Historic Track, Inc. acquisition.

Cash flows used in investing activities totaled $65.4 million for the year ended December 31, 2004. Expenditures for property, plant, and equipment totaled $69.0 million in 2004 and included $25.4 million at Charles Town for additional gaming space, $4.6 million at Boomtown for the land acquisition and $39.0 million in capital maintenance expenditures including new slot machines. The aggregate cash purchase price for the Bangor Historic Track, Inc. acquisition, net of cash acquired, was $.9 million which does not include $9.7 million recorded in miscellaneous other assets. Distributions from our New Jersey Joint venture totaled $3.1 million and proceeds from sales of property and equipment totaled $1.4 million.

Cash flows used in financing activities totaled $124.2 million for the year ended December 31, 2004. We also incurred $.8 million in deferred financing. Principal payments on long-term debt included $131.4 million in payments under our credit facility. Net proceeds from capital leases was $.2 million. Net proceeds from the exercise of stock options totaled $7.8 million.

Outlook

Based on our current level of operations, and anticipated revenue growth, we believe that cash generated from operations, amounts available under our credit facility, and net proceeds from the sale of Pocono Downs will be adequate to meet our anticipated debt service requirements, except for the defaults under the Hollywood Casino Shreveport notes (which are non-recourse to us), capital expenditures and working capital needs for the foreseeable future. We cannot assure you, however, that our business will generate sufficient cash flow from operations, that our anticipated revenue growth will be realized, or that future borrowings will be available under our credit facility or otherwise will be available to enable us to service our indebtedness, including the credit facility and the notes, to retire or redeem the notes when required or to make anticipated capital expenditures. In addition, we expect a majority of our future growth to come from acquisitions of gaming properties at reasonable valuations, jurisdictional expansions and, to a lesser extent, property expansion in under-penetrated markets. If we consummate significant acquisitions in the future or undertake any significant property expansions, our cash requirements may increase significantly and we may need to make additional borrowings or complete equity or debt financings to meet these requirements. We may need to refinance all or a portion of our debt on or before maturity. Our future operating performance and our ability to service or refinance our debt will be subject to future economic conditions and to financial, business and other factors, many of which are beyond our control.

Capital Expenditures

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

The following table summarizes our capital project expenditures, other than capital maintenance expenditures, by property for the fiscal year ended December 31, 2004 (in thousands):

Property	Budget	Actual
Charles Town Entertainment Complex	$ 24,000	$ 25,369
Boomtown Biloxi	5,500	4,625
Total	$ 29,500	$ 29,994

The Charles Town Entertainment Complex has substantially completed work on Phase III of the facility expansion. Phase III includes the expansion of the parking garage by approximately 1,050 spaces, adding an additional 500 slot machines and related equipment, a new buffet area with seating for approximately 500 people and infrastructure improvements, including a loading dock, dry storage area, offices and a maintenance shop. The parking garage was completed and opened on July 1, 2004. We have installed 300 slot machines and the new gaming area, with an additional 200 slot machines, opened in the third quarter.

At Boomtown Biloxi, we signed an option to purchase approximately 4 acres of land adjacent to our Boomtown Biloxi property in January 2002. This purchase was completed in January 2004 at a cost of $3.7 million and was part of our 2004 budget. We expect to use the land for additional parking and to develop the property in the event that we move the casino barge. The decision to move the casino barge is contingent upon the outcome of an appeal of the lawsuit filed by our landlord that is scheduled to be heard in April 2005. Due to the ongoing litigation with our landlord at the Boomtown Biloxi property, we elected not to budget for any additional project-related capital expenditures in 2004 other than the acquisition of the land. In the event that this dispute can be resolved in 2005, we may elect to revisit the decision.

For 2004, we spent approximately $39 million for capital maintenance (replacement) expenditures at our properties.

Cash generated from operations funded all of our project capital expenditures and capital maintenance expenditures in 2004.

The following table summarizes our planned capital project expenditures, other than capital maintenance expenditures, by property for the fiscal year ending December 31, 2005 (in thousands):

Property	Year Ending December 31, 2005
Charles Town Entertainment Complex	$ 63,800
Boomtown Biloxi	3,450
Penn National Race Course & OTWs	70,000
Bangor Historic Track	61,500
Corporate	1,000
Total	$ 199,750

The Charles Town Entertainment Complex will continue its facility expansion in 2005. Plans call for additional gaming floor space for 700 more slot machines. This will bring the slot machine count to 4,500 when completed in 2006. Plans also include a new buffet, additional land purchases, a new entrance road to the facility, a new perimeter road, a second parking garage for 2,700 vehicles and a small, detached hotel.

At Boomtown Biloxi, we are planning to spend $3.4 million on warehouse space and the relocation and construction of a new welcome center. The lease for the property that the current welcome center is located on expires in May, 2005.

Capital expenditures at Penn National Race Course are estimated to be $240 million of which $70 million is budgeted in 2005 and is contingent upon the granting of a gaming license by the Pennsylvania Gaming Control Board and the granting of a building permit by the local municipality. Our construction budget includes the payment of the $50 million gaming license fee in 2005.

In Bangor, Maine we plan to start construction on our new gaming facility that will contain 1,500 slot machines. Our plans are subject to the approval of our gaming license application by the Gambling Control Board and the issuance of appropriate legislation, an unconditional gaming license to develop and operate the facility, and any other required approvals. We anticipate opening the facility in mid-2006. The project budget includes the final payment due for the purchase of Bangor Historic Track, Inc. which is subject to our receipt of an unconditional gaming license.

At our corporate headquarters in Wyomissing, Pennsylvania, we have a budget of $1.0 million for the expansion and renovation of our office space. Additional office space will likely be required as a result of the Argosy acquisition.

For 2005, we expect to spend approximately $61.3 million for capital maintenance (replacement) projects at our properties. Of this total, approximately $31.8 million will be spent on slot machines and ticket-in-ticket-out slot technology at our facilities in states where the new technology is approved.

We expect to use cash generated from operations and cash available under the revolver portion of our credit facility to fund our anticipated capital expenditure and capital maintenance expenditures in 2005.

Debt

—Senior Secured Credit Facility

On March 3, 2003, we entered into an $800 million senior secured credit facility with a syndicate of lenders that replaced our $350 million credit facility.

The credit facility was initially comprised of a $100 million revolving credit facility maturing on September 1, 2007, a $100 million Term A facility loan maturing on September 1, 2007 and a $600 million Term B facility loan maturing on September 1, 2007. On March 3, 2003 we borrowed the entire Term A and Term B term loans to complete the purchase of Hollywood Casino Corporation and to call Hollywood Casino Corporation's $360 million senior secured notes.

On September 30, 2003, we made an optional prepayment of $27 million toward our $800 million senior secured credit facility. Based on our consolidated EBITDA (as defined in the credit agreement) for the 12 months ended September 30, 2003, the payment triggered a reduction of the interest rate margin on the Term A portion of the credit facility by 0.25% and a reduction of the interest rate margin on the Term B portion of the credit facility by 0.5%. The reductions of the interest rate margins became effective on October 23, 2003.

On December 3, 2003, we made a pre-payment of $10.5 million plus accrued interest to satisfy in full our Term Loan A Facility due March 2008. Additionally, we made a pre-payment of $195.1 million

plus accrued interest against our Term Loan B Facility due March 2009, which had approximately $596.3 million outstanding at September 30, 2003. The pre-payments were funded with the net proceeds of the $200 million 6 7/8% senior subordinated note offering and with cash from operations.

On December 5, 2003, the $800 million senior credit facility was amended and restated. The amended agreement reduced the total credit facility from $800 million to $500 million and converted the Term Loan B facility to a Term Loan D facility due September 2007. The Term Loan D facility will initially accrue interest at 250 basis points over LIBOR, representing a 100 basis point reduction from the original terms of the Term Loan B facility.

During 2004, we paid down $129.7 million of principal on the Term Loan D facility including $50.0 million in the fourth quarter. As a result of the accelerated principal payments on the credit facility, the Company recorded a loss on early extinguishment of debt of $3.8 million for the write-off of the associated deferred finance fees.

At December 31, 2004, we had an outstanding balance of $270.0 million on Term Loan D facility and $91.6 million available to borrow under the revolving credit facility after giving effect to outstanding letters of credit of $8.4 million. The weighted average interest rate on the Term D facility is 4.99% at year-end excluding swaps and deferred finance fees.

The senior secured credit facility is secured by substantially all of our assets of, except for the assets of Hollywood Casino Shreveport, which serve as collateral for the notes of Hollywood Casino Shreveport. See "Discontinued Operations—Hollywood Casino Shreveport Notes" below.

—Redemption of 11 1/8% Senior Subordinated Notes due 2008; Issuance of 6 3/4% Senior Subordinated Notes due 2015

On February 8, 2005, we called for redemption of all the $200 million aggregate principal amount of our outstanding 11 1/8% Senior Subordinated Notes due March 1, 2008, in accordance with the related indenture. The redemption price was $1,055.63 per $1,000 principal amount, plus accrued and unpaid interest and payment was made on March 10, 2005.

On March 9, 2005, we completed an offering of $250 million of 6 3/4% senior subordinated notes due 2015. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2005. These notes mature on March 1, 2015. We used the net proceeds from this offering to redeem the $200 million 11 1/8% Senior Subordinated Notes due March 1, 2008 and repay a portion of the term loan indebtedness under our current senior secured credit facility. The 6 3/4% notes are general unsecured obligations and are not guaranteed by our subsidiaries.

—8 7/8% Senior Subordinated Notes due 2010

On February 28, 2002, we completed a public offering of $175 million of 8 7/8% senior subordinated notes due 2010. Interest on the 8 7/8% notes is payable on March 15 and September 15 of each year, beginning September 15, 2002. The 8 7/8% notes mature on March 15, 2010. As of December 31, 2003, the entire principal amount of the 8 7/8% notes is outstanding. We used the net proceeds from the offering to repay term loan indebtedness under our prior senior secured credit facility. The 8 7/8% notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of our current and future wholly-owned domestic subsidiaries.

—6 7/8% Senior Subordinated Notes due 2011

On December 4, 2003, we completed an offering of $200 million of 6 7/8% senior subordinated notes due 2011. Interest on the notes is payable on June 1 and December 1 of each year, beginning June 1, 2004. These notes mature on December 1, 2011. We used the net proceeds from the offering to repay term loan indebtedness under our current senior secured credit facility. The 6 7/8% notes are

general unsecured obligations and are guaranteed on a senior subordinated basis by certain current and future wholly-owned domestic subsidiaries.

—Anticipated Financing for Argosy Acquisition

Concurrently with the closing of the Argosy merger we plan to enter into new senior secured credit facilities upon terms and conditions to be negotiated. We have received commitments from Deutsche Bank Trust Company Americas, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P., Lehman Brothers Inc. and Lehman Commercial Paper Inc. to provide up to $2.725 billion of senior secured credit facilities (which we may elect to increase to up to $3.025 billion as described below) to finance the transactions contemplated by the Merger Agreement pursuant to which we will acquire the outstanding shares of Argosy, refinance certain of our and Argosy's indebtedness and pay certain fees and expenses in connection therewith. It is contemplated that such senior secured credit facilities would be comprised of a $750.0 million revolving credit facility, up to a $325.0 million term loan A facility and up to a $1.65 billion term loan B facility. During the first three years of the term of the senior secured credit facilities, we may elect to increase the senior secured credit facilities by up to $300 million in the aggregate, subject to some limitations; provided that any increase in commitments under the new revolving credit facility cannot exceed $100 million. The senior secured credit facilities are to be guaranteed by substantially all of our and Argosy's domestic subsidiaries and secured by substantially all of our, Argosy's and such guarantors' assets, in each case except to the extent prohibited by relevant gaming authorities after we have used commercially reasonable efforts to arrange for such guarantees or collateral or as otherwise excluded. Material conditions to funding include, without limitation, absence of a material adverse change at Argosy, refinancing of Argosy's existing indebtedness and our existing senior secured credit facility, receipt of necessary regulatory approvals and consummation of the Argosy merger in compliance in all material respects with the Merger Agreement.

—Covenants

Our senior secured credit facility requires us, among other obligations, to maintain specified financial ratios and satisfy certain financial tests, including interest coverage and total leverage ratios. In addition, our senior secured credit facility restricts, among other things, our ability to incur additional indebtedness, incur guarantee obligations, amend debt instruments, pay dividends, create liens on assets, make investments, make acquisitions, engage in mergers or consolidations, make capital expenditures, or engage in certain transactions with subsidiaries and affiliates and otherwise restrict corporate activities. The terms of our senior subordinated notes contain similar restrictions. Except for the defaults under the Hollywood Casino Shreveport notes, for which we (other than the Shreveport entities) are not liable, at December 31, 2004, we were in compliance with all required financial covenants.

Commitments and Contingencies

—Contractual Cash Obligations

As of December 31, 2004, there was no indebtedness outstanding under our revolving credit portion of our credit facility and there was approximately $91.6 million available for borrowing. The following table presents our contractual cash obligations as of December 31, 2004 (in thousands):

	Payments Due By Period				
	Total	2005	2006 – 2007	2008 – 2009	2010 and After
Senior secured credit facility(1)	$ 270,000	$ 2,728	$ 267,272	$ —	$ —
11 1/8% senior subordinated notes due 2008(2)					
Principal	200,000	—	—	200,000	—
Interest	77,875	22,250	44,500	11,125	—
8 7/8% senior subordinated notes due 2010(3)					
Principal	175,000	—	—	—	175,000
Interest	85,422	15,531	31,063	31,063	7,766
6 7/8% senior subordinated notes due 2011(4)				—	
Principal	200,000	—	—	—	200,000
Interest	96,250	13,750	27,500	27,500	27,500
Purchase obligations	24,174	17,396	4,176	2,602	—
Construction commitments	8,895	8,895	—	—	—
Capital Leases	13,908	1,766	3,965	4,267	3,910
Operating Leases	22,178	5,260	8,352	6,659	1,907
Total	$ 1,173,702	$ 87,576	$ 386,828	$ 283,216	$ 416,083

(1) As of December 31, 2004 there was no indebtedness outstanding under the credit facility and there was approximately $91.6 million available for borrowing under the revolving credit portion of the credit facility.

(2) All $200.0 million aggregate principal amount of the outstanding 11 1/8% notes were redeemed in accordance with the related indenture on March 10, 2005. Interest payments of approximately $11.1 million were due on each March 1 and September 1.

(3) The $175.0 million aggregate principal amount of 8 7/8% notes matures on March 15, 2010. Interest payments of approximately $7.8 million are due on each March 15 and September 15 until March 15, 2010.

(4) The $200.0 million aggregate principal amount of 6 7/8% notes matures on December 1, 2011. Interest payments of approximately $6.8 million are due on each June 1 and December 1 until December 1, 2011.

For a discussion of the $150.0 million aggregate principal amount of 13% senior secured notes and the $39.0 million aggregate principal amount of 13% first mortgage notes issued by Hollywood Casino Shreveport and Shreveport Capital Corporation, which are non-recourse to Penn National, see "Discontinued Operations—Hollywood Casino Shreveport Notes" below.

—Other Commercial Commitments

The following table presents our material commercial commitments as of December 31, 2004 for the following future periods:

		Amount of Commitment Expiration Per Period			
	Total Amounts Committed	2005	2006 – 2007	2008 – 2009	2010 and After
		(In thousands)			
Revolving Credit Facility(1)	$ —	$ —	$ —	$ —	$ —
Letters of Credit(1)	8,398	8,398	—	—	—
Guarantees of New Jersey Joint Venture Obligations(2)	8,050	767	1,533	5,750	—
Total	$ 16,448	$ 9,165	$ 1,533	$ 5,750	$ —

(1) The available balance under the revolving portion of the $100.0 senior secured credit facility is diminished by outstanding letters of credit.

(2) In connection with our 50% ownership interest in Pennwood Racing, Inc., our joint venture in New Jersey, we have entered into a debt service maintenance agreement with Pennwood's lender to guarantee up to 50% of Pennwood's $16.1 million term loan. Our obligation as of December 31, 2004 under this guarantee is approximately $8.1 million.

—Interest Rate Swap Agreements

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

Discontinued Operations

On August 27, 2004, our unrestricted subsidiary, Hollywood Casino Shreveport, in cooperation with an Ad Hoc Committee representing a majority of its noteholders, entered into an agreement with Eldorado providing for acquisition of HCS by certain affiliates of Eldorado. On September 10, 2004, a group of creditors led by Black Diamond Capital Management, LLC filed an involuntary Chapter 11 case against HCS. On October 28, 2004, HCS filed a joint plan and disclosure statement that incorporates the Eldorado Transaction. On October 30, 2004, HCS agreed to the entry of an order for relief in the Chapter 11 case that has been filed against it and HCS I, Inc., HCS II, Inc., HWCC-Louisiana, Inc. and Shreveport Capital Corporation commenced voluntary cases under Chapter 11 of the Bankruptcy Code.

HCS filed a revised reorganization plan and disclosure statement with the Bankruptcy Court on March 3, 2005. The plan continues to provide for the acquisition of the hotel and casino by Eldorado under the agreement announced last year. The Official Bondholder Committee in the Chapter 11 case has joined HCS as a proponent of the plan. The Bankruptcy Court has set a hearing on the approval of the Disclosure Statement for April 11, 2005. Black Diamond Capital Management, LLC and KOAR International (Paul Alanis) continue to express interest in acquiring the hotel and casino and have asked the Bankruptcy Court for permission to file their own competing plan. HCS intends to oppose that request.

On January 25, 2005, we completed the sale of The Downs Racing, Inc. and its subsidiaries to the MTGA. Under the terms of the agreement, MTGA acquired The Downs Racing and its subsidiaries including Pocono Downs (a standardbred horse racing facility located on approximately 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania OTW facilities located in Carbondale, East Stroudsburg, Erie, Hazleton and the Lehigh Valley (Allentown).

We have reflected the results of the transactions for the disposition of Hollywood Casino Shreveport and The Downs Racing, Inc. by classifying the assets, liabilities and results of operations of Hollywood Casino Shreveport and The Downs Racing, Inc. as assets and liabilities held for sale and discontinued operations in accordance with the provisions of Financial Accounting Standards Board Statement No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." A gain or loss on either of these transactions has not been recorded or recognized as of December 31, 2004, the sales had not yet been deemed completed. Financial information for HCS was previously reported as part of the gaming reporting segment and financial information for The Downs Racing, Inc. and its subsidiaries was previously reported as part of the racing reporting segment.

—Hollywood Casino Shreveport Notes

Hollywood Casino Shreveport, or HCS, and Shreveport Capital Corporation are co-issuers of $150 million aggregate principal amount of 13% senior secured notes due 2006 and $39 million aggregate principal amount of 13% first mortgage notes due 2006, which we refer to in this document as the Hollywood Casino Shreveport notes. Hollywood Casino Shreveport is a general partnership that owns the casino operations. Shreveport Capital Corporation is a wholly-owned subsidiary of Hollywood Casino Shreveport formed solely for the purpose of being a co-issuer of the Hollywood Casino Shreveport notes.

The Hollywood Casino Shreveport notes are non-recourse to us and our subsidiaries (other than Hollywood Casino Shreveport, Shreveport Capital Corporation, HCS I, Inc., HCS II, Inc. and HWCC-Louisiana, Inc., which we refer to as the Shreveport entities) and are secured by substantially all of the assets of the casino, the first mortgage notes are secured by the partnership interests held by HCS I, Inc. and HCS II, Inc. and the stock held by HWCC-Louisiana, Inc. Further, an event of default under the indentures for the Hollywood Casino Shreveport notes does not cause an event of default under the Company's senior secured credit facility or senior subordinated notes.

The Hollywood Casino Shreveport notes have been in default under the terms of their respective note indentures since May 2003 and accordingly are classified as current obligations within liabilities held for sale at December 31, 2004.

Critical Accounting Estimates

Financial Reporting Release No. 60 requires all companies to include a discussion of critical accounting policies or methods and estimates used in the preparation of financial statements. We prepare our Consolidated Financial Statements in conformity with accounting principles generally accepted in the United States. Certain of our accounting policies, including the estimated lives assigned to our assets, asset impairment, insurance reserves, the purchase price allocations made in connection with our acquisitions and the calculation of our income tax liabilities, require that we apply significant judgment in defining the appropriate assumptions for calculating financial estimates. By their nature, these judgments are subject to an inherent degree of uncertainty. Our judgments are based on our historical experience, terms of existing contracts, our observance of trends in the industry, information provided by our customers and information available from other outside sources, as appropriate. There can be no assurance that actual results will not differ from our estimates. The policies and estimates discussed below are considered by management to be those in which our policies, estimates and judgments have a significant impact on issues that are inherently uncertain.

Long-lived assets

At December 31, 2004, we had a net property and equipment balance of $597.4 million, representing 36.4% of total assets. We depreciate property and equipment on a straight-line basis over their estimated useful lives. The estimated useful lives are based on the nature of the assets as well as

our current operating strategy. We review the carrying value of our property and equipment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. The factors considered by management in performing this assessment include current operating results, trends and prospects, as well as the effect of obsolescence, demand, competition and other economic factors. In estimating expected future cash flows for determining whether an asset is impaired, assets are grouped at the individual property level. In assessing the recoverability of the carrying value of property and equipment, we must make assumptions regarding future cash flows and other factors. If these estimates or the related assumptions change in the future, we may be required to record impairment loss for these assets. Such an impairment loss would be recognized as a non-cash component of operating income.

Intangible assets, including goodwill

As a result of our recent acquisitions, we have approximately $589.9 million in goodwill on our Consolidated Balance Sheet resulting from our acquisition of other businesses. Two issues arise with respect to these assets that require significant management estimates and judgment: (i) the valuation in connection with the initial purchase price allocation and (ii) the ongoing evaluation for impairment.

In connection with our acquisitions, a valuation was completed to determine the allocation of the purchase prices. The factors considered in the valuation included data gathered as result of our due diligence in connection with the acquisition and projections for future operations. The annual evaluation of goodwill requires the use of estimates about future operating results of each reporting unit to determine their estimated fair value. Changes in forecasted operations can materially affect these estimates. Once an impairment of goodwill or other intangible assets has been recorded, it cannot be reversed. Because our goodwill is no longer amortized, there may be more volatility in reported income than under previous accounting standards because impairment losses, if any, are likely to occur irregularly in varying amounts.

Accounting for income taxes

We account for income taxes in accordance with FASB Statement No. 109, "Accounting for Income Taxes," or SFAS 109, which requires that deferred tax assets and liabilities be recognized using enacted tax rates for the effect of temporary differences between the book and tax basis of recorded assets and liabilities. SFAS 109 also requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion of all of the deferred tax asset will not be realized.

The realizability of the deferred tax assets is evaluated quarterly by assessing the valuation allowance and by adjusting the amount of the allowance, if necessary. The factors used to assess the likelihood of realization are the forecast of future taxable income and available tax planning strategies that could be implemented to realize the net deferred tax assets. We have used tax-planning strategies to realize or renew net deferred tax assets in order to avoid the potential loss of future tax benefits.

In addition, we operate within multiple taxing jurisdictions and are subject to audit in each jurisdiction. These audits can involve complex issues that may require an extended period of time to resolve. In our opinion, adequate provisions for income taxes have been made for all periods.

Litigation, claims and assessments

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

Accounting Pronouncements Issued or Adopted in 2004

In December 2004, the FASB issued Statement No. 123 (revised 2004), "Stock-Based Payment" (SFAS 123R). This statement replaces SFAS 123, "Accounting for Stock-Based Compensation," supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and amends SFAS 95, "Statement of Cash Flows," to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS 123R is effective the first interim or annual reporting period that begins after June 15, 2005, which will be for the period covered by our quarterly report on Form 10-Q for the third quarter of 2005. We currently account for stock option grants using the intrinsic-value method in accordance with APB 25. Under the intrinsic-value method, because the exercise price of the Company's employee stock options is equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized. If we would have applied the fair value recognition provisions of SFAS 123R, we would have had a charge to earnings of $4.7 million for stock-based employee compensation, net of related income taxes, for 2004.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The table below provides information as of December 31, 2004, about our financial instruments that are sensitive to changes in interest rates, including debt obligations and interest rate swaps. For debt obligations, the table presents notional amounts and weighted average interest rates by maturity dates. For interest rate swaps, the table presents notional amounts and weighted average interest rates by contractual maturity dates. Notional amounts are used to calculate the contractual payments to be exchanged under the contract and the weighted average variable rates are based on implied forward rates in the yield curve as of December 31, 2004.

	2005	2006	2007	2008	2009	Thereafter	Total
				(In thousands)			
Long-term debt:							
Fixed rate	$ —	$ —	$ —	$ 200,000	$ —	$ 375,000	$ 575,000
Average interest rate				11.12%		7.81%	8.96%
Variable rate	$ 2,728	$ 2,728	$ 264,544	$ —	$ —	$ —	$ 270,000
Average interest rate(1)	4.99%	4.99%	4.99%				4.99%
Leases	$ 1,766	$ 1,895	$ 2,071	$ 2,270	$ 1,997	$ 3,910	$ 13,909
Average interest rate	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%	6.73%
Interest rate derivatives:							
Interest rate swaps							
Variable to fixed	$ —	$ 120,000	$ 135,000	$ —	$ —	$ —	$ 255,000
Average pay rate		1.92%	2.48%				
Average receive rate(2)		2.55%	2.55%				

(1) Interest payable is based on the Three Month London Interbank Offer Rate (LIBOR) plus a spread.

(2) Interest payable is based on the Three Month London Interbank Offer Rate (LIBOR).

On December 20, 2000, we entered into an interest rate swap with a notional amount of $100 million and a termination date of December 22, 2003. Under this agreement, we pay a fixed rate of 5.835% against a variable interest rate based on the 90-day LIBOR rate. On August 3, 2001, we entered into an interest rate swap with a notional amount of $36 million with a termination date of June 30, 2004. Under this agreement, we pay a fixed rate of 4.8125% against a variable interest rate based on the 90-day LIBOR rate. At December 31, 2003, the 90-day LIBOR rate was 1.15%. We entered into these interest rates swap agreements due to the requirements of the then current senior secured credit facility and to reduce the impact of future variable interest payments related to such senior secured credit facility.

In 2001, we accounted for the effective interest rate swap agreements as cash flow hedges. The changes in the fair values of effective interest rate swaps were recorded as adjustments to accrued interest in the accompanying consolidated balance sheet with the offset recorded in accumulated other comprehensive loss, which as of December 31, 2001 amounted to $3.8 million, net of an income tax benefit of $2.0 million. The amount of ineffectiveness related to the cash flow hedges in 2001 and 2002 was immaterial. In March 2002, we repaid all of our then outstanding variable rate debt with the issuance of the 8 7/8% Senior Subordinated Notes, fixed rate debt. The hedge designation was removed. Subsequent changes in the fair value of the interest rate swap contracts are recognized as adjustments to loss on change in fair values of interest rate swaps in the accompanying statements of income in the period in which they occur. Accordingly, we have recorded a non-cash pre-tax loss of $5.8 million, or $.09 per diluted share after tax, for the year ended December 31, 2002. Amounts previously recognized in other comprehensive income will be reclassified to income over the remaining term of the swap as we incur interest expense on the replacement debt. Over the next twelve months, approximately $125,000 will be reclassified to income. On March 3, 2003, we terminated our $36 million notional amount interest rate swap originally scheduled to expire in June 2004. We paid $1.9 million to terminate the swap agreement.

On March 27, 2003, we entered into interest rate swap agreements with a total notional amount of $375.0 million in accordance with the terms of the $800 million senior secured credit facility. There are three two-year swap contracts totaling $175 million with an effective date of March 27, 2003 and a termination date of March 27, 2005. Under these contracts, we pay a fixed rate of 1.92% and receive a variable rate based on the 90-day LIBOR rate. We also entered into three three-year swap contracts totaling $200 million with a termination date of March 27, 2006. We accounted for these effective interest rate swap agreements as cash flow hedges. The changes in the fair values of effective interest rate swaps were recorded as adjustments to accrued interest in the accompanying consolidated balance sheet with the offset recorded in accumulated other comprehensive loss. The amount of ineffectiveness related to the cash flow hedges in 2003, was immaterial. Under these contracts, we pay fixed rates of 2.48% to 2.49% against a variable rate based on the 90-day LIBOR rate. The difference between amounts received and amounts paid under such agreements, as well as any costs or fees, is recorded as a reduction of, or addition to, interest expense as incurred over the life of the swap.

On September 3, 2004, we terminated our $55 million notional amount interest rate swap originally scheduled to expire on March 27, 2005. We paid $27,500 to terminate the swap agreement. On December 5, 2004, we terminated our $65 million notional amount interest rate swap originally scheduled to expire on March 27, 2006. We received $379,000 to terminate the swap agreement. We terminated our swap agreements early in conjunction with accelerated payments of principal on the senior secured credit facility Term D loans.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

Board of Directors
Penn National Gaming, Inc. and subsidiaries
Wyomissing, Pennsylvania

We have audited the accompanying consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 2003 and 2004, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Penn National Gaming, Inc. and subsidiaries at December 31, 2003 and 2004, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Penn National Gaming, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO criteria) and our report dated March 25, 2005 expressed an unqualified opinion thereon.

/s/ BDO Seidman, LLP

BDO Seidman, LLP

Philadelphia, Pennsylvania
March 25, 2005

Penn National Gaming, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share data)

Year ended December 31,	2003	2004
Assets		
Current assets:		
Cash and cash equivalents	$ 81,567	$ 87,620
Receivables, net of allowance for doubtful accounts of $2,062 and $1,883, respectively	25,739	40,812
Prepaid expenses and other current assets	25,447	19,517
Deferred income taxes	17,284	18,274
Prepaid income taxes	7,593	7,980
Total current assets	157,630	174,203
Net property, plant and equipment	594,152	597,394
Other assets:		
Investment in and advances to unconsolidated affiliate	17,187	15,709
Excess of cost over fair market value of net assets acquired	586,969	588,085
Management service contract (net of amortization of $6,719 and $9,231, respectively)	19,027	16,515
Deferred financing costs, net	28,214	20,063
Miscellaneous	10,813	42,752
Assets held for sale	195,607	188,686
Total other assets	857,817	871,810
Total Assets	$ 1,609,599	$ 1,643,407
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 5,634	$ 4,494
Accounts payable	10,785	13,629
Accrued expenses	45,950	56,732
Accrued interest	11,736	13,124
Accrued salaries and wages	27,482	27,648
Gaming, pari-mutuel, property and other taxes	11,940	14,941
Income taxes payable	9,313	23,105
Other current liabilities	7,698	24,438
Total current liabilities	130,538	178,111
Long-term liabilities:		
Long-term debt, net of current maturities	984,489	854,415
Deferred income taxes	13,354	31,806
Liabilities held for sale	171,340	180,983
Total long-term liabilities	1,169,183	1,067,204
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; no shares issued	—	—
Common stock, $.01 par value; 200,000,000 shares authorized; shares issued 81,242,700 and 83,131,940, respectively	812	831
Restricted stock, 160,000 shares issued	—	(2,114)
Treasury stock, shares at cost 1,698,800 shares	(2,379)	(2,379)
Additional paid-in capital	162,039	180,573
Retained earnings	148,055	219,539
Accumulated other comprehensive income, net	1,351	1,642
Total shareholders' equity	309,878	398,092
Total Liabilities and Shareholders' Equity	$ 1,609,599	$ 1,643,407

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Income

(In thousands, except per share data)

Year ended December 31,	2002	2003	2004
Revenues:			
Gaming	$ 491,930	$ 871,218	$ 992,088
Racing	56,116	52,075	49,948
Management service fee	11,479	13,726	16,277
Food, beverage and other revenue	87,136	131,915	147,991
Gross revenues	646,661	1,068,934	1,206,304
Less: Promotional allowances	(27,805)	(55,936)	(65,615)
Net revenues	618,856	1,012,998	1,140,689
Operating expenses:			
Gaming	289,448	475,407	544,746
Racing	41,777	41,752	38,997
Food, beverage and other expenses	57,743	92,663	97,712
General and administrative	97,126	169,170	179,669
Depreciation and amortization	34,518	57,471	65,785
Total operating expenses	520,612	836,463	926,909
Income from continuing operations	98,244	176,535	213,780
Other income (expenses):			
Interest expense	(42,104)	(76,616)	(75,720)
Interest income	1,553	1,649	2,093
Earnings from joint venture	1,965	1,825	1,634
Other	(52)	(1,899)	(392)
Loss on change in fair value of interest rate swaps	(5,819)	(527)	—
Loss on early extinguishment of debt	(7,924)	(1,310)	(3,767)
Total other expenses, net	(52,381)	(76,878)	(76,152)
Income from continuing operations before income taxes	45,863	99,657	137,628
Taxes on income	17,534	37,463	50,288
Net income from continuing operations	28,329	62,194	87,340
Income (Loss) from discontinued operations, net of tax (benefit) of $1,396 and $(5,762) and $(8,460) respectively	2,534	(10,723)	(15,856)
Net income	$ 30,863	$ 51,471	$ 71,484
Earnings (loss) per share—basic			
Income from continuing operations	$ 0.38	$ 0.79	$ 1.09
Discontinued operations, net of tax	0.03	(0.14)	(0.20)
Basic net income per share	$ 0.41	$ 0.65	$ 0.89
Earnings (loss) per share—diluted			
Income from continuing operations	$ 0.36	$ 0.77	$ 1.05
Discontinued operations, net of tax	0.03	(0.14)	(0.19)
Diluted net income per share	$ 0.39	$ 0.63	$ 0.86
Weighted average shares outstanding			
Basic	75,550	78,946	80,510
Diluted	78,188	81,224	83,508

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Shareholders' Equity

(In thousands, except share data)

	Common Stock								
	Shares	Amount	Restricted Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total	Comprehensive Income
Balance, December 31, 2001	63,733,700	$ 637	$ —	$ (2,379)	$ 43,128	$ 65,721	$ (3,842)	$ 103,265	$ 19,916
Exercise of stock options including tax benefit of $3,528	2,933,668	29	—	—	14,147	—	—	14,176	—
Issuance of common stock	13,400,000	134	—	—	95,943	—	—	96,077	
Accelerated vesting of stock options	—	—	—	—	434	—	—	434	—
Change in fair value of interest rate swap contracts, net of income taxes of $495	—	—	—	—	—	—	918	918	918
Amortization of unrealized loss on interest rate swap contracts, net of income taxes of $676	—	—	—		—	—	1,257	1,257	
Foreign currency translation adjustment	—	—	—	—	—	—	10	10	10
Net income	—	—	—	—	—	30,863	—	30,863	30,863
Balance, December 31, 2002	80,067,368	800	—	(2,379)	153,652	96,584	(1,657)	247,000	$ 31,791
Exercise of stock options including tax benefit of $6,067	1,175,332	12	—	—	8,387	—	—	8,399	—
Change in fair value of interest rate swap contracts, net of income taxes of $669	—	—	—	—	—	—	1,091	1,091	1,091
Amortization of unrealized loss on interest rate swap contracts, net of income taxes of $810	—	—	—	—	—	—	1,517	1,517	—
Foreign currency translation adjustment	—	—	—	—	—	—	400	400	400
Net income	—	—	—	—	—	51,471	—	51,471	51,471
Balance, December 31, 2003	81,242,700	812	—	(2,379)	162,039	148,055	1,351	309,878	$ 52,962
Exercise of stock options including tax benefit of $8,344	1,889,240	19	—	—	16,140	—	—	16,159	—
Restricted Stock Issue	—	—	(2,114)	—	2,394	—	—	280	—
Change in fair value of interest rate swap contracts, net of income taxes of $16	—	—	—	—	—	—	29	29	29
Amortization of unrealized loss on interest rate swap contracts, net of income taxes of $44	—	—	—	—	—	—	82	82	—
Foreign currency translation adjustment	—	—	—	—	—	—	180	180	180
Net income	—	—	—	—	—	71,484	—	71,484	71,484
Balance, December 31, 2004	83,131,940	$ 831	$ (2,114)	$ (2,379)	$ 180,573	$ 219,539	$ 1,642	$ 398,092	$ 71,693

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

Year ended December 31,	2002	2003	2004
Cash flows from operating activities:			
Net income from operations	$ 30,863	$ 51,471	$ 71,484
Loss (income) from discontinued operations	(2,534)	10,723	15,856
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	34,518	57,471	65,785
Amortization of deferred financing costs charged to interest expense	2,036	4,247	5,163
Amortization of the unrealized loss on interest rate swap contracts charged to interest expense, net of income tax benefit	1,257	1,517	82
Loss on sale of fixed assets	735	1,823	1,824
Earnings from joint venture	(1,965)	(1,825)	(1,634)
Loss relating to early extinguishment of debt	5,906	1,310	3,767
Deferred income taxes	10,079	1,798	18,184
Accelerated vesting of stock options	434	—	—
Tax benefit from stock options exercised	3,528	6,067	8,344
Loss on change in value of interest rate swap contracts	5,819	527	—
Amortization of restricted stock	—	—	280
Decrease (increase), net of businesses acquired, in Receivables	2,021	(877)	(15,073)
Prepaid income taxes	(6,415)	(1,159)	(387)
Prepaid expenses and other current assets	(1,065)	(9,612)	5,965
Miscellaneous other assets	(1,827)	34,582	(32,204)
Increase (decrease), net of businesses acquired, in Accounts payable and accrued liabilities	13,695	(16,623)	15,209
Gaming, pari-mutuel, property and other taxes	3,625	(9,785)	3,001
Income taxes payable	(222)	7,960	13,068
Other current liabilities	1,153	421	16,740
Net cash provided by operating activities	101,641	140,036	195,454
Cash flows from investing activities:			
Expenditures for property and equipment	(88,533)	(56,733)	(68,957)
Net payments under interest rate swaps	(3,830)	(1,902)	—
Proceeds from sale of property and equipment	369	663	1,395
Distributions from joint venture	—	790	3,112
Acquisition of businesses, net of cash acquired	(9,570)	(274,682)	(954)
(Increase) decrease in cash in escrow	(500)	1,000	—
Net cash used in investing activities	(102,064)	(330,864)	(65,404)
Cash flows from financing activities:			
Proceeds from exercise of options	10,646	2,332	7,816
Proceeds from sale of common stock	96,077	—	—
Proceeds from issuance of long-term debt	173,752	900,000	156
Principal payments on long-term debt	(258,891)	(661,566)	(131,370)
Increase in deferred financing cost	(3,272)	(23,307)	(779)
Net cash provided by financing activities	18,312	217,459	(124,177)
Effect of exchange rate fluctuations on cash	10	400	180
Net increase in cash and cash equivalents	17,899	27,031	6,053
Cash and cash equivalents at beginning of year	36,637	54,536	81,567
Cash and cash equivalents at end of year	$ 54,536	$ 81,567	$ 87,620

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Business

Penn National Gaming, Inc. ("Penn") and subsidiaries (collectively, the "Company") is a diversified, multi-jurisdictional owner and operator of gaming and pari-mutuel properties. Penn is the successor to several businesses that have operated as Penn National Race Course since 1972. Penn was incorporated in Pennsylvania in 1982 as PNRC Corp. and adopted its current name in 1994. In 1997, the Company began its transition from a pari-mutuel company to a diversified gaming company with the acquisition of the Charles Town property and the introduction of video lottery terminals in West Virginia. From 2000 to 2003, the Company acquired seven other gaming properties through its Mississippi (Casino Magic-Bay St. Louis and Boomtown Biloxi), CRC Holdings, Inc. (Casino Rouge and Casino Rama management contract), Bullwhackers properties and Hollywood Casino Corporation (Aurora and Tunica) acquisitions.

The consolidated financial statements include the accounts of Penn and its wholly-owned subsidiaries. The Company owns and operates, through its subsidiaries, seven gaming properties in Charles Town, West Virginia; Bay St. Louis, Biloxi and Tunica, Mississippi; Baton Rouge, Louisiana; Black Hawk, Colorado; and Aurora, Illinois. The Company also owns Penn National Race Course, a thoroughbred racetrack in Grantville, Pennsylvania, six off-track wagering ("OTW") facilities located throughout Pennsylvania and Bangor Historic Race Track in Bangor, Maine. The Company has a 50% interest in Pennwood Racing, Inc., which owns and operates Freehold Raceway in New Jersey. In addition, the Company has a management contract and receives a management service fee for operating a gaming facility in Orillia, Ontario, Canada ("Casino Rama").

The Company views each property as an operating segment. The Company has aggregated its gaming properties that are economically similar, offer similar types of products and services (table games and/or slot machines), cater to the same types of customers (local patronage) and are heavily regulated into one reporting segment called gaming. The Company has aggregated its racing properties that are economically similar, offer similar products and services (live and simulcast racing), cater to the similar types of customers (local patronage) and are similarly regulated into one reporting segment called racing.

Principles of Consolidation

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

Use of Estimates

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.

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 equivalents.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of 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 background checks and investigations of creditworthiness.

The Company's trade receivables consist principally of amounts due from other racetracks and their OTWs for the settlement of simulcast fees, amounts due from the West Virginia Lottery for gaming revenue settlements and $11.6 million due from Casino Rama for management service fees of $1.3 million and reimbursement of $10.3 million of expenses to be paid on behalf of Casino Rama as of December 31, 2004. The payable on behalf of Casino Rama is included in accrued salaries in the accompanying consolidated balance sheet at December 31, 2004.

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

Fair Value of Financial Instruments

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

Cash and Cash Equivalents: The carrying amount approximates the fair value due to the short maturity of the cash equivalents.

Long-term Debt: The fair value of the Company's long-term debt approximates carrying value and is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the Company for debt of the same remaining maturities.

Property, Equipment and Management Contract

Property and equipment are stated at cost. Maintenance and repairs that do not add materially to the value of the asset nor appreciably prolong its useful life are charged to expense as incurred. Gains or losses on the disposal of property and equipment are included in the determination of income.

Depreciation of property and equipment and amortization of leasehold improvements are provided using the straight-line method over the following estimated useful lives:

Land improvements	5 to 15 years
Building and improvements	25 to 40 years
Furniture, fixtures, and equipment	3 to 7 years
Transportation equipment	5 years
Leasehold Improvements	10 to 20 years

Amortization of the management contract for Casino Rama is computed by the straight-line method through July 2011, the expiration date of the agreement.

The Company reviews the carrying values of its long-lived and identifiable intangible assets, other than goodwill, for possible impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be recoverable based on undiscounted estimated future operating cash flows. As of December 31, 2004, the Company has determined that no impairment has occurred.

Excess of Cost Over Fair Market Value of Net Assets Acquired (Goodwill)

In 2002, the Company adopted the Financial Accounting Standards Board ("FASB") Statement No. 142, "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 142 establishes standards for the accounting of intangible assets that are acquired individually or with a group of other assets and the accounting for goodwill and other intangible assets after they have been initially recognized in the financial statements. Under SFAS No. 142, amortization of goodwill and intangible assets with an indefinite useful life is discontinued and additional financial statement disclosure for goodwill and other intangibles is required. Goodwill and intangible assets of each reporting unit are tested at least annually for impairment by comparing the fair value of the recorded assets to their carrying amount. If the carrying amount of the intangible asset exceeds its fair value, an impairment loss is recognized. The Company has determined that the gaming and racing reporting segments as defined by FASB Statement No. 131, "Disclosures about Segments of an Enterprise and Related Information" are its two reporting units for purposes of testing Goodwill for impairment. See Note 11 for more information regarding the segment information.

Because the Company's goodwill is no longer being amortized, the reported amounts of goodwill will not decrease in the same manner as under previous accounting pronouncements. There may be more volatility in reported income than under previous accounting pronouncements because impairment losses, if any, are likely to occur irregularly and in varying amounts. For the years ended December 31, 2002, 2003 and 2004, no impairment charges were required as a result of the annual impairment test.

Deferred Financing Costs

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

Income Taxes

The Company recognizes deferred tax assets and liabilities for the expected future tax consequences of events that have been recognized in the Company's financial statements or tax returns. Under this method, deferred tax assets and liabilities are determined based on the difference between the financial statement carrying amounts and the tax basis of assets and liabilities using enacted tax rates in effect in the years in which the differences are expected to reverse.

Accounting for Derivatives and Hedging Activities

Effective January 1, 2001, the Company adopted Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which requires that all derivative instruments be recorded on the balance sheet at fair value.

The Company uses fixed and variable rate-debt to finance its operations. Variable rate debt obligations expose the Company to variability in interest payments due to changes in interest rates. The Company continuously monitors changes in interest rate exposures and evaluates hedging opportunities. The Company's risk management policy permits the Company to use any combination of interest rate swaps, futures, options, caps and similar instruments.

The Company's objective is to limit the impact of interest rate changes on earnings and cash flows. The Company currently achieves this by entering into interest rate swap agreements to convert a percentage of its debt from variable to fixed rates. Under interest rate swap contracts, the Company agrees to pay an amount equal to a specified fixed rate of interest times a notional principal amount, and to receive in return an amount equal to a specified variable rate of interest times a notional amount. Net settlements are made quarterly. If the contracts are terminated prior to maturity, the amount paid or received in settlement is established by agreement at the time of the termination and usually represents the net present value, at current rates of interest, of the remaining obligations to exchange payments under the terms of the contract. The Company accounts for these swaps as cash flow hedges. Generally, the Company does not issue or hold derivative contracts for speculative purposes.

The Company is exposed to credit losses in the event of non-performance by counterparties to these interest rate swap agreements, but it does not expect any of the counterparties to fail to meet their obligations. To manage credit risks, the Company selects counterparties based on credit ratings, limits its exposure to a single counterparty under defined Company guidelines, and monitors the market position with each counterparty.

The fair value of derivatives is included in the balance sheets as an asset or liability. Changes in the fair value of a derivative that is highly effective and that is designated and qualifies as a cash flow hedge, to the extent that the hedge is effective, are recorded in other comprehensive income, until earnings are affected by the variability of cash flows of the hedged transaction (e.g., until periodic settlements of a variable-rate asset or liability are recorded in earnings). Any hedge ineffectiveness (which represents the amount by which the changes in the fair value of the derivative exceed the variability in the cash flows of the forecasted transaction) is recorded in current-period earnings.

The Company formally documents all relationships between hedging instruments and hedged items, as well as its risk-management objective and strategy for undertaking various hedge transactions. The Company also formally assesses (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been highly effective in offsetting changes in the cash flows of hedged items and whether those derivatives may be expected to remain highly

effective in the future periods. When it is determined that a derivative is not (or has ceased to be) highly effective as a hedge, the Company discontinues hedge accounting prospectively, as discussed below.

The Company discontinues hedge accounting prospectively when (1) it determines that the derivative is no longer effective in offsetting changes in the cash flows of a hedged item (including hedged items such as firm commitments or forecasted transactions, such as future variable rate interest payments); (2) the derivative expires or is sold, terminated, or exercised; (3) it is no longer probable that the forecasted transaction will occur; or (4) management determines that designating the derivative as a hedging instrument is no longer appropriate.

When the Company discontinues hedge accounting because it is no longer probable that the forecasted transaction will occur in the originally expected period, the gain or loss on the derivative remains in accumulated other comprehensive income and is reclassified into earnings when the forecasted transaction affects earnings. However, if it is probable that a forecasted transaction will not occur by the end of the originally specified time period or within an additional two-month period of time thereafter, the gains and losses that were accumulated in other comprehensive income will be recognized immediately in earnings. In all situations in which hedge accounting is discontinued and the derivative remains outstanding, the Company will carry the derivative at its fair value on the balance sheet, recognizing changes in the fair value in current-period earnings. For purposes of the cash flows statement, cash flows from derivative instruments designated and qualifying as hedges are classified with the cash flows from the hedged item.

Revenue Recognition and Promotional Allowances

Casino revenue is the aggregate net difference between gaming wins and losses, with liabilities recognized for funds deposited by customers before gaming play occurs and for chips in the customers' possession. Hotel, food and beverage, entertainment and other operating revenues are recognized as services are performed.

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

The retail value of accommodations, food and beverage, and other services furnished to guests without charge is included in gross revenue and then deducted as promotion allowances. The estimated cost of providing such promotional allowances is primarily included in casino expenses. These amounts that are included in promotional allowances were as follows:

Year ended December 31,	2002	2003	2004
		(In thousands)	
Rooms	$ 1,720	$ 6,560	$ 7,812
Food and beverage	23,506	42,474	46,617
Other	2,579	6,902	11,186
Total promotional allowances	$ 27,805	$ 55,936	$ 65,615

The estimated cost of providing such complimentary services that is included in gaming expenses was as follows:

Year ended December 31,	2002	2003	2004
		(In thousands)	
Rooms	$ 1,108	$ 4,664	$ 5,136
Food and beverage	13,364	30,304	31,906
Other	1,576	2,696	3,147
Total cost of complimentary services	$ 16,048	$ 37,664	$ 40,189

Racing revenues include the Company's share of pari-mutuel wagering on live races after payment of amounts returned as winning wagers, and the Company's share of wagering from import and export simulcasting, as well as its share of wagering from its OTWs.

Revenues from the Management Contract for Casino Rama (see Note 2) are based upon contracted terms and are recognized when services are performed.

Earnings Per Share

Basic earnings per share ("EPS") are computed by dividing net income applicable to common stock by the weighted average common shares outstanding during the period. Diluted EPS reflects the additional dilution for all potentially dilutive securities such as stock options.

Options to purchase 675,000, 260,000 and 220,000 shares of common stock were outstanding during the years ended December 31, 2002, 2003 and 2004, respectively, but were not included in the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of the common shares and, therefore the effect would be antidilutive. The following represents a reconciliation from basic earnings per share to diluted earnings per share.

Year ended December 31,	2002	2003	2004
		(In thousands)	
Determination of shares:			
Weighted average common shares outstanding	75,550	78,946	80,510
Assumed conversion of dilutive stock options	2,638	2,278	2,998
Diluted weighted average common shares outstanding	78,188	81,224	83,508

Stock-Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to or greater than the fair value of the shares at the date of grant. The Company accounts for stock option grants using the intrinsic-value method in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations. Under the intrinsic-value method, because the exercise price of the Company's employee stock options is equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized.

The Company accounts for the plans under the recognition and measurement principles of APB 25 and related Interpretations. No stock-based employee compensation cost is reflected in net income for options granted since all options granted under the plan had an exercise price equal to the market value of the underlying common stock on the date of grant. However, there are situations that may

occur, such as the accelerated vesting of options or the issuance of restricted stock, that require a current charge to income.

The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation" ("SFAS 123"), as amended by Statement of Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation-Transition and Disclosure" ("SFAS 148"), to stock-based employee compensation:

Year ended December 31,	2002	2003	2004
		(In thousands)	
Net income, as reported	$ 30,863	$ 51,471	$ 71,484
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	270	—	177
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(1,971)	(2,912)	(4,894)
Pro forma net income	$ 29,162	$ 48,559	$ 66,767
Earnings per share:			
Basic-as reported	$ .41	$ .65	$ .89
Basic-pro forma	$ .39	$ .62	$ .83
Diluted-as reported	$ ..39	$ ..63	$ ..86
Diluted-pro forma	$ .38	$ .60	$ .80

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions used for grants in 2002, 2003 and 2004:

	2002	2003	2004
Risk-free interest rate	3.0%	3.0%	3.4%
Volatility	50.0%	41.0%	51.0%
Dividend yield	0.0%	0.0%	0.0%
Expected life (years)	5	5	5

The effects of applying SFAS 123 and SFAS 148 in the above pro forma disclosure are not indicative of future amounts. SFAS 123 and SFAS 148 does not apply to awards prior to 1995. Additional awards in future years are anticipated.

Certain Risks and Uncertainties

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

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

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

Reclassification

Certain prior years amounts have been reclassified to conform to the current year presentation.

Recent Accounting Pronouncements

In December 2004, the FASB issued Statement No. 123 (revised 2004), "Stock-Based Payment" (SFAS 123R). This statement replaces SFAS 123, "Accounting for Stock-Based Compensation", supersedes APB Opinion No. 25, "Accounting for Stock Issued to Employees" (APB 25) and amends SFAS 95, "Statement of Cash Flows", to require that excess tax benefits be reported as a financing cash inflow rather than as a reduction of taxes paid. SFAS 123R is effective the first interim or annual reporting period that begins after June 15, 2005, which will be for the period covered by the Company's quarterly report on Form 10-Q for the third quarter of 2005. The Company currently accounts for stock option grants using the intrinsic-value method in accordance with APB 25. Under the intrinsic-value method, because the exercise price of the Company's employee stock options is equal to the market price of the underlying stock on the date of grant, no compensation expense is recognized. If the Company would have applied the fair value recognition provisions of SFAS 123R, it would have had a charge to earnings of $4.7 million for stock-based employee compensation, net of related income taxes, for 2004. (See Note 1—Summary of Significant Accounting Policies and Note 10—Stock-Based Compensation)

In April 2002, the FASB issued Statement No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections" ("SFAS 145"). The rescission of FASB No. 4, "Reporting Gains and Losses from Extinguishment of Debt" applies to the Company. FASB No. 4 required that gains and losses from extinguishment of debt that were included in the determination of net income be aggregated and, if material, classified as an extraordinary item, net of the related income tax effect. SFAS 145 is effective for the fiscal year beginning January 1, 2003. The Company had losses on early extinguishment of debt, net of income taxes of $5.2, $.8 and $2.4 million for the years ended December 31, 2002, 2003 and 2004, respectively. These losses reflect the write-off of deferred finance fees and pre-payment fees associated with bank debt that was repaid with the proceeds of new financing. Effective January 1, 2003, pursuant to SFAS 145, the losses on early extinguishment of debt will be included in "Other income (expenses)" in the Company's consolidated statements of income.

2. Acquisitions

Acquisition Accounting

The Company has accounted for its acquisitions subsequent to June 30, 2001 under SFAS No. 141, "Business Combinations." For purchase acquisitions completed prior to June 30, 2001, the Company accounted for acquisitions in accordance with APB Opinion No. 16, "Business Combinations." The

results of operations of acquisitions are included in the consolidated financial statements from their respective dates of acquisition.

Hollywood Casino Corporation

On March 3, 2003, the Company completed its acquisition of Hollywood Casino Corporation and acquired 100 percent of its outstanding common stock for approximately $843.3 million, including $397.9 million cash paid and $445.4 million in net liabilities assumed.

The primary reason the Company acquired Hollywood Casino Corporation was to acquire the cash flow generated by the operation of the Hollywood Casino Corporation properties. Other significant reasons considered by the Company included the following: acquiring a relatively large property would reduce the relative importance of the Company's Charles Town Entertainment Complex; operating in additional states would make it less likely that a single legislative action could have a material adverse affect on the Company's financial results; and the resulting geographic diversification of the Company's assets would be in the Company's best interest. The purchase price reflected a multiple of acquired cash flow and the value of the assets in setting the purchase price was not as significant. Accordingly, the purchase price, including the net liabilities assumed, less the appraised value of the assets gave rise to the recognition of a significant amount of goodwill.

Under the terms of the purchase agreement, a wholly-owned subsidiary of the Company merged with and into Hollywood Casino Corporation, and Hollywood Casino Corporation stockholders received cash in the amount of $12.75 per share at closing or $328.1 million and holders of Hollywood Casino Corporation stock options received $19.0 million (representing the aggregate difference between $12.75 per share and their option exercise prices). The Company also incurred acquisition costs of $50.8 million.

The Company assumed Hollywood Casino Corporation's current and other liabilities of $80.4 million and total outstanding long-term indebtedness of $365.0 million. The long-term indebtedness (net of $133.9 million cash acquired) included Hollywood Casino's $310 million of 11.25% senior secured notes due 2007 and $50 million of floating rate senior secured notes, due 2006, Hollywood Casino Shreveport and Shreveport Capital Corporation co-issued debt of $150 million aggregate principal amount of 13% first mortgage notes due 2006 and $39 million aggregate principal amount of 13% senior secured notes due 2006 (net of a valuation allowance of $70.0 million), and $19.9 million for the Hollywood Casino Aurora capital leases for two parking garages.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition.

	At March 3, 2003 (In thousands)
Current assets (including $133.9 million in cash acquired)	$ 170,718
Property and equipment	299,109
Other assets, including deferred income taxes of $32,604	64,669
Goodwill	444,853
Total assets acquired	979,349
Current liabilities	(74,214)
Other liabilities	(8,277)
Debt, current and non-current	(498,910)
Total liabilities assumed	(581,401)
Net assets acquired	$ 397,948

In determining the purchase price allocation associated with the Hollywood Casino Corporation acquisition, the Company engaged an independent professional service firm ("valuation firm") to perform an appraisal of the acquired assets. The tangible assets acquired included land, buildings and improvements, equipment, dock side casino barges, memorabilia and a 33% interest in a golf course. The total purchase price allocated to these tangible assets, net of liabilities assumed, was $397.9 million.

The remaining purchase price was allocated to intangible assets. No value was assigned to the trademarks acquired, based on the Company's assessment that there is no market for similar types of registered trademarks in the industry and the immateriality of the assessed value per the valuation firm's report. The Company did not allocate any value to the customer database, since these customers are not exclusive to the Hollywood Casino properties. No value was assigned to the gaming licenses because all gaming licenses, by statute or regulation, are revocable privileges, non-transferable, and subject to renewal at the discretion of the respective gaming authority, in which the holder is not deemed to possess any vested rights. The Company noted no other identifiable intangible assets. Therefore, the amount by which the purchase price ($843.3 million) exceeded the estimated fair value of the assets (excluding cash) acquired ($398.4 million) was allocated to goodwill. This amount totaled $444.9 million, which is not tax deductible.

The results of operations for Hollywood Casino® are included in the consolidated financial statements from March 1, 2003. Hollywood Casino Corporation owns and operates distinctively themed casino entertainment facilities in major gaming markets in Aurora, Illinois, Tunica, Mississippi and Shreveport, Louisiana.

Unaudited pro forma financial information for the years ended December 31, 2002 and 2003, as though the Hollywood Casino acquisition had occurred on January 1, 2002, is as follows:

	2002	2003
	(In thousands)	
Revenues	$ 1,156,134	$ 1,244,242
Net income	$ 43,044	$ 52,965
Net income per common share		
Basic	$ .57	$ .67
Diluted	$ .55	$ .65
Weighted average shares outstanding		
Basic	75,550	78,946
Diluted	78,188	81,224

Bullwhackers Casinos

On April 25, 2002, the Company acquired all of the assets of the Bullwhackers Casino operations, in Black Hawk, Colorado, from Colorado Gaming and Entertainment Co., a subsidiary of Hilton Group plc, for $7.1 million in cash including acquisition costs of $.6 million. The acquisition was accounted for as a purchase and accordingly the results of operations are included from the date of acquisition. There was no goodwill recognized for this transaction. The Bullwhackers assets consist of the Bullwhackers Casino, the adjoining Bullpen Sports Casino, the Silver Hawk Saloon and Casino, an administrative building and a 475-car parking area, all located in the Black Hawk, Colorado gaming jurisdiction.

3. Property and Equipment

Property and equipment consist of the following (in thousands):

December 31,	2003	2004
Land and improvements	$ 100,164	$ 109,363
Building and improvements	416,710	429,281
Furniture, fixtures, and equipment	191,363	217,676
Transportation equipment	1,246	1,503
Leasehold improvements	11,005	12,190
Construction in progress	6,093	18,797
Total property and equipment	726,581	788,810
Less: accumulated depreciation and amortization	(132,429)	(191,416)
Property and equipment, net	$ 594,152	$ 597,394

Interest capitalized in connection with major construction projects was $1.6 million, $.3 million, and $.4 million in 2002, 2003 and 2004, respectively. Depreciation and amortization expense, for property and equipment, totaled $32.0 million, $55.0 million, and $63.3 million in 2002, 2003, and 2004, respectively.

4. Other Intangible Assets

As part of the CRC acquisition in April 2001, the Company acquired the management contract (the "Contract") for Casino Rama. This intangible asset is being amortized over its contractual life on the straight-line method through July 31, 2011, the expiration date of the Contract. The gross carrying amount of the Contract is $25.7 million and the accumulated amortization is $9.2 million as of December 31, 2004. The average annual amortization expense for the remaining life of the Contract is approximately $2.5 million.

Amortization expense for the Contract totaled $2.5 million in 2002, 2003 and 2004, respectively.

5. Long-term Debt

Long-term debt is as follows (in thousands):

Year ended December 31,	2003	2004
Senior secured credit facility. This credit facility is secured by substantially all of the assets of the Company	$ 399,700	$ 270,000
$200 million 11 1/8% senior subordinated notes. These notes are general unsecured obligations of the Company	200,000	200,000
$175 million 8 7/8% senior subordinated notes. These notes are general unsecured obligations of the Company	175,000	175,000
$200 million 6 7/8% senior subordinated notes. These notes are general unsecured obligations of the Company	200,000	200,000
Capital leases	15,423	13,909
	990,123	858,909
Less current maturities	(5,634)	(4,494)
	$ 984,489	$ 854,415

The following is a schedule of future minimum repayments of long-term debt as of December 31, 2004 (in thousands):

2005	$ 4,494
2006	4,622
2007	266,616
2008	202,270
2009	1,997
Thereafter	378,910
Total minimum payments	$ 858,909

At December 31, 2004, the Company was contingently obligated under letters of credit issued pursuant to the senior secured credit facility with face amounts aggregating $8.4 million.

Senior Secured Credit Facility

On March 3, 2003, the Company entered into an $800 million senior secured credit facility with a syndicate of lenders.

The credit facility was initially comprised of a $100 million revolving credit facility maturing on September 1, 2007, a $100 million Term A facility loan maturing on September 1, 2007 and a $600 million Term B facility loan maturing on September 1, 2007. On March 3, 2003 the Company borrowed the entire Term A and Term B term loans to complete the purchase of Hollywood Casino Corporation and to call Hollywood Casino Corporation's $360 million senior secured notes.

On September 30, 2003, the Company made an optional prepayment of $27 million toward its $800 million senior secured credit facility. Based on the Company's consolidated EBITDA (as defined in the credit agreement) for the 12 months ended September 30, 2003, the payment triggered a reduction of the interest rate margin on the Term A portion of the credit facility by 0.25% and a reduction of the interest rate margin on the Term B portion of the credit facility by 0.5%. The reductions of the interest rate margins became effective on October 23, 2003.

On December 3, 2003, the Company made a pre-payment of $10.5 million plus accrued interest to satisfy in full its Term Loan A Facility due March 2008. Additionally, the Company made a pre-payment of $195.1 million plus accrued interest against the Company's Term Loan B Facility due March 2009, which had approximately $596.3 million outstanding at September 30, 2003. The pre-payments were funded with the net proceeds of the $200 million 6$^{7}/_{8}$% senior subordinated note offering and with cash from operations. Following the payments, the Term Loan B Facility had approximately $399.7 million outstanding.

On December 5, 2003, the $800 million senior credit facility was amended and restated. The amended agreement reduced the total credit facility from $800 million to $500 million and converted the Term Loan B facility to a Term Loan D facility due September 2007. The Term Loan D facility will initially accrue interest at 250 basis points over LIBOR, representing a 100 basis point reduction from the original terms of the Term Loan B facility. In addition, the amended credit facility allows the Company to raise an additional $225 million in senior secured credit to expand its Pennsylvania racetrack operations if legislation is passed permitting slot machines or video lottery terminals at these facilities.

During 2004, the Company paid down $129.7 million of principal on the Term Loan D facility including $50.0 million in the fourth quarter. As a result of the accelerated principal payments on the credit facility, the Company recorded a loss on early extinguishment of debt of $3.8 million for the write-off of the associated deferred finance fees.

At December 31, 2004, the Company had an outstanding balance of $270.0 million on Term Loan D facility and $91.6 million available to borrow under the revolving credit facility after giving effect to outstanding letters of credit of $8.4 million. The weighted average interest rate on the Term D facility is 4.99% at year-end excluding swaps and deferred finance fees.

The senior secured credit facility is secured by substantially all of the assets of the Company, except for the assets of Hollywood Casino Shreveport, which serve as collateral for the Hollywood Casino Shreveport notes. See "Hollywood Casino Shreveport Notes" below.

Interest Rate Swap Contracts

The Company has a policy designed to manage interest rate risk associated with its current and anticipated future borrowings. This policy enables the Company to use any combination of interest rate swaps, futures, options, caps and similar instruments. To the extent the Company employs such financial instruments pursuant to this policy, they are generally accounted for as hedging instruments. In order to qualify for hedge accounting, the underlying hedged item must expose the Company to risks

associated with market fluctuations and the financial instrument used must be designated as a hedge and must reduce the Company's exposure to market fluctuations throughout the hedge period. If these criteria are not met, a change in the market value of the financial instrument is recognized as a gain or loss in the period of change. Net settlements pursuant to the financial instrument are included as interest expense in the period.

On December 20, 2000, the Company entered into an interest rate swap with a notional amount of $100 million and a termination date of December 22, 2003. Under this agreement, the Company pays a fixed rate of 5.835% against a variable interest rate based on the 90-day LIBOR rate. On August 3, 2001, the Company entered into an interest rate swap with a notional amount of $36 million with a termination date of June 30, 2004. Under this agreement, the Company pays a fixed rate of 4.8125% against a variable interest rate based on the 90-day LIBOR rate. The Company entered into these interest rates swap agreements due to the requirements of the then current senior secured credit facility and to reduce the impact of future variable interest payments related to the such senior secured credit facility.

In 2001, the Company accounted for the effective interest rate swap agreements as cash flow hedges. The changes in the fair values of effective interest rate swaps were recorded as adjustments to accrued interest in the accompanying consolidated balance sheet with the offset recorded in accumulated other comprehensive loss. The amount of ineffectiveness related to the cash flow hedges in 2001 and 2002 was immaterial. In March 2002, the Company repaid all of its then outstanding variable rate debt with the issuance of the $8^{7}/_{8}$% Senior Subordinated Notes, fixed rate debt. The hedge designation was removed. Subsequent changes in the fair value of the interest rate swap contracts are recognized as adjustments to loss on change in fair values of interest rate swaps in the accompanying statements of income in the period in which they occur. Accordingly, the Company has recorded a non-cash pre-tax loss of $5.8 million, or $.09 per diluted share after tax, for the year ended December 31, 2002 and $.5 million, or $.01 per diluted share after tax, for the year ended December 31, 2003. Amounts previously recognized in other comprehensive income will be reclassified to income over the remaining term of the swap as the Company incurs interest expense on the replacement debt.

On March 27, 2003, the Company entered into interest rate swap agreements with a total notional amount of $375.0 million in accordance with the terms of the $800 million senior secured credit facility. There are three two-year swap contracts totaling $175 million with an effective date of March 27, 2003 and a termination date of March 27, 2005. Under these contracts, the Company pays a fixed rate of 1.92% and receive a variable rate based on the 90-day LIBOR rate. The Company also entered into three three-year swap contracts totaling $200 million with a termination date of March 27, 2006. The Company accounted for these effective interest rate swap agreements as cash flow hedges. The changes in the fair values of effective interest rate swaps were recorded as adjustments to accrued interest in the accompanying consolidated balance sheet with the offset recorded in accumulated other comprehensive loss. The amount of ineffectiveness related to the cash flow hedges in 2004, was immaterial. Under these contracts, the Company pays fixed rates of 2.48% to 2.49% against a variable rate based on the 90-day LIBOR rate. The difference between amounts received and amounts paid under such agreements, as well as any costs or fees, is recorded as a reduction of, or addition to, interest expense as incurred over the life of the swap.

At December 31, 2004, the 90-day LIBOR rate was 2.56%.

Termination of Interest Rate Swap Agreement

Effective March 3, 2003, the Company terminated its $36 million notional amount interest rate swap originally scheduled to expire in June 2004. The Company paid $1.9 million to terminate the swap agreement.

On September 3, 2004, the Company terminated its $55 million notional amount interest rate swap originally scheduled to expire on March 27, 2005. The Company paid $27,500 to terminate the swap agreement. On December 5, 2004, the Company terminated its $65 million notional amount interest rate swap originally scheduled to expire on March 27, 2006. The Company received $379,000 to terminate the swap agreement. The Company terminates its swap agreements early in conjunction with accelerated payments of principal on the senior secured credit facility Term D loans.

$11^1/_8$% Senior Subordinated Notes due 2008

On March 12, 2001, the Company completed an offering of $200 million of its $11^1/_8$% Senior subordinated notes that mature on March 1, 2008. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2001. The proceeds from these notes were used, in part, to finance the CRC Acquisition.

The Company may redeem all or part of the notes on or after March 1, 2005 at certain specified redemption prices. Prior to March 1, 2004, the Company may redeem up to 35% of the notes from proceeds of certain sales of its equity securities. The notes are also subject to redemption requirements imposed by state and local gaming laws and regulations.

The notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of the Company's current and future wholly-owned domestic subsidiaries. The notes rank equally with the Company's future senior subordinated debt and junior to its senior debt, including debt under the Company's senior credit facility. In addition, the notes will be effectively junior to any indebtedness of Penn's non-U.S. subsidiaries or subsidiaries that do not guarantee the notes ("Unrestricted Subsidiaries").

The $11^1/_8$% notes and guarantees were originally issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act of 1933, as amended (the "Securities Act"). On July 30, 2001, the Company completed an offer to exchange the notes and guarantees for notes and guarantees registered under the Securities Act having substantially identical terms.

$8^7/_8$% Senior Subordinated Notes due 2010

On February 28, 2002, the Company completed an offering of $175 million of its $8^7/_8$% senior subordinated notes that mature on March 15, 2010. Interest on the $8^7/_8$% notes is payable on March 15 and September 15 of each year, beginning September 15, 2002. The Company used the net proceeds from the offering, totaling approximately $170.0 million after deducting underwriting discounts and related expenses, to repay term loan indebtedness under its existing senior secured credit facility.

The Company may redeem all or part of the $8^7/_8$% notes on or after March 15, 2006 at certain specified redemption prices. Prior to March 15, 2005, the Company may redeem up to 35% of the $8^7/_8$% notes from proceeds of certain sales of its equity securities. The $8^7/_8$% notes also are subject to redemption requirements imposed by state and local gaming laws and regulations.

The 8 7/8% notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of the Company's current and future wholly-owned domestic subsidiaries. The 8 7/8% notes rank equally with the Company's future senior subordinated debt and the 11 1/8% senior subordinated notes, and junior to its senior debt, including debt under the Company's senior credit facility. In addition, the 8 7/8% notes will be effectively junior to any indebtedness of Penn's non-U.S. subsidiaries or Unrestricted Subsidiaries, none of which have guaranteed the 8 7/8% notes.

6 7/8% Senior Subordinated Notes due 2011

On December 1, 2003, the Company completed an offering of $200 million of its 6 7/8% senior subordinated notes that mature on December 1, 2011. Interest on the notes is payable on June 1 and December 1 of each year, beginning June 1, 2004. The Company used the net proceeds from the offering, totaling approximately $196.6 million after deducting underwriting discounts and related expenses, to repay term loan indebtedness under its existing senior secured credit facility.

The Company may redeem all or part of the notes on or after December 1, 2007 at certain specified redemption prices. Prior to December 1, 2006, the Company may redeem up to 35% of the notes from proceeds of certain sales of its equity securities. The notes are also subject to redemption requirements imposed by state and local gaming laws and regulations.

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

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

Covenants

The terms of the Company's senior secured credit facility and senior subordinated notes require the Company to satisfy certain financial covenants, including, but not limited to, leverage and fixed charges coverage ratios and limitations on indebtedness, liens, investments and capital expenditures. Except for the defaults under the Hollywood Casino Shreveport notes, for which the Company (other than the Shreveport entities) is not liable, at December 31, 2004, we were in compliance with all required financial covenants.

6. Commitments and Contingencies

Litigation

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

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

In August 2002, the lessor of the property on which Casino Rouge conducts a significant portion of its dockside operations filed a lawsuit against the Company in the 19th Judicial District Court for the Parish of East Baton Rouge, Louisiana seeking a declaratory judgment that the plaintiff landlord is entitled to terminate the lease and/or void the Company's option to renew the lease due to certain alleged defaults by the Company or its predecessors-in-interest. The term of the Company's lease expired in January 2004 and the Company exercised its automatic right to renew for an additional five year term (which, as previously noted is being contested by the landlord). In September 2003 the court granted the Company a partial motion for summary judgment. On October 26, 2004, in ruling on a motion for summary judgment filed by the plaintiff, the court determined that the Company was in default of an obligation in the lease and that the lease is dissolved. The Company plans to vigorously appeal this decision, which will suspend any effect of the October 26, 2004 order during the pendency of the appeal. Depending on the outcome of the appeal, the Company may eventually choose from options which may include entering into a new lease with the plaintiff, purchasing the property from the plaintiff or relocating. Any of these options are likely to involve significant costs. A relocation of the boat will require regulatory and/or local approvals, which we may not be able to obtain. In March 2005, the plaintiff filed an additional lawsuit against us seeking (i) a ruling that additional rent is due to the landlord as a result of the default, (ii) that a lessor's lien should be recognized as encumbering certain property to secure the payment of such rent, and (iii) a declaration that certain improvements revert to the landlord upon termination of the lease. A hearing regarding the lessor's lien is scheduled for May 2005.

In October 2002, in response to the Company's plans to relocate the river barge underlying the Boomtown Biloxi casino to an adjacent property, the lessor of the property on which the Boomtown Biloxi casino conducts a portion of its dockside operations, filed a lawsuit against the Company in the U.S. District Court for the Southern District of Mississippi seeking a declaratory judgment that (i) the Company must use the leased premises for a gaming use or, in the alternative, (ii) after the move, the Company will remain obligated to make the revenue based rent payments to plaintiff set forth in the lease. The plaintiff filed this suit immediately after the Mississippi Gaming Commission approved the Company's request to relocate the barge. Since such approval, the Mississippi Department of Marine Resources and the U.S. Army Corps of Engineers have also approved the Company's plan to relocate the barge. The Company filed a motion for summary judgment in October 2003 and the plaintiff filed its own motion for summary judgment in January 2004. In March 2004, the trial court ruled in favor of the Company on all counts. The plaintiff's subsequent motion for reconsideration was denied and

plaintiff has appealed the decision to the Fifth Circuit. A hearing on the appeal is scheduled for April 4, 2005.

On August 27, 2004, our unrestricted subsidiary, Hollywood Casino Shreveport, or HCS, in cooperation with an Ad Hoc Committee representing a majority of its noteholders, entered into an agreement with Eldorado Resorts LLC ("Eldorado") providing for acquisition of HCS by certain affiliates of Eldorado ("Eldorado Transaction"). On September 10, 2004, a group of creditors, led by Black Diamond Capital Management, LLC, of the Hollywood Casino Shreveport (the Company's unrestricted subsidiary) filed with the U.S. Bankruptcy Court, Western District of Louisiana, located in Shreveport, Louisiana, an involuntary petition against Hollywood Casino Shreveport for relief under Chapter 11 of the U.S. Bankruptcy Code. On October 28, 2004, HCS filed a joint plan and disclosure statement that incorporates the Eldorado Transaction. On October 30, 2004, the Bankruptcy Court entered an order for relief. Hollywood Casino Shreveport will continue to manage its assets and business as a "debtor in possession" subject to the powers and supervision of the Bankruptcy Court pursuant to Chapter 11. In addition, on October 30, 2004, HCS I, Inc. and HCS II, Inc., the general partners of Hollywood Casino Shreveport, HWCC-Louisiana, Inc., the parent company of both HCS I, Inc. and HCS II, Inc., and Shreveport Capital Corporation commenced voluntary cases under Chapter 11 in the U.S. Bankruptcy Court, Western District of Louisiana, which cases are pending. The debt is non-recourse to the Company and its other subsidiaries.

Operating Leases

The Company is liable under numerous operating leases for an airplane, automobiles, other equipment and buildings, which expire through 2010. Total rental expense under these agreements was $2.1 million, $3.5 million, and $4.3 million for the years ended December 31, 2002, 2003, and 2004, respectively.

The Company is also liable for several land leases for the property on which some of its casinos operate. The lease terms are from one to ninety-nine years. The leases consist of annual base lease rent payments, which are included in the table below, plus a percentage rent based on a percent of adjusted gaming win as described in the respective leases. For the years ended December 31, 2002, 2003 and 2004, the Company paid land lease rent under these agreements of $7.0 million, $11.5 million, and $11.2 million, respectively.

The future minimum lease commitments relating to noncancelable operating leases as of December 31, 2004 are as follows (in thousands):

Year ending December 31,	
2005	$ 5,260
2006	4,551
2007	3,801
2008	3,485
2009	3,174
Thereafter	1,907
	$ 22,178

Commitments

As of December 31, 2004, the Company is contractually committed to spend approximately $11.3 million in capital expenditures for projects in progress.

Employee Benefit Plans

The Company has profit sharing plans under the provisions of Section 401(k) of the Internal Revenue Code of 1986, as amended, that cover all eligible employees who are not members of a bargaining unit. The plans enable employees choosing to participate to defer a portion of their salary in a retirement fund to be administered by the Company. The Company's contributions to the plans are set at 50% of employees' elective salary deferrals up to a maximum of 6% of employee compensation. The Company also has a defined contribution plan, the Charles Town Races Future Service Retirement Plan, covering substantially all of its union employees at the Charles Town Entertainment Complex. The Company makes monthly contributions equal to the amount accrued for retirement expense, which is calculated as .25% of the daily mutual handle and .5% of the net video lottery revenues. Total contributions to the plans for the years ended December 31, 2002, 2003 and 2004 were $2.5 million, $2.8 million and $3.8 million, respectively.

The Company maintains a deferred compensation plan that covers most management and other highly compensated employees. This plan was effective March 1, 2001. The plan allows the participants to defer, on a pre-tax basis, a portion of their base annual salary and bonus and earn tax-deferred earnings on these deferrals. The plan also provides for matching Company contributions that vest over a five-year period. The Company has established a Trust and transfers to the Trust, on an annual basis, an amount necessary to provide on a present value basis for its respective future liabilities with respect to participant deferral and Company contribution amounts. Company contributions in 2002, 2003 and 2004 were $.3 million, $.6 million and $.8 million respectively.

Agreements with Horsemen and Pari-Mutuel Clerks

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

At the Charles Town Entertainment Complex, there is an agreement with the Charles Town horsemen that expires on December 31, 2007 and an agreement with the breeders that expires on June 30, 2005. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks which expires on April 30, 2005. The Company is in active discussions with the pari-mutuel clerks at Charles Town regarding a new agreement or an extension of the existing agreement, however, there can be no assurance that the Company will be able to enter into a new agreement or an extension of the existing agreement on satisfactory terms or at all.

The Company's agreement with the Pennsylvania Thoroughbred horsemen at Penn National Race Course expires on September 30, 2011.

The Company has an agreement in place with the Sports Arena Employees Local 137 (AFL-CIO) with respect to pari-mutuel clerks and admission personnel at its six OTWs. That agreement expires on September 30, 2005. The Company also has an agreement with Local 137 at Penn National Race Course with respect to pari-mutuel clerks and admissions and Telebet personnel that expires on December 31, 2007.

Pennwood Racing also has an agreement in effect with the horsemen at Freehold Raceway which expires in May, 2006.

If the Company fails to maintain agreements with the horsemen at a track, it will not be permitted to conduct live racing and export and import simulcasting at that track and where applicable, the OTWs. In West Virginia, the Company will not be permitted to operate its gaming machines if it fails to maintain agreements with the Charles Town horsemen, pari-mutuel clerks and breeders. In addition,

the simulcasting agreements are subject to the horsemen's approval. If the Company fails to maintain necessary agreements, this failure could have a material adverse effect on its business, financial condition and results of operations. Except for the closure of the facilities at Penn National Race Course and its OTWs from February 16, 1999 to March 24, 1999 due to a horsemen's strike, and a few days at other times and locations, the Company has been able to maintain the necessary agreements. There can be no assurance that the Company will be able to maintain the required agreements.

New Jersey Joint Venture

On January 28, 1999, the Company, along with its joint venture partner, Greenwood New Jersey, Inc. ("Greenwood"), purchased certain assets and assumed certain liabilities of Freehold Racing Association, Garden State Racetrack and related entities, in a transaction accounted for as a purchase. During 2001, Garden State Racetrack ceased operations.

The Company made an $11.3 million loan to the joint venture and an equity investment of $.3 million. The loan is evidenced by a subordinated secured note, which has been included in investment in and advances to an unconsolidated affiliate in the consolidated financial statements. The note bears interest at prime plus 2.25% or a minimum of 10% (as of December 31, 2004 the interest rate was 10%). The Company has recorded interest income in the accompanying consolidated financial statements of $1.2 million, $1.1 million, and $1.1 million for the years ended December 31, 2002, 2003 and 2004, respectively.

The joint venture, through Freehold Racing Association, is part of a multi-employer pension plan. For collectively bargained, multi-employer pension plans, contributions are made in accordance with negotiated labor contracts and generally are based on the number of hours worked. With the passage of the Multi-Employer Pension Plan Amendments Act of 1980 (the "Act"), the joint venture may, under certain circumstances, become subject to liabilities in excess of contributions made under collective bargaining agreements. Generally, these liabilities are contingent upon the termination, withdrawal, or partial withdrawal from the plans. As of December 31, 2003, the most recent date for which information is available, the joint venture has been informed that its withdrawal liability was approximately $1.5 million. This amount, and the joint venture's obligation to fund any portion of it, are subject to many factors outside of the joint venture's control, including actuarial experience and investment performance of the underlying multi-employer pension plan.

The Company and Greenwood entered into a Debt Service Maintenance Agreement with a bank in which each joint venture partner has guaranteed up to 50% of a $23.0 million term loan to the joint venture. The guarantee remains in effect for the life of the loan and is due to expire on September 30, 2009. As of December 31, 2004, the outstanding balance on the loan to the joint venture amounted to $16.1 million of which the Company's obligation under its guarantee of the term loan was limited to approximately $8.0 million. The Company's investment in the joint venture is accounted for under the equity method. The original investment was recorded at cost and has been adjusted by the Company's share of income of the joint venture and distributions received. The Company's 50% share of the income of the joint venture is included in other income (expenses) in the accompanying consolidated statements of income.

7. Income Taxes

Deferred tax assets and liabilities are comprised of the following (in thousands):

Year ended December 31,	2003	2004
Deferred tax assets:		
Federal net operating losses	$ 35,230	$ 23,960
Federal general business credits	743	—
Accrued expenses	8,852	9,666
State net operating losses	12,058	13,295
Accumulated other comprehensive (loss)	(559)	(602)
Gross deferred tax assets	56,324	46,319
Less Valuation Allowance	(10,488)	(11,610)
Net Deferred Tax Asset	45,836	34,709
Deferred tax liabilities:		
Property, plant and equipment	(41,906)	(48,241)
Net deferred taxes	$ 3,930	$ (13,532)
Reflected on consolidated balance sheets:		
Current deferred tax asset, net	$ 17,284	$ 18,274
Noncurrent deferred tax liabilities, net	(13,354)	(31,806)
Net deferred taxes	$ 3,930	$ (13,532)

The valuation allowance represents the income tax effect of state net operating loss carryforwards of the Company, which are not presently expected to be utilized.

For income tax reporting, the Company has net operating loss carryforwards aggregating approximately $139.9 million available to reduce future state income taxes primarily for the Commonwealth of Pennsylvania as of December 31, 2004. Due to Pennsylvania's tax statute on annual net operating loss utilization limit, a substantial valuation allowance has been recorded to reflect the net operating losses which are not presently expected to be realized. If not used, substantially all the carryforwards will expire at various dates from December 31, 2006 to December 31, 2024.

The federal net operating loss and general business credits resulted from the acquisition of Hollywood Casino Corporation during 2003. Section 382 of the Internal Revenue Code of 1986, as amended, limits the utilization of the net operating loss to $15.3 million per year or a $5.4 million per year tax benefit.

The prepaid income taxes of $7,980 and $7,593 for 2004 and 2003, respectively, represent the approximate overpayments on the income tax returns. It is a result of recording the current year provision, the tax benefit associated with discontinued operations, and the tax benefit for the exercise of stock options less tax payments made or applied and applicable tax credits.

The income taxes payable of $24,438 and $7,698 for 2004 and 2003, respectively, is a result of the discontinued operations presentation. For tax purposes, the discontinued operations are a result are included in the consolidated income tax return until disposition. The payable represents the income taxes that would have been payable had the net tax benefit from discontinued operations not been included in the consolidated income tax return.

The provision for income taxes charged to operations was as follows (in thousands):

Year ended December 31,	2002	2003	2004
Current tax expense			
Federal	$ 8,423	$ 7,842	$ 32,025
State	740	720	845
Total current	$ 9,163	$ 8,562	$ 32,870
Deferred tax expense (benefit)			
Federal	$ 8,329	$ 29,024	$ 17,423
State	42	(123)	(5)
Total deferred	8,371	28,901	17,418
Total provision	$ 17,534	$ 37,463	$ 50,288

The following is a reconciliation of the statutory federal income tax rate to the actual effective income tax rate for the following periods:

Year ended December 31,	2002	2003	2004
Percent of pretax income			
Federal tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	1.0	.5	.4
Permanent differences, including amortization of management contract	2.0	1.6	1.0
Other miscellaneous items	.2	.5	.1
	38.2%	37.6%	36.5%

8. Supplemental Disclosures of Cash Flow Information

Year ended December 31,	2002	2003	2004
		(In thousands)	
Cash payments of interest	$ 39,886	$ 75,340	$ 70,816
Cash payments of income taxes	12,752	—	13,388
Acquisitions:			
Cash paid	7,114	397,948	10,551
Fair value of assets acquired	7,504	979,349	—
Fair value of liabilities assumed	1,495	581,401	—

9. Shareholder's Equity

Equity Offering

On February 20, 2002, the Company completed a public offering of 18,400,000 shares of its common stock at a public offering price of $7.63 per share. Of the common stock sold in the offering, the Company sold 13,400,000 shares and The Carlino Family Trust, a related party, sold 5,000,000 shares. The Company used its net proceeds from the offering, totaling approximately $96.1 million after deducting underwriting discounts and related expenses, to repay term loan indebtedness under its existing senior secured credit facility. The Company did not receive any proceeds from the offering by The Carlino Family Trust.

Stock Split

On February 3, 2005 the Company announced that its Board of Directors approved a 2-for-1 split of the Company's common stock. The stock split was in the form of a stock dividend of one additional share of the Company's common stock for each share held. The additional shares were distributed on March 7, 2005 to shareholders of record on February 14, 2005. As a result of the stock dividend, the number of outstanding shares of the Company's common stock increased to approximately 82.8 million. All references in the financial statements to number of shares and net income per share amounts of the Company's common stock have been retroactively restated to reflect the increased number of common stock shares outstanding.

Shareholder Rights Plan

On May 20, 1998, the Board of Directors of the Company authorized and declared a dividend distribution of one Preferred Stock purchase right (the "Rights") for each outstanding share of the Company's common stock, par value $.01 per share (the "Common Shares"), payable to shareholders of record at the close of business on March 19, 1999. Each Right entitles the registered holder to purchase from the Company one one-hundredth of a share (a "Preferred Stock Fraction"), or a combination of securities and assets of equivalent value, at a purchase price of $20.00 per Preferred Stock Fraction (the "Purchase Price"), subject to adjustment. The description and terms of the Rights are set forth in a Rights Agreement (the "Rights Agreement") dated March 2, 1999 between the Company and Continental Stock Transfer and Trust Company as Rights Agent. All terms not otherwise defined herein are used as defined in the Rights Agreement.

The Rights will be exercisable only if a person or group acquires 15% or more of the Company's common stock (the "Stock Acquisition Date"), announces a tender or exchange offer that will result in such person or group acquiring 20% or more of the outstanding common stock or is a beneficial owner of a substantial amount of Common Shares (at least 10%) whose ownership may have a material adverse impact ("Adverse Person") on the business or prospects of the Company. The Company will be entitled to redeem the Rights at a price of $.01 per Right (payable in cash or stock) at any time until 10 days following the Stock Acquisition Date or the date on which a person has been determined to be an Adverse Person. If the Company is involved in certain transactions after the Rights become exercisable, a Holder of Rights (other than Rights owned by a shareholder who has acquired 15% or more of the Company's outstanding common stock or is determined to be an Adverse Person, which Rights become void) is entitled to buy a number of the acquiring company's Common Shares or the Company's common stock, as the case may be, having a market value of twice the exercise price of each Right. A potential dilutive effect may exist upon the exercise of the Rights. Until a Right is exercised, the holder will have no rights as a stockholder of the Company, including, without limitations, the right to vote as a stockholder or to receive dividends. The Rights are not exercisable until the Distribution Date and will expire at the close of business on March 18, 2009, unless earlier redeemed or exchanged by the Company.

10. Stock Based Compensation

In April 1994, the Company's Board of Directors and shareholders adopted and approved the Stock Option Plan (the "1994 Plan"). The 1994 Plan permits the grant of options to purchase up to 12,000,000 shares of Common Stock, subject to antidilution adjustments, at a price per share no less than 100% of the fair market value of the Common Stock on the date an option is granted with respect to incentive stock options only. The price would be no less than 110% of fair market value in the case of an incentive stock option granted to any individual who owns more than 10% of the total combined voting power of all classes of outstanding stock. The 1994 Plan provides for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as

amended, and nonqualified stock options, which do not so qualify. The 1994 Plan terminated in April 2004.

On April 16, 2003, the Company's Board of Directors adopted and approved the 2003 Long Term Incentive Compensation Plan (the "2003 Plan"). On May 22, 2003, the Company's shareholders approved the 2003 Plan. The 2003 Plan was effective June 1, 2003 and permits the grant of options to purchase Common Stock and other market-based and performance-based awards. Up to 12,000,000 shares of Common Stock are available for awards under the 2003 Plan. The 2003 Plan provides for the granting of both incentive stock options intended to qualify under Section 422 of the Internal Revenue Code of 1986, as amended, and nonqualified stock options, which do not so qualify. The exercise price per share may be no less than (i) 100% of the fair market value of the Common Stock on the date an option is granted for incentive stock options and (ii) 85% of the fair market value of the Common Stock on the date an option is granted for nonqualified stock options. Unless this plan is extended, no awards shall be granted or exchanges effected under this plan after May 31, 2013. At December 31, 2004, there were 8,930,000 options available for future grants under the 2003 Plan.

Stock options that expire between January 19, 2006 and January 29, 2014 have been granted to officers and directors to purchase Common Stock at prices ranging from $1.83 to $26.59 per share. All options were granted at market prices at date of grant.

The following table contains information on stock options issued under the plans for the three-year period ended December 31, 2004:

	Option Shares	Average Exercise Price
Outstanding at December 31, 2001	5,806,784	$ 2.54
Granted	2,071,000	7.93
Exercised	(1,734,668)	3.11
Canceled	(276,784)	2.50
Outstanding at December 31, 2002	5,866,332	4.28
Granted	2,240,000	8.79
Exercised	(1,175,332)	4.48
Canceled	(72,500)	4.71
Outstanding at December 31, 2003	6,858,500	6.13
Granted	2,006,000	13.44
Exercised	(1,888,240)	4.14
Canceled	(35,000)	7.91
Outstanding at December 31, 2004	6,941,260	$ 8.78

In addition, common stock options in the amount of 1,295,000 were issued to the Company's Chairman outside of the 1994 Plan and the 2003 Plan. 1,200,000 shares were issued in 1996 and 95,000 shares were issued in 2003. These options were issued at prices ranging from $4.41 to $7.95 per share and are exercisable through February 6, 2013. During the year 2002, 1,200,000 of these options were exercised.

Exercisable at year-end:

	Option Shares	Weighted Average Exercise Price
2002	1,835,750	$ 1.77
2003	2,108,250	3.81
2004	1,946,010	5.74

The following table summarizes information about stock options outstanding at December 31, 2004:

	Exercise Price Range			Total
Outstanding options	**$1.83 to $7.42**	**$7.74 to $10.66**	**$10.72 to $26.59**	**$1.83 to $26.59**
Number outstanding	2,382,500	2,320,260	2,238,500	6,941,260
Weighted average remaining contractual life (years)	2.19	2.75	3.27	2.73
Weighted average exercise price	4.76	8.61	13.22	8.78
Exercisable options				
Number outstanding	1,298,000	595,510	52,500	1,946,010
Weighted average exercise price	$ 4.22	$ 8.65	$ 11.44	$ 5.74

11. Segment Information

The Company views each property as an operating segment. The Company has aggregated its gaming properties that are economically similar, offer similar types of products and services (table games and/or slot machines), cater to the same types of customers (local patronage) and are heavily regulated into one reporting segment called gaming. The Company has aggregated its racing properties that are economically similar, offer similar products and services (live and simulcast racing), cater to the similar types of customers (local patronage) and are similarly regulated into one reporting segment called racing. The accounting policies for each segment are the same as those described in the "Summary of Significant Accounting Policies." The table below presents information about reported segments (in thousands):

	Gaming(1)	Racing	Eliminations	Total
Year ended December 31, 2002				
Revenue	$ 555,886	$ 62,970	$ —	$ 618,856
Income from Continuing Operations	92,647	5,597	—	98,244
Depreciation and Amortization	33,012	1,506	—	34,518
Total Assets	1,198,009	98,358	(530,887)(2)	765,480
Year ended December 31, 2003				
Revenue	$ 954,151	$ 58,847	$ —	$ 1,012,998
Income from Continuing Operations	172,032	4,503	—	176,535
Depreciation and Amortization	55,936	1,535	—	57,471
Total Assets	1,600,614	78,399	(69,414)(2)	1,609,599
Year ended December 31, 2004				
Revenue	$ 1,083,570	$ 57,119	$ —	$ 1,140,689
Income from Continuing Operations	210,580	3,200	—	213,780
Depreciation and Amortization	64,149	1,636	—	65,785
Total Assets	1,632,282	76,575	(65,450)(2)	1,643,407

(1) Reflects results of the Bullwhackers acquisition since the April 25, 2002 and the Hollywood Casino acquisition since March 3, 2003.

(2) Primarily reflects elimination of intercompany investments, receivables and payable.

12. Summarized Quarterly Data (Unaudited)

Following is a summary of the quarterly results of operations for the years ended December 31, 2003 and 2004:

	Fiscal Quarter			
	First	Second	Third	Fourth
	(In thousands, except per share data)			
2003				
Total revenues	$ 204,532	$ 280,060	$ 271,017	$ 257,389
Income from continuing operations	36,369	50,137	$ 48,448	41,581
Net income	13,186	15,475	13,618	9,192
Basic earnings per share	.17	.20	.17	.11
Diluted earnings per share	.16	.19	.17	.11
2004				
Total revenues	$ 286,219	$ 289,051	$ 288,731	$ 276,688
Income from continuing operations	52,389	56,041	55,450	49,900
Net income	17,771	19,658	17,190	16,865
Basic earnings per share	.23	.25	.21	.20
Diluted earnings per share	.21	.24	.21	.20

13. Related Party Transactions

Life Insurance Policies

The Company has paid premiums on life insurance policies (the "Policies") on behalf of certain irrevocable trusts (the "Trusts") created by the Company's Chief Executive Officer ("CEO"). The policies cover the CEO's life and that of his spouse. The Trusts are the owners and beneficiaries of the policies and are obligated to reimburse the Company for all premiums paid when the insurance matures or upon death. To secure the Company's interest in each of the Policies, the Trusts have executed a collateral assignment of each of the Policies to the Company. As of December 31, 2004, the Company has recorded a receivable in other assets from such trusts in the amount of $1,950,000. The Company paid premiums of $227,000, $249,000 and $241,000 in 2002, 2003, and 2004, respectively.

Executive Office Lease

The Company currently leases 19,196 square feet of office and warehouse space in two office buildings in Wyomissing, Pennsylvania for its executive offices from an affiliate of its Chief Executive Officer. Rent expense for the years ended December 31, 2002, 2003 and 2004 amounted to $154,000, $326,000 and $369,000, respectively. The leases for the office space expire in March 2012 and June 2012 and the lease for the warehouse space expires August 2006 and they provide for minimum annual future payments of $362,000.

14. Subsidiary Guarantors

Under the terms of the senior subordinated notes, all of the Company's domestic subsidiaries are guarantors under the agreement, except for HWCC-Argentina, Inc., an inactive subsidiary, HWCC-Louisiana, Inc., HWCC-Shreveport, Inc. HCS I, Inc, HCS II Inc., HCS-Golf Course, LLC, Hollywood Casino Shreveport and Shreveport Capital Corporation and their respective subsidiaries, if any, (the "Subsidiary Non-Guarantors"). The guarantees provided by the Company's subsidiaries are

full and unconditional, joint and several. There are no significant restrictions in the indentures on the Company's ability to obtain funds from its subsidiaries, except for the Subsidiary Non-Guarantors, by dividend or loan. However, we note that in certain jurisdictions, the gaming authorities may impose restrictions pursuant to the authority granted to them with regard to the Company's ability to obtain funds from its subsidiaries.

The Company has not presented a condensed consolidating balance sheet as of December 31, 2002 or condensed consolidating statements of operations and cash flows for the year ended December 31, 2002 because the balance sheet, income statement and cash flow amounts for subsidiary non-guarantors were not material prior to the acquisition of Hollywood Casino Corporation.

Summarized financial information as of and for the year ended December 31, 2003 and 2004 for Penn, the Subsidiary Guarantors and Subsidiary Non-Guarantors is as follows:

	Penn	Subsidiary Guarantors	Subsidiary Non-Guarantors	Eliminations	Consolidated
As of December 31, 2003					
Condensed Consolidating Balance Sheet (In thousands)					
Current assets	$ 18,859	$ 124,213	$ 45,231	$ 759	$ 189,062
Net property and equipment, at cost	1,792	627,973	110,742	—	740,507
Other assets	1,208,444	677,573	(1,630)	(1,204,357)	680,030
Total	$ 1,229,095	$ 1,429,759	$ 154,343	$ (1,203,598)	$ 1,609,599
Current liabilities	$ 46,379	$ 64,337	$ 172,093	$ 4,228	$ 287,037
Long-term liabilities	981,341	1,205,836	403	(1,174,895)	1,012,685
Shareholder's equity	201,375	159,586	(18,153)	(32,931)	309,877
Total	$ 1,229,095	$ 1,429,759	$ 154,343	$ (1,203,598)	$ 1,609,599
Year Ended December 31, 2003					
Condensed Consolidating Statement of Income (In thousands)					
Total revenues	$ —	$ 1,037,257	$ 127,651	$ (1,612)	$ 1,163,296
Total operating expenses	21,749	836,150	123,831	(1,612)	980,118
Income (loss) from operations	(21,749)	201,107	3,820	—	183,178
Other income (expense)	34,677	(111,068)	(23,624)	—	(100,015)
Income (loss) before income taxes	12,928	90,039	(19,804)	—	83,163
Taxes on income	7,325	24,238	129	—	31,692
Net income (loss)	$ 5,603	$ 65,801	$ (19,933)	$ —	$ 51,471

Year Ended December 31, 2003					
Condensed Consolidating Statement of Cash Flows (In thousands)					
Net cash provided by (used in) operating activities	$ (330,393)	$ 455,480	$ 14,949	$ —	$ 140,036
Net cash used in investing activities	(240,461)	(90,034)	(369)	—	(330,864)
Net cash provided by (used in) financing activities	578,727	(360,184)	(1,084)	—	217,459
Effect of exchange rate fluctuations on cash	—	507	(107)	—	400
Net increase in cash and cash equivalents	7,873	5,769	13,389	—	27,031
Cash and cash equivalents at beginning of year	3,339	37,647	13,550	—	54,536
Cash and cash equivalents at end of year	$ 11,212	$ 43,416	$ 26,939	$ —	$ 81,567

As of December 31, 2004					
Condensed Consolidating Balance Sheet (In thousands)					
Current assets	$ 16,312	$ 139,769	$ 46,840	$ 5,046	$ 207,967
Net property and equipment, at cost	12,166	619,603	102,564	—	734,333
Other assets	1,164,341	667,261	(6,213)	(1,124,283)	701,106
Total	$ 1,192,819	$ 1,426,633	$ 143,191	$ (1,119,237)	$ 1,643,406
Current liabilities	$ 73,786	$ 80,202	$ 191,067	$ (4,281)	$ 340,774
Long-term liabilities	854,749	1,131,308	509	(1,082,026)	904,540
Shareholder's equity	264,284	215,123	(48,385)	(32,930)	398,092
Total	$ 1,192,819	$ 1,426,633	$ 143,191	$ (1,119,237)	$ 1,643,406

Year Ended December 31, 2004					
Condensed Consolidating Statement of Income (In thousands)					
Total revenues	$ —	$ 1,163,836	$ 150,427	$ (1,543)	$ 1,312,720
Total operating expenses	23,831	923,024	151,078	(1,543)	1,096,390
Income (loss) from operations	(23,831)	240,812	(651)	—	216,330
Other income (expense)	33,881	(109,818)	(27,073)	(8)	(103,018)
Income (loss) before income taxes	10,050	130,994	(27,724)	(8)	113,312
Taxes on income	9,416	32,255	157	—	41,828
Net income (loss)	$ 634	$ 98,739	$ (27,881)	$ (8)	$ 71,484

Year Ended December 31, 2004					
Condensed Consolidating Statement of Cash Flows (In thousands)					
Net cash provided by (used in) operating activities	$ 76,909	$ 119,726	$ (1,181)	$ —	$ 195,454
Net cash provided by (used in) investing activities	37,277	(101,199)	(1,482)	—	(65,404)
Net cash provided by (used in) financing activities	(122,383)	(5,883)	4,089	—	(124,177)
Effect of exchange rate fluctuations on cash	—	252	(72)	—	180
Net increase in cash and cash equivalents	(8,197)	12.896	1,354	—	6,053
Cash and cash equivalents at beginning of year	11,217	43,412	26,938	—	81,567
Cash and cash equivalents at end of year	$ 3,020	$ 56,308	$ 28,292	$ —	$ 87,620

15. Discontinued Operations

Hollywood Casino Shreveport

On January 30, 2004, the Board of Directors of HCS I, the managing general partner of Hollywood Casino Shreveport (the Company's unrestricted subsidiary), approved a resolution to sell Hollywood Casino Shreveport and authorized its financial advisor, Libra Securities, LLC, to begin contacting potential acquirers. The Board also authorized the creation of a committee of independent Board Members to oversee the sale process. The Board created the independent committee in the event that Penn decided to participate as a bidder in the sales process. A press release was issued on February 3, 2004 announcing the sale of the property. Prospective bidders were invited to tour the property, perform diligence and prepare a bid. Invitations to bid were mailed to all interested parties, including Penn, on May 4, 2004 and responses were due at Libra Securities, LLC in New York on June 4, 2004. Oral presentations by the four highest bidders were presented to HCS and the ad hoc committee on June 15, 2004 and their revised bids were due on July 6, 2004. Prior to June 30, 2004, Penn decided not to participate in the bid process.

On August 27, 2004, Hollywood Casino Shreveport, acting by and through its managing general partner, HCS I, Inc., entered into an agreement with Eldorado Resorts, LLC ("Eldorado") providing for the acquisition of Hollywood Casino Shreveport by certain affiliates of Eldorado. On September 10, 2004, a group of creditors led by Black Diamond Capital Management, LLC filed an involuntary Chapter 11 case against HCS. On October 18, 2004, Hollywood Casino Shreveport, acting by and through its managing general partner, HCS I, Inc., entered into a definitive Investment Agreement (the "Agreement") with Eldorado, Eldorado Shreveport #1, LLC ("Investor 1") and Eldorado Shreveport #2, LLC ("Investor II", and together with Investor I, the "Investors") providing for the acquisition of the reorganized Hollywood Casino Shreveport by the Investors. The Investors are each an affiliate of Eldorado. The Agreement contemplates a financial restructuring of Hollywood Casino Shreveport that will significantly reduce outstanding secured debt obligations and annual cash interest payments and transfer ownership and control of the casino to Eldorado. Hollywood Casino Shreveport intends to effectuate the sale and related financial restructuring transaction through a Chapter 11 bankruptcy reorganization which was filed on October 28, 2004. On October 30, 2004, HCS agreed to the entry of an order for relief in the Chapter 11 case that has been filed against it and HCS I, Inc., HCS II, Inc., HWCC-Louisiana, Inc. and Shreveport Capital Corporation commenced voluntary cases under Chapter 11 of the Bankruptcy Code debt. The debt is non-recourse to Penn National and its other subsidiaries.

The Company has reflected the results of this transaction by classifying the assets, liabilities and results of operations of Hollywood Casino Shreveport as assets and liabilities held for sale and discontinued operations in accordance with the provisions of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." A gain or loss on this transaction has not been recorded or recognized at this time since the sale has not yet been completed and is subject to various approvals. Financial information for Hollywood Casino Shreveport was previously reported as part of the gaming reporting segment.

Summarized financial information as of and for the periods ended December 31, 2003 and 2004 for Hollywood Casino Shreveport is as follows:

HWCC-Louisiana, Inc. And Subsidiaries
Consolidated Balance Sheets
(In thousands)

	December 31, 2003	December 31, 2004
Assets		
Current assets	$ 30,828	$ 32,779
Property and equipment, net	110,743	102,564
Other assets	1,266	1,347
Total assets held for sale	$ 142,837	$ 136,690
Liabilities		
Current liabilities	$ 151,046	$ 158,046
Other noncurrent liabilities	5,732	8,232
Total liabilities held for sale	$ 156,778	$ 166,278

HWCC-Louisiana, Inc. And Subsidiaries
Consolidated Statements Of Operations
(In thousands)

	December 31,	
	2003	2004
Net revenues	$ 113,925	$ 134,150
Income (loss) from operations	$ 2,943	$ (1,239)
Net (loss)	$ (13,125)	$ (18,261)

Pocono Downs

On October 15, 2004, the Company announced that it entered into an agreement whereby a subsidiary of the Company would sell The Downs Racing, Inc., which does business as Pocono Downs, and its subsidiaries, to the Mohegan Tribal Gaming Authority (MTGA). The transaction, which contemplated a $280 million purchase price before adjustments, fees, taxes and other costs, and was subject to customary closing conditions and regulatory approvals including approvals from the Pennsylvania Harness Racing Commission. The agreement also provides MTGA with both pre- and post-closing termination rights in the event of certain materially adverse legislative or regulatory events. Under generally accepted accounting principles, the transaction will not be recorded as a sale until the post closing termination rights have expired. The Company expects to use the net proceeds of approximately $175 million for debt reduction and capital plans.

The Company is divesting Pocono Downs to satisfy a condition of Pennsylvania's new slot machine legislation that restricts ownership to 100% of one licensed operation and no more than 33% ownership in a second operation. In addition to Pocono Downs, the Company owns Penn National Race Course in Grantville, Pennsylvania, for which it has announced plans to develop a slot machine facility.

The Company has reflected the results of this transaction by classifying the assets, liabilities and results of operations of The Downs Racing, Inc. and its subsidiaries as assets and liabilities held for sale and discontinued operations in accordance with the provisions of SFAS No. 144, "Accounting for

the Impairment or Disposal of Long-Lived Assets." A gain or loss on this transaction has not been recorded or recognized at this time since the sale has not yet been deemed completed. Financial information for The Downs Racing, Inc. and its subsidiaries was previously reported as part of the racing reporting segment (See Note 16).

Summarized financial information as of and for periods ended December 31, 2003 and 2004 for The Downs Racing, Inc. and its subsidiaries is as follows:

The Downs Racing, Inc. And Subsidiaries
Consolidated Balance Sheets
(In thousands)

	December 31, 2003	December 31, 2004
Assets		
Current assets	$ 603	$ 985
Property and equipment, net	35,610	34,375
Other assets	16,557	16,636
Total assets held for sale	$ 52,770	$ 51,996
Liabilities		
Current liabilities	$ 5,453	$ 5,341
Other noncurrent liabilities	9,109	9,364
Total liabilities held for sale	$ 14,562	$ 14,705

The Downs Racing, Inc. And Subsidiaries
Consolidated Statements Of Operations
(In thousands)

	December 31,	
	2003	2004
Net revenues	$ 36,374	$ 37,881
Income from operations	$ 3,712	$ 3,789
Net income	$ 2,402	$ 2,405

16. Subsequent Events

Pocono Downs

On January 25, 2005, the Company completed the previously announced sale of The Downs Racing, Inc. and its subsidiaries to the Mohegan Tribal Gaming Authority (MTGA) for approximately $280 million. Reflecting taxes, post closing adjustments, fees and other expenses, the Company realized net proceeds of approximately $175 million, which the Company intends to apply to a combination of debt reduction and previously announced development projects. Under the terms of the agreement, MTGA acquired The Downs Racing and its subsidiaries including Pocono Downs (a standardbred horse racing facility located on 400 acres in Wilkes-Barre, Pennsylvania) and five Pennsylvania off-track wagering facilities located in Carbondale, East Stroudsburg, Erie, Hazelton and Lehigh Valley (Allentown). The sale agreement provides MTGA with certain post-closing termination rights in the event of certain materially adverse legislative or regulatory events. Under generally accepted accounting principles, the transaction will not be recorded as a sale until the post closing termination rights have expired.

Redemption of 11 1/8% Senior Subordinated Notes due 2008; Issuance of 6 3/4% Senior Subordinated Notes due 2015

On February 8, 2005, the Company called for redemption all of the $200 million aggregate principal amount of our outstanding 11 1/8% Senior Subordinated Notes due March 1, 2008, in accordance with the related indenture. The redemption price was $1,055.63 per $1,000 principal amount, plus accrued and unpaid interest and payment was made on March 10, 2005.

On March 9, 2005, the Company completed an offering of $250 million of 6 3/4% senior subordinated notes due 2015. Interest on the notes is payable on March 1 and September 1 of each year, beginning September 1, 2005. These notes mature on March 1, 2015. The Company used the net proceeds from the offering to redeem the $200 million 11 1/8% Senior Subordinated Notes due March 1, 2008 and repay a portion of the term loan indebtedness under our current senior secured credit facility. The 6 3/4% notes are general unsecured obligations and are not guaranteed by the Company's Subsidiaries.

The 6 3/4% notes and guarantees were originally issued in a private placement pursuant to an exemption from the registration requirements of the Securities Act. On March 9, 2005 the Company completed an offer to exchange the notes and guarantees for notes and guarantees registered under the Securities Act having substantially identical terms.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

We have established disclosure controls and procedures to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the rules and forms of the Securities and Exchange Commission.

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 necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

Based upon the evaluation of the Company's disclosure controls and procedures by the Company's management, under the supervision and with the participation of our principal executive officer and principal financial officer, as of December 31, 2004, our principal executive officer and principal financial officer have concluded that our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) are effective to ensure that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Management's Annual Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Exchange Act Rule 13a-15(f). There are inherit limitations in the effectiveness of any internal controls over financial reporting, including the possibility of human error and the circumvention or overriding of controls. Accordingly, even effective internal

controls over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Our internal control system was 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. Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our internal control over financial reporting was effective as of December 31, 2004 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. Our management's assessment of the effectiveness of our internal control over financial reporting as of December 31, 2004 has been audited by BDO Seidman, LLP, independent registered public accounting firm, as stated in their report which is included below.

Changes in Internal Controls Over Financial Reporting

There were no significant changes in the Company's internal controls over financial reporting that occurred during the last fiscal quarter that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

Report of Independent Registered Public Accounting Firm on Internal Control Over Financial Reporting

To The Board of Directors of Penn National Gaming, Inc. and subsidiaries:

We have audited management's assessment, included in Management's Annual Report on Internal Control Over Financial Reporting, that Penn National Gaming, Inc. and subsidiaries (the "Company") maintained effective internal control over financial reporting as of December 31, 2004, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

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

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally

accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

In our opinion, management's assessment that Penn National Gaming, Inc. and subsidiaries maintained effective internal control over financial reporting as of December 31, 2004, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2004, based on the COSO criteria.

We have also audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Penn National Gaming, Inc. and subsidiaries as of December 31, 2004 and 2003, and the related consolidated statements of operations, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2004, and our report dated March 25, 2005 expressed an unqualified opinion thereon.

/s/ BDO SEIDMAN LLP

Philadelphia, Pennsylvania
March 25, 2005

ITEM 9B. OTHER INFORMATION

On October 21, 2004, we entered into a Live Racing Agreement with the Pennsylvania Horsemen's Benevolent and Protection Association, Inc., which expires on September 30, 2011 and sets out the compensation of, and certain other terms related to, the thoroughbred horsemen at Penn National Race Course. On December 10, 2004, we entered into a Memorandum of Agreement with Sports Arena Employees' Union, Local No. 137 setting out certain terms of employment for the pari-mutuel clerks and admissions and Telebet personnel at Penn National Race Course. On December 21, 2004, we entered into an agreement with Charles Town H.B.P.A., Inc., which expires on December 31, 2007 and sets out the compensation of, and certain other terms related to, the thoroughbred horsemen at Charles Town Entertainment Complex. On December 27, 2004, February 18, 2005 and March 31, 2005, we entered into Addendum No. 1, Addendum No. 2 and Addendum No. 3, respectively, to our agreement dated January 1, 2001 with the West Virginia Union of Mutuel Clerks, Local 553, Service Employees International Union, AFL-CIO, to extend the term of the agreement. Pursuant to Addendum No. 3, the term of our agreement, dated January 1, 2001, has been extended until April 30, 2005. A copy of the Live Racing Agreement (Exhibit 10.17), the Memorandum of Agreement (Exhibit 10.16), the Agreement with the Charles Town horsemen (Exhibit 10.18), the Addendum No. 1 (Exhibit 10.15(a)), the Addendum No. 2 (Exhibit 10.15(b)) and the Addendum No. 3 (Exhibit 10.15(c)) are filed as exhibits to this Annual Report on Form 10-K.

PART II

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The information required by this item concerning directors is hereby incorporated by reference to the Company's definitive proxy statement for its 2005 Annual Meeting of Shareholders (the "2005 Proxy Statement"), to be filed with the Securities and Exchange Commission within 120 days after December 31, 2004 pursuant to Regulation 14A under the Securities Act. Information required by this item concerning executive officers is included in Part I of this Annual Report on Form 10-K.

ITEM 11. EXECUTIVE COMPENSATION

The information called for in this item is hereby incorporated by reference to the 2005 Proxy Statement.

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

The information called for in this item is hereby incorporated by reference to the 2005 Proxy Statement.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for in this item is hereby incorporated by reference to the 2005 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the 2005 Proxy Statement.

PART III

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

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

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets as of December 31, 2003 and 2004

Consolidated Statements of Income for the years ended December 31, 2002, 2003 and 2004

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2002, 2003 and 2004

Consolidated Statements of Cash Flows for the years ended December 31, 2002, 2003 and 2004

All other schedules are omitted because they are not applicable, or not required, or because the required information is included in the Consolidated Financial Statements or notes thereto.

3. Exhibits, Including Those Incorporated by Reference.

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

SIGNATURES

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

PENN NATIONAL GAMING, INC.

DATED: MARCH 30, 2005

By: /s/ Peter M. Carlino

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

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

Each person whose signature appears below in so signing also makes, constitutes and appoints Robert S. Ippolito his true and lawful attorney-in-fact, in his name, place and stead to execute and cause to be filed with the Securities and Exchange Commission any or all amendments to this report.

Signature	Title	Date
/s/ Peter M. Carlino Peter M. Carlino	Chairman of the Board, Chief Executive Officer and Director (Principal Executive Officer)	March 30, 2005
/s/ Kevin DeSanctis Kevin DeSanctis	President and Chief Operating Officer	March 30, 2005
/s/ William J. Clifford William J. Clifford	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer)	March 30, 2005
/s/ Robert S. Ippolito Robert S. Ippolito	Vice President, Secretary and Treasurer (Principal Accounting Officer)	March 30, 2005
/s/ Harold Cramer Harold Cramer	Director	March 30, 2005
/s/ David A. Handler David A. Handler	Director	March 30, 2005

/s/ John M. Jacquemin	Director	March 30, 2005
John M. Jacquemin		
/s/ Robert P. Levy	Director	March 30, 2005
Robert P. Levy		
/s/ Barbara Z. Shattuck	Director	March 30, 2005
Barbara Z. Shattuck		

EXHIBIT INDEX

Exhibit	Description of Exhibit
2.1	Agreement and Plan of Merger, dated as of August 7, 2002, by and among Hollywood Casino Corporation, Penn National Gaming, Inc. and P Acquisition Corp. (Incorporated by reference to exhibit 2.1 of the Company's current report on Form 8-K, dated August 7, 2002).
2.2	Purchase Agreement by and among PNGI Pocono Corp., PNGI, LLC, and the Mohegan Tribal Gaming Authority, dated October 14, 2004. (Incorporated by reference to exhibit 2.1 of the Company's current report on Form 8-K, filed October 20, 2004).
2.3	Agreement and Plan of Merger, dated as of November 3, 2004, among Penn National Gaming, Inc., Argosy Gaming Company and Thoroughbred Acquisition Corp. (Incorporated by reference to exhibit 2.1 of the Company's current report on Form 8-K, filed November 5, 2004).
3.1	Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on October 15, 1996. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.2	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on November 13, 1996. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.3	Statement with respect to shares of Series A Preferred Stock of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on March 16, 1999. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).
3.4	Articles of Amendment to the Amended and Restated Articles of Incorporation of Penn National Gaming, Inc., filed with the Pennsylvania Department of State on July 23, 2001. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001).
3.5	Second Amended and Restated Bylaws of Penn National Gaming, Inc. (Incorporated by reference to exhibit 3.1 of the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2004).
4.1	Specimen copy of Common Stock Certificate (Incorporated by reference to Exhibit 3.6 of Penn National Gaming Inc.'s quarterly report on Form 10-Q for the quarter ended June 30, 2003).
4.2	Rights Agreement dated as of March 2, 1999, between Penn National Gaming, Inc. and Continental Stock Transfer and Trust Company. (Incorporated by reference to the Company's current report on Form 8-K, dated March 17, 1999).
4.3	Indenture dated as of March 12, 2001 by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the Series A and Series B $11^{1}/_{8}$% Senior Subordinated Notes due 2008. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended March 31, 2001).
4.4	Form of Penn National Gaming, Inc. Series A $11^{1}/_{8}$% Senior Subordinated Note due 2008. (Included as Exhibit A to Exhibit 4.3).
4.5	Form of Penn National Gaming, Inc. Series B $11^{1}/_{8}$% Senior Subordinated Note due 2008. (Included as Exhibit A to Exhibit 4.3).

4.6 Form of Supplemental Indenture to be Delivered by Subsequent Guarantors by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the 11 1/8% Senior Subordinated Notes due 2008. (Included as Exhibit F to Exhibit 4.3).

4.7 Supplemental Indenture dated as of December 20, 2002 by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the 11 1/8% Senior Subordinated Notes due 2008. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2002).

4.8 Indenture dated as of February 28, 2002 by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the 8?% Senior Subordinated Notes due 2010. (Incorporated by reference to the Company's registration statement on Form S-3, File #333-63780, dated June 25, 2001).

4.9 Form of Penn National Gaming, Inc. 8 7/8% Senior Subordinated Note due 2010. (Included as Exhibit A to Exhibit 4.8).

4.10 Form of Supplemental Indenture to be Delivered by Subsequent Guarantors by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the 8 7/8% Senior Subordinated Notes due 2010. (Included as Exhibit F to Exhibit 4.8).

4.11 Supplemental Indenture dated as of December 20, 2002 by and among Penn National Gaming, Inc., certain guarantors and State Street Bank and Trust Company relating to the 8 7/8% Senior Subordinated Notes due 2010. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2002).

4.12 Indenture dated as of December 4, 2003 by and among Penn National Gaming, Inc., certain guarantors and U.S. Bank National Association relating to the 6 7/8% Senior Subordinated Notes due 2011 (Incorporated by reference to exhibit 4.12 of the Company's annual report on Form 10-K for the fiscal year ended December 31, 2003).

4.13 Form of Penn National Gaming, Inc. 6 7/8% Senior Subordinated Note due 2011. (Included as Exhibit A to Exhibit 4.12).

4.14 Form of Supplemental Indenture to be Delivered by Subsequent Guarantors by and among Penn National Gaming, Inc., certain guarantors and U.S. Bank National Association relating to the 6 7/8% Senior Subordinated Notes due 2011. (Included as Exhibit F to Exhibit 4.12).

4.15 Indenture dated as of March 9, 2005 by and among Penn National Gaming, Inc. and Wells Fargo Bank, National Association relating to the 6 3/4% Senior Subordinated Notes due 2015. (Incorporated by reference to exhibit 10.1 of the Company's current report on Form 8-K, filed March 15, 2005).

4.16 Form of Penn National Gaming, Inc. 6 3/4% Senior Subordinated Note due 2015. (Included as Exhibit A to Exhibit 4.15).

4.17 Indenture among Hollywood Casino Shreveport and Shreveport Capital Corporation ("SCC") as Co-Issuers, and HWCC-Louisiana, Inc. ("HCL"), HCS I, Inc. and HCS II, Inc., as Guarantors, and State Street Bank and Trust Company, as Trustee, dated as of August 10, 1999. (Incorporated by reference to exhibit 4.1 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.18 Collateral Assignment of Contracts and Documents dated August 10, 1999 between Hollywood Casino Shreveport and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to exhibit 4.3 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.19 Security Agreement dated August 10, 1999 between Hollywood Casino Shreveport and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to exhibit 4.4 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.20 Partnership Interest Pledge Agreement dated August 10, 1999 made by HCS I, Inc. in favor of State Street Bank and Trust Company, as Trustee and Secured Party. (Incorporated by reference to exhibit 4.5 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.21 Cash Collateral and Disbursement Agreement dated August 10, 1999 between Hollywood Casino Shreveport, SCC, First American Title Insurance Company, as Disbursement Agent and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to exhibit 4.6 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.22 First Amendment to Cash Collateral and Disbursement Agreement dated January 1, 2000 between Hollywood Casino Shreveport, SCC, First American Title Insurance Company and State Street Bank and Trust Company. (Incorporated by reference to exhibit 4.24 of Hollywood Casino Shreveport's annual report on Form 10-K for the fiscal year ended December 31, 1999, File #333-88679).

4.23 Stock Pledge Agreement dated August 10, 1999 made by HCL in favor of State Street Bank and Trust Company, as Trustee. (Incorporated by reference to exhibit 4.7 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.24 Security Agreement dated August 10, 1999 made by SCC, HCL, HCS I, Inc. and HCS II, Inc. to State Street Bank and Trust Company, as Trustee and Secured Party. (Incorporated by reference to exhibit 4.8 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.25 Security Agreement—Vessel Construction dated August 10, 1999 between Hollywood Casino Shreveport and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to exhibit 4.9 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.26 Mortgage, Leasehold Mortgage and Assignment of Leases and Rents made by Hollywood Casino Shreveport in favor of State Street Bank and Trust Company, as Mortgagee, dated August 10, 1999. (Incorporated by reference to exhibit 4.10 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.27 Partnership Interest Pledge Agreement dated August 10, 1999 made by HCS II, Inc. in favor of State Street Bank and Trust Company, as Trustee and Secured Party. (Incorporated by reference to exhibit 4.11 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.28 First Amendment to Security Agreement dated August 10, 1999 between HWCC-Shreveport, Inc. and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to exhibit 4.12 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).

4.29	Indenture among Hollywood Casino Shreveport and SCC as Issuers and State Street Bank and Trust Company, as Trustee, dated as of June 15, 2001. (Incorporated by reference to exhibit 4.1 of Hollywood Casino Shreveport's quarterly report on Form 10-Q for the quarter ended June 30, 2001, File #333-88679).
4.30	Collateral Assignment of Contracts and Documents dated June 15, 2001 between Hollywood Casino Shreveport and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to exhibit 4.3 of Hollywood Casino Shreveport's quarterly report on Form 10-Q for the quarter ended June 30, 2001, File #333-88679).
4.31	Security Agreement dated June 15, 2001 between Hollywood Casino Shreveport and State Street Bank and Trust Company, as Trustee. (Incorporated by reference to exhibit 4.4 of Hollywood Casino Shreveport's quarterly report on Form 10-Q for the quarter ended June 30, 2001, File #333-88679).
4.32	Security Agreement dated June 15, 2001 made by SCC to State Street Bank and Trust Company, as Trustee. (Incorporated by reference to exhibit 4.5 of Hollywood Casino Shreveport's quarterly report on Form 10-Q for the quarterly period ended June 30, 2001, File #333-88679).
4.33	Preferred Ship Mortgage made by Hollywood Casino Shreveport in favor of State Street Bank and Trust Company, as Trustee, on Hollywood Dreams Official No. 1099497 dated as of June 15, 2001. (Incorporated by reference to exhibit 4.6 of Hollywood Casino Shreveport's quarterly report on Form 10-Q for the quarter ended June 30, 2001, File #333-88679).
4.34	Mortgage, Leasehold Mortgage and Assignments of Leases and Rents made by Hollywood Casino Shreveport in favor of State Street Bank and Trust Company, as Trustee, dated as of June 15, 2001. (Incorporated by reference to exhibit 4.7 of Hollywood Casino Shreveport's quarterly report on Form 10-Q for the quarter ended June 30, 2001, File #333-88679).
9.1	Form of Trust Agreement of Peter D. Carlino, Peter M. Carlino, Richard J. Carlino, David E. Carlino, Susan F. Harrington, Anne de Lourdes Irwin, Robert M. Carlino, Stephen P. Carlino and Rosina E. Carlino Gilbert. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.1#	1994 Stock Option Plan. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.2#	Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan. (Incorporated by reference to Appendix A of Penn National Gaming, Inc.'s Proxy Statement dated April 22, 2003 filed pursuant to Section 14(a) of the Securities Exchange Act of 1934, as amended).
10.2(a)#*	Form of Non-Qualified Stock Option Certificate for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan.
10.2(b)#*	Form of Incentive Stock Option Certificate for the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan.
10.3#	Employment Agreement dated May 26, 2004 between Penn National Gaming, Inc. and Peter M. Carlino. (Incorporated by reference to exhibit 10.1 of the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2004).
10.4#	Employment Agreement dated May 26, 2004 between Penn National Gaming, Inc. and Kevin DeSanctis. (Incorporated by reference to exhibit 10.2 of the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2004).

10.5#	Employment Agreement dated April 12, 1994 between Penn National Gaming, Inc. and Robert S. Ippolito. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.6#	Amendment to Employment Agreement dated June 1, 1999, between Penn National Gaming, Inc. and Robert S. Ippolito. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1999).
10.7#	Employment Agreement dated July 30, 2001 between Penn National Gaming, Inc. and William Clifford. (Incorporated by referenced to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001).
10.8#	Employment Agreement dated September 3, 2002 between Penn National Gaming, Inc. and Jordan B. Savitch. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2002).
10.9#	Employment Agreement dated June 10, 2003 between Penn National Gaming, Inc. and Leonard DeAngelo. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2003).
10.10	Consulting Agreement dated August 29, 1994, between Penn National Gaming, Inc. and Peter D. Carlino. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1994, File # 000-24206).
10.11	Lease dated March 31, 1995 between Wyomissing Professional Center III, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1995, File # 000-24206).
10.12*	Lease dated January 25, 2002 between Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office.
10.12(a)*	Commencement Agreement, dated May 21, 2002, in connection with Lease dated January 25, 2002 Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office.
10.12(b)*	First Lease Amendment, dated December 4, 2002, to Lease dated January 25, 2002 Wyomissing Professional Center II, LP and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office.
10.13*	Lease dated August 22, 2003 between The Corporate Campus at Spring Ridge 1250, L.P. and Penn National Gaming, Inc. for portion of the Wyomissing Corporate Office.
10.14*	Agreement dated July 14, 2003 between Mountainview Thoroughbred Racing Association and Pennsylvania National Turf Club, Inc. and Sports Arena Employees' Union Local 137 (non-primary location).
10.15	Agreement dated January 1, 2001 by and between PNGI Charles Town Gaming Limited Liability Company, or its successors, and the West Virginia Union of Mutuel Clerks, Local 553, Service Employees International Union, AFL-CIO. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2000).
10.15(a)*	Addendum No. 1, dated December 27, 2004, to Agreement dated January 1, 2001 by and between PNGI Charles Town Gaming Limited Liability Company, or its successors, and the West Virginia Union of Mutuel Clerks, Local 553, Service Employees International Union, AFL-CIO.

10.15(b)*	Addendum No. 2, dated February 18, 2005, to Agreement dated January 1, 2001 by and between PNGI Charles Town Gaming Limited Liability Company, or its successors, and the West Virginia Union of Mutuel Clerks, Local 553, Service Employees International Union, AFL-CIO.
10.15(c)*	Addendum No. 3, dated March 21, 2005, to Agreement dated January 1, 2001 by and between PNGI Charles Town Gaming Limited Liability Company, or its successors, and the West Virginia Union of Mutuel Clerks, Local 553, Service Employees International Union, AFL-CIO.
10.16*	Memorandum of Agreement dated December 10, 2004 between Pennsylvania National Turf Club, Inc., Mountainview Racing Association and Sports Arena Employees' Union Local No. 137 (Primary Location).
10.17*	Live Racing Agreement dated October 1, 2004 among Pennsylvania National Turf Club, Inc., Mountainview Thoroughbred Racing Association and Pennsylvania Horsemen's Benevolent and Protection Association, Inc. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1998).
10.18*	Agreement dated December 21, 2004 between PNGI Charles Town Gaming, LLC and Charles Town H.B.P.A., Inc.
10.19	Credit Agreement, dated March 3, 2003, as amended and restated as of December 5, 2003, among Penn National Gaming, Inc., Bear Stearns & Co., Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bear Stearns Corporate Lending Inc., Socìete Generale, Credit Lyonnais New York Branch and the lenders party thereto. (Incorporated by reference to exhibit 10.19 of the Company's annual report on Form 10-K for the year ended December 31, 2003).
10.19(a)	Amendment No. 1, dated June 9, 2004, to Credit Agreement, dated March 3, 2003, as amended and restated as of December 5, 2003, among Penn National Gaming, Inc., Bear Stearns & Co., Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bear Stearns Corporate Lending Inc., Socìete Generale, Credit Lyonnais New York Branch and the lenders party thereto. (Incorporated by reference to exhibit 10.4 of the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2004).
10.19(b)*	Waiver, effective February 18, 2005, to certain terms of Credit Agreement, dated March 3, 2003, as amended and restated as of December 5, 2003, among Penn National Gaming, Inc., Bear Stearns & Co., Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Bear Stearns Corporate Lending Inc., Socìete Generale, Credit Lyonnais New York Branch and the lenders party thereto.
10.20	Ground Lease dated as of October 11, 1993 between R.M. Leatherman and Hugh M. Mageveney, III, as Landlord, and SRCT, as Tenant. (Incorporated by reference to exhibit 10.4 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).
10.21	Letter Agreement dated as of October 11, 1993 between R.M. Leatherman and Hugh M. Mageveney, III, as Landlord, and SRCT, as Tenant (relating to Ground Lease). (Incorporated by reference to exhibit 10.5 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).
10.22	Assignment of Lease and Assumption Agreement dated as of May 31, 1994 between SRCT and STP (relating to Ground Lease). (Incorporated by reference to exhibit 10.7 of HWCC-Tunica, Inc.'s registration statement on Form S-1, File #33-82182, dated August 1, 1994).

10.23	Manager Subordination Agreement, dated as of August 10, 1999, by and among State Street Bank and Trust Company, as Trustee, HWCC-Shreveport, Inc. and Hollywood Casino Shreveport. (Incorporated by reference to exhibit 10.3 of Amendment No. 1 to Hollywood Casino Corporation's registration statement on Form S-4, File #333-83081, filed August 13, 1999).
10.24	Ground Lease, dated May 19, 1999, by and between the City of Shreveport, Louisiana and QNOV. (Incorporated by reference to exhibit 10.13 of the registration statement of Hollywood Casino Shreveport and SCC on Form S-4, File #333-88679, dated October 8, 1999).
10.25	Manager Subordination Agreement, dated as of June 15, 2001, by and among State Street Bank and Trust Company, as Trustee, HWCC-Shreveport, Inc. and Hollywood Casino Shreveport. (Incorporated by reference to exhibit 10.1 of Hollywood Casino Shreveport's quarterly report on Form 10-Q for the quarter ended June 30, 2001, File #333-88679).
10.26#	Penn National Gaming, Inc. Nonqualified Stock Option granted to Peter M. Carlino, dated February 6, 2003. (Incorporated by reference to Exhibit 26 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
10.27	Ground Lease, dated October 19, 1993, between Raphael Skrmetta as Landlord and Mississippi—I Gaming, L.P. as Tenant. (Incorporated by reference to Exhibit 10.33 of Pinnacle Entertainment, Inc.'s quarterly report on Form 10-Q for the quarter ended June 30, 1997, File #000-10619).
10.27(a)	First Amendment to Ground Lease dated October 19, 1993, between Raphael Skrmetta and Mississippi—I Gaming, L.P. (Incorporated by reference to Exhibit 10.34 of Pinnacle Entertainment, Inc.'s quarterly report on Form 10-Q for the quarter ended June 30, 1997, File #000-10619).
10.27(b)	Second Amendment to Ground Lease dated October 19, 1993, between Raphael Skrmetta and Mississippi—I Gaming, L.P. (Incorporated by reference to Exhibit 10.35 of Pinnacle Entertainment, Inc.'s quarterly report on Form 10-Q for the quarter ended June 30, 1997, File #000-10619).
10.28	Senior Secured Financing Commitment Letter, dated November 3, 2004, among Penn National Gaming, Inc., Deutsche Bank Trust Company Americas, Deutsche Bank Securities Inc., Goldman Sachs Credit Partners L.P., Lehman Brothers Inc. and Lehman Commercial Paper Inc. (Incorporated by reference to exhibit 10.1 to the Company's current report on Form 8-K, filed November 5, 2004).
10.29#*	Non-Employee Director Compensation Policy.
10.30#*	Compensatory Arrangements with Certain Executive Officers.
14.1	Penn National Gaming, Inc. Code of Business Conduct. (Incorporated by reference to Exhibit 14.1 of the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
21.1*	Subsidiaries of the Registrant.
23.1*	Consent of BDO Seidman, LLP.
24.1*	Power of attorney (included on the signature page to this Form 10-K report).
31.1*	CEO Certification pursuant to rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934.
31.2*	CFO Certification pursuant to rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934.

32.1*	CEO Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
32.2*	CFO Certification pursuant to 18 U.S.C. Section 1350, As Adopted Pursuant to Section 906 of The Sarbanes-Oxley Act of 2002.
99.1*	Description of Governmental Regulation.

Compensation plans and arrangements for executives and others.

* Filed herewith.

QuickLinks

Exhibit 10.2(a)

PENN NATIONAL GAMING, INC.

NON-QUALIFIED STOCK OPTION CERTIFICATE

This certifies that an option to purchase shares of Common Stock of Penn National Gaming, Inc. has been granted pursuant to the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan, as follows:

Name and Address
of Optionee:

Date of Grant:

Type of Option: Non-Qualified Stock Option

Number of shares
subject to Option:

Option Price:

Vesting Date(s):

Expiration Date:

The option is subject to all the terms and conditions of the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan, a copy of which is available upon request.

Date: _____

PENN NATIONAL GAMING, INC.

_____

By:
Title:

PENN NATIONAL GAMING, INC.
STOCK OPTION TERMS

All Stock Options are subject to the provisions of the 2003 Long Term Incentive Compensation Plan and any rules and regulations established by the Compensation Committee of the Board of Directors of Penn National Gaming, Inc. A copy of the Plan is available upon request. Words used herein with initial capitalized letters are defined in the attached Non-Qualified Stock Option Certificate or the Plan.

The terms provided here are applicable to the Stock Option specified in the attached certificate. Different terms may apply to any prior or future stock option grants.

I. OPTION PERIOD

You may exercise your Stock Options during the Option Period, which begins on the Vesting Dates and ends on the Expiration Date. The Stock Options vest in 25% installments on each Vesting Date. The Vesting Dates are the first, second, third and fourth anniversaries of the Date of Grant. Thus, you may exercise up to 25% of your Stock Options on the first Vesting Date, up to another 25% of your Stock Options on the second Vesting Date, and so on. The Expiration Date is seven (7) years from the Date of Grant. However, the Option Period may end sooner if your employment is terminated under certain circumstances.

II. TERMINATION OF EMPLOYMENT

A. Unvested Options. If your employment is terminated for any reason, unvested Stock Options will be forfeited on the termination date.

B. Vested Options. If you voluntarily resign or your employment is terminated for Cause before your Retirement, your vested Stock Options will be forfeited on the 30th day following the date of termination. If your employment terminates for any other reason, including Retirement, Reduction in Force, your transfer to a Related Entity, your Disability or your Death, your vested Stock Options will continue to be exercisable until the Expiration Date.

III. TRANSFERABILITY

In general, Stock Options may be exercised during your lifetime only by you and may not be assigned or otherwise transferred to anyone else. However, Stock Options are transferable upon your death by will or the laws of distribution and descent and are transferable during your lifetime to Family Members under certain conditions with Penn National Gaming's approval.

IV. PAYMENT

When you exercise your Stock Options, you may pay the Option Price in cash, by check, with previously issued shares of Penn National Gaming, Inc. Common Stock (under certain circumstances), in accordance with a "cashless exercise program" or with a combination of the foregoing.

Penn National Gaming, Inc.
Understanding How Stock Non-Qualified Stock Options Work

Congratulations on receiving a Penn National Gaming, Inc. ("PNG") Non-Qualified Stock Option. These Stock Options are designed so that you may share in the Company's success.

How Do Stock Options Work?

A stock option is the right, subject to certain conditions, to purchase shares of PNG Common Stock at a fixed price. The per share price at which Shares of Common Stock may be purchased when the Stock Option is exercised is referred to as the Option Price. The Option Price is fixed on the Date of Grant and does not change for the life of the Stock Option. However, the market price of PNG stock changes and will ultimately determine the gain, if any, from your Stock Option. If the value of PNG stock increases, you will be able to buy PNG stock below the market price at the time of exercise. For example, if you have been granted Stock Options to purchase 100 shares, at an Option Price of $25 and the price of PNG stock has grown to $40 on the date you choose to exercise, you would be able to purchase shares that are worth $4,000 for only $2,500, a pre-tax gain of $15 per share. You will be subject to Federal income tax with respect to the Stock Option when you exercise your Stock Option. **THE TAX RULES APPLICABLE TO NON-QUALIFIED STOCK OPTIONS ARE COMPLEX. YOU SHOULD CONSULT WITH YOUR FINANCIAL ADVISOR FOR MORE INFORMATION.**

Stock Option Basics

The ***Option Price*** is set at the market price of PNG stock on the date the Stock Option is awarded.

The ***vesting period*** is the waiting period from the ***Date of Grant*** to the ***Vesting Date*** during which you cannot exercise your Stock Option.

The ***Option Period*** is the time from the ***Vesting Date*** until the ***Expiration Date***, during which you can exercise your Stock Options, which means you can purchase shares of PNG stock at the Option Price.

Your Stock Option can no longer be exercised after the Expiration Date, which is seven (7) years after the Date of Grant. The Stock Option will expire sooner if you leave PNG under certain circumstances. For example, if you were granted a Stock Option to purchase 100 shares of PNG Common Stock, and you remain employed by PNG for ten years, the Stock Option is exercisable as follows:

Number of Shares	Vesting Period	Option Period
25 shares	Date of Grant - First Anniversary of Date of Grant	First Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Second Anniversary of Date of Grant	Second Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Third Anniversary of Date of Grant	Third Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Fourth Anniversary of Date of Grant	Fourth Anniversary of Date of Grant - Seventh Anniversary of Date of Grant

Exhibit 10.2(b)

PENN NATIONAL GAMING, INC.

INCENTIVE STOCK OPTION CERTIFICATE

This certifies that an option to purchase shares of Common Stock of Penn National Gaming, Inc. has been granted pursuant to the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan, as follows:

Name and Address
of Optionee:

Date of Grant:

Type of Option: Incentive Stock Option

Number of shares
subject to Option:

Option Price:

Vesting Date(s):

Expiration Date:

The option is subject to all the terms and conditions of the Penn National Gaming, Inc. 2003 Long Term Incentive Compensation Plan, a copy of which is available upon request.

Date: _____

PENN NATIONAL GAMING, INC.

_____
By:
Title:

PENN NATIONAL GAMING, INC.
STOCK OPTION TERMS

All Stock Options are subject to the provisions of the 2003 Long Term Incentive Compensation Plan and any rules and regulations established by the Compensation Committee of the Board of Directors of Penn National Gaming, Inc. ("PNG"). A copy of the Plan is available upon request. Words used herein with initial capitalized letters are defined in the attached Non-Qualified Stock Option Certificate or the Plan.

The terms provided here are applicable to the Stock Option specified in the attached certificate. Different terms may apply to any prior or future stock option grants.

I. OPTION PERIOD

You may exercise your Stock Options during the Option Period, which begins on the Vesting Dates and ends on the Expiration Date. The Stock Options vest in 25% installments on each Vesting Date. The Vesting Dates are the first, second, third and fourth anniversaries of the Date of Grant. Thus, you may exercise up to 25% of your Stock Options on the first Vesting Date, up to another 25% of your Stock Options on the second Vesting Date, and so on. The Expiration Date is seven(7) years from the Date of Grant. However, the Option Period may end sooner if your employment is terminated under certain circumstances.

II. TERMINATION OF EMPLOYMENT

A. Unvested Options. If your employment is terminated for any reason, unvested Stock Options will be forfeited on the termination date.

B. Vested Options. If you voluntarily resign or your employment is terminated for Cause before your Retirement, your vested Stock Options will be forfeited on the 30th day following the date of termination. If your employment terminates for any other reason, including Retirement, Reduction in Force, your transfer to a Related Entity, your Disability or your Death, your vested Stock Options will continue to be exercisable until the Expiration Date.

III. TRANSFERABILITY

In general, Stock Options may be exercised during your lifetime only by you and may not be assigned or otherwise transferred to anyone else. Options are transferable upon your death by will or the laws of distribution and descent.

IV. PAYMENT

When you exercise your Stock Options, you may pay the Option Price in cash, by check, with previously issued shares of PNG Common Stock (under certain circumstances), in accordance with a "cashless exercise program" or with a combination of the foregoing.

Penn National Gaming, Inc.
Understanding How Incentive Stock Options Work

Congratulations on receiving a Penn National Gaming, Inc. ("PNG") Incentive Stock Option. These Stock Options are designed so that you may share in the Company's success.

How Do Stock Options Work?

A stock option is the right, subject to certain conditions, to purchase shares of PNG Common Stock at a fixed price. The per share price at which Shares of Common Stock may be purchased when the Stock Option is exercised is referred to as the Option Price. The Option Price is fixed on the Date of Grant and does not change for the life of the Stock Option. However, the market price of PNG stock changes and will ultimately determine the gain, if any, from your Stock Option. If the value of PNG stock increases, you will be able to buy PNG stock below the market price at the time of exercise. For example, if you have been granted Stock Options to purchase 100 shares, at an Option Price of $25 and the price of PNG stock has grown to $40 on the date you choose to exercise, you would be able to purchase shares that are worth $4,000 for only $2,500, a pre-tax gain of $15 per share. If you exercise your Stock Option and hold the stock for at least one year after exercise and at least two years after the Date of Grant, you will not be subject to Federal income tax with respect to the Stock Option until you sell the stock. Generally, however, this favorable tax treatment applies only if you were an employee of PNG at the time of exercise or had left the Company less than three months before the exercise. **THE TAX RULES APPLICABLE TO INCENTIVE STOCK OPTIONS ARE COMPLEX. YOU SHOULD CONSULT WITH YOUR FINANCIAL ADVISOR FOR MORE INFORMATION.**

Stock Option Basics

The ***Option Price*** is set at the market price of PNG stock on the date the Stock Option is awarded.

The ***vesting period*** is the waiting period from the ***Date of Grant*** to the ***Vesting Date*** during which you cannot exercise your Stock Option.

The ***Option Period*** is the time from the ***Vesting Date*** until the ***Expiration Date***, during which you can exercise your Stock Options, which means you can purchase shares of PNG stock at the Option Price.

Your Stock Option can no longer be exercised after the Expiration Date, which is seven (7) years after the Date of Grant. The Stock Option will expire sooner if you leave PNG under certain circumstances. For example, if you were granted a Stock Option to purchase 100 shares of PNG Common Stock, and you remain employed by PNG for ten years, the Stock Option is exercisable as follows:

Number of Shares	Vesting Period	Option Period
25 shares	Date of Grant - First Anniversary of Date of Grant	First Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Second Anniversary of Date of Grant	Second Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Third Anniversary of Date of Grant	Third Anniversary of Date of Grant - Seventh Anniversary of Date of Grant
25 shares	Date of Grant - Fourth Anniversary of Date of Grant	Fourth Anniversary of Date of Grant - Seventh Anniversary of Date of Grant

Exhibit 10.12

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.

		Reference
1.	Landlord's Name and Address: Wyomissing Professional Center II, Limited Partnership (the "Landlord") 825 Berkshire Boulevard Suite 203 Wyomissing, Pennsylvania 19610 Attention: Mr. Stephen J. Najarian	¶ 38
2.	Tenant's Name and Address: Penn National Gaming, Inc. (the "Tenant") 825 Berkshire Boulevard, Suite 200 Wyomissing, Pennsylvania 19610	¶ 38
3.	Leased Premises: The area shown on Exhibit "A" 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.	¶ 1
4.	Building Location: 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.	¶ 1
5.	Building Common Area: The area shown on Exhibit "F" attached hereto and made a part hereof (the "Building Common Area").	¶ 4(c)

		Reference
6.	Parking Spaces: 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.	¶ 1
7.	Date of Lease: January 25, 2002	¶ 2
8.	Commencement Date: 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,	¶ 2
9.	Term: Ten (10) years from the first day of the first full month of occupancy after the Commencement Dale (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.	¶ 2
10.	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	¶ 3

increase over prior year's Annual Minimum Rent.

Premises Size		4,388
Starting Rate perSF	$	13.00
Annual escalation		2.0%

Time Period	Rentable Sq. Ft,	Annual Rent per SF	Monthly Rent	Annual Rent (the "Annual Minimum Rent")
Year l	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 Exhibit "B" year budget based on $3.25 per SF of rentable floor area not including janitorial expenses.

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 30th 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

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito

Title: Asst. to Chairman

Title: Vice President, Secretary and Treasurer

Date: January 30, 2002

("Tenant")

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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

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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 lo 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. 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 feel. 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. AH 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 oilier 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 untenantable 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 dale 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 properly, 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 low 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 reentry, 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 preceding 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.

(g) Tenant shall pay Landlord interest at twelve percent (12%) per annum on all failures lo 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.

(h) 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 AIL 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 often (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 al 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 hindrance 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.

TENANT ACKNOWLEDGES THAT THIS LEASE CONTAINS, AT PARAGRAPHS 28 AND 29 HEREOF, PROVISIONS FOR THE CONFESSION OF JUDGMENT AGAINST TENANT FOR MONEY AND FOR POSSESSION OF REAL PROPERTY AND HAS REVIEWED AND UNDERSTANDS THE CONTENTS THEREOF.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound to the terms of this Lease, have caused this Lease to be duly executed this 30th day of June, 2001.

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, Secretary and Treasurer

Date: January 30, 2002

("Tenant")

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

COMMENCEMENT AGREEMENT

THIS COMMENCEMENT AGREEMENT (the "Agreement") made this day 21st of May 2002, between **Penn National Gamming, 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", 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: May 24, 2002

ATTEST:

By: /s/ Susan M. Montgomery

Title: Office Manager/Asst to Chairman

Date: May 23, 2002

TENANT:

By: /s/ Robert S. Ippolito

Title: Vice President/Secretary/Treasurer

Date: May 23, 2002

Exhibit 10.12(b)

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 Al-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 Al -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: December 4, 2002

TENANT:

ATTEST:

PENN NATIONAL GAMING, INC., a Pennsylvania corporation

By: /s/ Susan M. Montgomery
Name: Susan M. Montgomery
Title: Assistant to Chairman
Date: December 4, 2002

By: /s/ Robert S. Ippolito
Name: Robert S. Ippolito
Title: Vice President/Secretary/Treasurer
Date: December 4, 2002

ATTACHMENT A1-1

FIXED ANNUAL MINIMUM RENT

Rentable SF:		9,909
Starting Rate PRSF:	$	13.00
Annual Escalation:		2.0%

Lease Year/ Period	Rentable Sq.Ft .	Minimum Rent per Rentable Sq. Ft.	Monthly Rent	Annual Rent (the "Annual Minimum Rent")
3/1/03-5/31/03	9,909	$ 13.00	$ 10,734.75	$ 32,204.25
Lse Yr 2	9,909	$ 13.26	$ 10,949.45	$ 131,393.34
Lse Yr 3	9,909	$ 13.53	$ 11,168.43	$ 134,021.21
Lse Yr 4	9,909	$ 13.80	$ 11,391.80	$ 136,701.63
Lse Yr 5	9,909	$ 14.07	$ 11,619.64	$ 139,435.66
Lse Yr 6	9,909	$ 14.35	$ 11,852.03	$ 142,224.38
Lse Yr 7	9,909	$ 14.64	$ 12,089.07	$ 145,068.86
Lse Yr 8	9,909	$ 14.93	$ 12,330.85	$ 147,970.24
Lse Yr 9	9,909	$ 15.23	$ 12,577.47	$ 150,929.65
Lse Yr 10	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.

Exhibit 10.13

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.

		Reference
1.	Landlord's Name and Address:	¶38
	The Corporate Campus at Spring Ridge 1250, L.P. Limited Partnership (the "Landlord") 825 Berkshire Boulevard Suite 203 Wyomissing, Pennsylvania 19610 Attention: Mr. Stephen J. Najarian	
2.	Tenant's Name and Address:	¶38
	Penn National Gaming, Inc. (the "Tenant") 825 Berkshire Boulevard, Suite 200 Wyomissing, Pennsylvania 19610 Attention: Mrs. Susan Montgomery	
3.	Leased Premises:	¶1
	The area shown on Exhibit "A" attached hereto and made a part hereof (the "Premises"), containing approximately 1,042 square feet of rentable floor area, situate on the ground floor of a building (the "Building") constructed on the land. The building contains approximately 10,042 square feet of rentable floor area.	
4.	Building Location:	¶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.	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 4 undesignated parking spaces (collectively, the "Parking Spaces") in the parking area adjacent to the Building.	
7.	Date of Lease:	¶2
	August 22, 2003	
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 (the "Commencement Date"). The anticipated Commencement Date is September 1, 2003.	
9.	Term:	¶2
	Three (3) years from the first day of the first full month of occupancy after the Commencement Date (the "Term").	
10.	Fixed Annual Minimum Rent:	¶3
	Starting rent based on $10.00 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:	1,042 RSF
Starting Rate/RSF:	$10.00

Annual Escalation:	2.0%

Lease Yr.	Rentable SF	Annual Rent per Rentable SF	Annual Rent (the "Annual Minimum Rent")	Monthly Rent
1	1,042	$ 10.00	$ 10,420.00	$ 868.33
2	1,042	$ 10.20	$ 10,628.40	$ 885.70
3	1.042	$ 10.40	$ 10,840.97	$ 903.41

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 $3.75 per SF of rentable floor area not including janitorial expenses. Exhibit "B"

Lease Yr.	Rentable SF	CAM est per RSF	Monthly CAM	Annual CAM
1	1,042	$ 3.75	$ 325.63	$ 3,907.50

12. Building Standard Work Allowance: ¶10

$0.00 per square foot of usable floor area of the Premises (the "Building Standard Work Allowance"). Landlord, at its cost, will complete improvements to the Premises set forth in Exhibit "E" attached hereto. Tenant to provide funding for any additional interior improvements within the Premises. Exhibit "E"

13. Security Deposit: ¶5

Waived

14. Use of Premises: ¶6

Storage of general office and marketing materials (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 22nd day of August, 2003.

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.

THE CORPORATE CAMPUS AT SPRING RIDGE 1250, LIMITED PARTNERSHIP, a Pennsylvania limited partnership, by its General Partner, THE CORPORATE CAMPUS AT SPRING RIDGE 1250, INC.

By /s/ Stephen J. Najarian
Stephen J. Najarian, President
("Landlord")

PENN NATIONAL GAMING, INC.

ATTEST:

By: /s/ Susan M. Montgomery

Name: Susan M. Montgomery

Title: Office Mgr/Asst to the Chairman

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito

Title: Vice President/Secretary,

Treasurer

Date: August 22, 2003
("Tenant")

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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 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.

(d) 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, repaying, 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) warts 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 has constructed the Building on the Land substantially 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 or interior improvements 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 the cost of interior improvements to be made to the Premises that are in addition to those specified as Landlord's work in Exhibit "E" attached hereto (the "Additional Improvements"). All such Additional Improvements shall be made in accordance with Tenant's plans and specifications, 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) Tenant agrees to pay for the entire amount of the cost of the work performed to complete the Additional Improvements promptly upon billing therefore.

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, except for the Landlord's work set forth in attached Exhibit "E", 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 ate 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.

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 untenantable 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 low 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 reentry, 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 proceeding 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.

(g) 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.

(h) 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 FN 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.

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 often (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 Corporate Campus Owner's Association, be, which is recorded in the Recorder of Deeds Office of Berks County, Pennsylvania, and (b) the Articles of Incorporation and the Bylaws of The Corporate Campus Owners Association, 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.

TENANT ACKNOWLEDGES THAT THIS LEASE CONTAINS, AT PARAGRAPHS 28 AND 29 HEREOF, PROVISIONS FOR THE CONFESSION OF JUDGMENT AGAINST TENANT FOR MONEY AND FOR POSSESSION OF REAL PROPERTY AND HAS REVIEWED AND UNDERSTANDS THE CONTENTS THEREOF.

IN WITNESS WHEREOF, the parties hereto, intending to be legally bound to the terms of this Lease, have caused this Lease to be duly executed this 22nd day of August, 2003.

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.

THE CORPORATE CAMPUS AT SPRING RIDGE 1250, LIMITED PARTNERSHIP, a Pennsylvania limited partnership, by its General Partner, THE CORPORATE CAMPUS AT SPRING RIDGE 1250, INC.

By /s/ Stephen J. Najarian
Stephen J. Najarian, President
("Landlord")

PENN NATIONAL GAMING, INC.

ATTEST:

By: /s/ Susan M. Montgomery

Name: Susan M. Montgomery

Title: Office Manager/Assistant to the Chairman

By: /s/ Robert S. Ippolito

Name: Robert S. Ippolito

Title: Vice President/Secretary, Treasurer

Date: August 22, 2003
("Tenant")

CONSENT

INTENDING to be legally bound hereby, The Corporate Campus Property Owners' Association 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.

THE CORPORATE CAMPUS PROPERTY OWNERS' ASSOCIATION

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 10.14

AGREEMENT

between

SPORTS ARENA EMPLOYEES'

LOCAL 137, AFL-CIO

Affiliated with Laborers' International Union
of North America

and

PENN NATIONAL TURF CLUB, INC.

October 1, 2001 to September 30, 2005

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This agreement made by and between Mountainview Thoroughbred Racing Association and Penn National Turf Club, Inc., (hereinafter referred to as the "Employer") and Sports Arena Employees' Union, Local 137, affiliated with the Laborers' International Union of North America, AFL-CIO, (hereinafter referred to as the "Union").

ARTICLE 1

UNION RECOGNITION

1.1 The Employer hereby recognizes the Union as the sole and exclusive collective bargaining agent for all tellers, admission employees and program sellers at the employer's non-primary location, and excluding all other employees. Guards, maintenance, audio video, customer service, money room, clerical and supervisory employees shall not be bargaining unit employees as defined in the National Labor Relations Act. In the event the business activity of the Employer warrants, the Employer shall employ a money room counter specifically for the purpose of counting teller receipts only. Any such position shall be included in the bargaining unit and be paid at the appropriate teller rate.

ARTICLE 2

UNION SECURITY

2.1 All present unit employees who are members of the Union on the effective date of this Agreement shall remain members of the Union in good standing as a condition of employment.

2.2 All new unit employees shall be required as a condition of employment to become and remain members of the Union upon completion of thirty-one (31) calendar days.

ARTICLE 3

NOTIFICATION TO THE UNION

3.1 The Employer shall furnish official notices to the Union at the following addresses: Sports Arena Employees' Local 137, AFL-CIO, Suite 203, 1012 Haddonfield Road, Cherry Hill, NJ 08002.

ARTICLE 4

SENIORITY

4.1 Seniority shall be defined as the employee's total length of continuous uninterrupted employment with the Employer. Except as otherwise provided herein, the seniority referred to in this Article is Departmental seniority only.

4.2 Seniority shall be based upon the employee's total hours worked from employee's last date of employment. In the event that two or more employees have the same seniority, ranking shall be determined by a drawing.

4.3 Employees shall accrue seniority only in the department and at the facility in which they are employed except that bargaining committee members shall be credited with time worked for all hours, except for pay.

4.4 There shall be separate Admissions and Mutuel Teller seniority lists in each facility. Employees shall accrue seniority credit on only one list even if they have worked at a position on the other list.

4.5 The Employer will provide each month current seniority lists by department for each facility and productivity lists quarterly for each facility to the Shop Steward and shall post same.

4.6 Any employee who seeks to dispute anything regarding Seniority or these lists must file a grievance within the time limitations and pursuant to the grievance procedure or it is waived. Nothing herein shall intend to change the past practice of the frequency at each facility of the periods that seniority lists are utilized to create schedules.

4.7(A) All new unit employees shall be required to complete a probationary period which shall be defined as three (3) calendar months. Upon completion of the probationary period, seniority credit shall be given for days worked during the probationary period.

4.7(B) There shall be no seniority among probationary employees.

4.7(C) During the probationary period the Employer may terminate an employee's employment for any reason without recourse to the grievance procedure by either the union or employees. During the probationary period, an employee shall have no right to file grievances of any kind nor shall the Union have the right to file grievances on behalf of the employee.

4.8 All unit employees are expected to work when scheduled.

4.9 The parties agree that scheduling will continue to be done at each facility in accordance with the past practice at each. However, if an employee chooses to reduce their availability as to the number of shifts over the scheduling term, then management shall not be obligated, for up to three (3) calendar months, to reschedule in order to accommodate the employee to reinstate the prior number of shifts.

4.10 Employees may not demand to work over forty (40) hours per week, however, any scheduled or foreseen overtime, (i.e., work over forty (40) hours) , shall be offered in the Department by seniority.

4.11 Unforeseen work opportunities during that shift shall be offered first to employees in the department and on that shift by seniority.

4.12 All Admissions department shifts shall be offered to Admissions department employees before being offered, to any Mutuel department employees. Admission-qualified Mutuel employees who are utilized to fill a vacancy in an Admissions position will carry their pay rate and accrue such hours as hours worked within the Mutuel Department for all purposes. However, as with the hours worked in the Customer Service position, time worked in Admissions by Mutuel employees shall not be used against them for the productivity formula or any other purpose.

It is understood, that if the Employer is without an Admissions employee, and cannot reduce the number of tellers needed for a particular shift, no offer of "open" Admissions Department work need be made to already scheduled Admissions-qualified mutuel employees. An offer of such work to scheduled and/or to unscheduled tellers shall be made before a work opportunity is provided to a non-bargaining unit employee where there are sufficient Admissions-qualified Mutuel Department employees.

4.13 Upon an approved medical leave or a Family Medical Leave Act leave, seniority shall accrue, but only for hours one would normally be work eligible, up to six (6) months while on an approved leave of absence. However, no one on such leave may accrue greater hours then he could have been eligible but for the leave. After six (6) months the employees status arid accumulated hours shall be maintained or frozen, but no further hours will accrue.

4.14 Seniority shall be lost in the following instances:

a. Quit;

b. Discharge for cause;

c. Retirement;

d. Failure to report for work within three (3) working days after being notified by the Employer or the Union to report for work.

e. Unexcused absence. An unexcused absence shall consist of any absence without justifiable cause.

f. Layoff in excess of twelve (12) months.

4.15(A) Department seniority will be the determining factor in layoff and recall.

4.15(B) Department layoff and recall rights shall be based on (accrued hours) seniority.

4.16 All current bargaining unit employees at Penn National Racecourse shall be considered for employment as non-primary locations. Management shall have sole discretion as to who is qualified, in their opinion, to perform duties at all non-primary locations.

4.17 All current bargaining unit employees at non-primary location shall be considered for transfer of employment to another non-primary location. Should such a transfer occur, the employee shall carry their original date of hire and their then current pay rate, but only up to the highest rate in effect at the facility into which they transfer. Such employee who chooses to be transferred shall not carry any seniority credit from their previous location and would be placed at the bottom of the seniority roster, but ahead of all probationary employees.

ARTICLE 5

MANAGEMENT RIGHTS

5.1 Subject to the terms of this Agreement, the Employer retains the right to manage and direct the work force including, but not limited to, the right to control the number of employees to be employed, the right to schedule work and assign and change locations at which work will be performed, the right to designate the equipment to be used and the methods of

operation, and the right to establish, implement and change reasonable standards of performance, incentive standards or plans, and other rules or regulations, and the right to discipline or discharge for cause. Managerial functions or prerogatives not in conflict with a specific term of this Agreement are retained. It is further understood that management has the right to promote, demote or transfer employees when, in its opinion, such movement is necessary for the proper operation of its business.

ARTICLE 6

WORK BREAKS

6.1 There shall be one 15-minute break for any employee whose work shift is from zero to six hours. There shall be one 15-minute break and one 30-minute break for any employee whose work shift is in excess of six hours. Any and all breaks shall be scheduled at the discretion of management. An additional 15 minute break will be due to any employee who works 8 and 1/2 hours. However, time to "count-out" not included to 'trigger' a break.

ARTICLE 7

CHECK-OFF

7.1 The Employer shall deduct from the pay of the employees represented by the Union, their established Union dues, fees, and assessments and turn them over to the authorized agent of the Union, by check, after first having received a copy of the signed check-off authorization form executed by the employees, from the Union. Remittance of union dues, fees, and assessments shall be made on a monthly basis. In addition to the deduction of daily working dues, the annual per capita dues, fees and assessments of the Union shall be deducted each year.

7.2 The Employer agrees to "deduct and transmit to Sports Arena Employees' Local 137 Political Action Committee contributions for each shift worked from wages of those employees who have voluntarily authorized such contributions on the forms provided for that purpose by the Union. These transmittals shall occur monthly and shall be accompanied by a list of the names of those employees and the amount deducted for each such employee.

The Employer further agrees to deduct deposits to the Sports Arena Employees' Local 137 Union Federal Credit Union upon presentation of an employees signed authorization. These transmittals shall be made weekly to the Credit Union and shall be accompanied by a list of employees from who payroll deductions have been made and the amount deducted for each such employee.

ARTICLE 8

WAGES

Admissions and Mutuels

8.1 All employees in the bargaining unit shall receive increases to their current pay rate as follows:

a. Effective October 1, 2002, all employees shall receive an increase of + $.35/hr. retroactively for all hours worked.

b. Upon ratification all hours worked thereafter by any employees making less than $8.20/hr. in Mutuels and $6.75 in Admissions shall immediately receive the necessary increases so as to be at that hourly rate. Thereafter, the starting rates may not be below those rates.

c. Effective October 1, 2002 all employees in the bargaining unit shall receive an additional increase of + $.20/hr for all hours worked thereafter.

d. Effective October 1, 2003, all employees in the bargaining unit shall receive an additional increase of + $.35/hr. for all employees for all hours worked thereafter.

e. Effective October 1, 2004, all employees in the bargaining unit shall receive an additional increase of + $.35/hr. for all hours worked thereafter.

8.2 If the Employer, but only upon ten (10) days advance notice to the Union Business Manager, raises the initial base rate of pay for newly hired employees (under 8.1 or 8.6 above) then, the base pay for each employee in the same department who has less that none (1) year of service shall also be increases so as to maintain their relative wage against the starting rate. In addition, no unit employee in that department shall receive a base rate of pay which is lower than that of someone hired after them and shall receive such adjustments to assure same. Once such new employee rates and/or the rate for any affected employees are raised, such "raised" rates may not be reduced.

8.3 All pay calculations for tellers shall be based upon sign-on and/or sign-off at the nearest quarter hour to the time shown on the Wagering Terminal Voucher. All pay calculations for admissions employees shall be based upon sign-on and/or sign-off at the nearest quarter hour to the time shown on the payroll computer terminal. Employees shall be paid for all time for which the Employer requires their time.

8.4 If employees are requested to work two shifts in the same day and there is less than one (1) hour between the end of the first shift and the beginning of the second, the employees shall be paid for that time. However, if there is more than one (1) hour between shifts, the Employer may require that the employees go on unpaid time off for that period.

8.5 The Employer will clear the record of any employee who has not committed an offense in 24 months. Should the Employer request to interview an employee under

circumstances which are likely to lead to that employee being disciplined, the Employer will permit any immediately available shop steward or union representative to be present during the interview. In the event of a flagrant breach of customer service or productivity standards, the Employer shall have the right to terminate such employee immediately, subject to Article 15 and 16 hereof.

Mutuels

8.6 The employer retains the right to discipline or terminate the employment of any employee that fails to meet the Employer's standard for customer service. To this end, it is specifically noted that customer service evaluations will occur throughout the year and will not be announced. The Employer will use its best efforts to inform employees of their evaluations within ten (10) working days. Discipline for failure to meet customer service standards shall be as follows:

1. Documented verbal warning;
2. Formal written warning;
3. 3 day suspension & final warning;
4. "Review for Termination" procedure (see attached).

8.7 Line supervisors/tellers shall receive an additional one dollar and twenty five cents ($1.25) per hour premium, which has been the compensation for some time.

8.8 Customer Service Representatives shall receive an additional $1.25 per hour premium, which has been the compensation for some time, for all time worked. Selection for such positions shall be as in the past practice at each facility. Anyone performing the Customer Service Representative duties shall be paid the additional $1.25 per hour over their base pay except this shall not be paid in addition to the incentive. All such hours shall not count

negatively for an employees productivity formula, but shall count as hours worked for all purposes including seniority.

ARTICLE 9

DEATH IN FAMILY

9.1 Any non-probationary employee who, during the racing meeting, suffers a death in the family as hereinafter defined, shall be entitled to three (3) work days off within, a 7 calendar day period and a member of the family is defined as wife or husband, child, natural, adopted or foster, stepchild, sister, brother, parent or parent-in-law.

ARTICLE 10

VALIDITY OF CONTRACT

10.1 The parties hereto agree that should any Article, part or section of this Agreement be declared by a federal or state court of competent and final jurisdiction to be unlawful, invalid, ineffective or unenforceable, said Article, part or section shall not affect the validity and enforceability of any other Article, part or paragraph hereof and the remainder of this Agreement shall continue in full force and effect.

10.2 Moreover, anything herein to the contrary notwithstanding, this entire contract is subject to the regulations of the Pennsylvania State Horse Racing Commission, the provisions whereof take precedence over and supplant any provision of this Agreement which may be in conflict therewith.

ARTICLE 11

STRIKES AND LOCKOUTS

11.1 This Agreement provides definite means for settling all disputes which may arise between the parties concerning its interpretation and application. Therefore, there shall be no

lockout of Union members by the Employer and no strike, walkout, sitdown, sympathy strike, or any action or inaction that may interfere with or interrupt the Employer's operations shall be called, authorized, sanctioned or permitted by the Union during the term of this Agreement, unless either party hereto shall fail to comply fully with the grievance and arbitration provisions and procedures set forth in this Agreement.

ARTICLE 12

UNION VISITATION

12.1 The Union representatives shall be permitted entry for Union business upon the Employer's premises where the Union's members are employed.

12.2 It is agreed that such Union representative will not interfere in any way with the Employer's business.

12.3 The Employer shall provide the Union with a bulletin board in a bargaining unit work area at each facility for the posting of notices and such other information dealing with contract administration and Union membership. The Union agrees that the board will only be used for official union business upon the approval of the Business Manager, and that the Union will not post anything which unfairly depicts the Employer. The Employer agrees not to interrupt, delay, or in any way interfere with Union communications to its members through its designated representatives, including information communicated via the Employer's facility facsimile machine.

ARTICLE 13

ILLNESS AND INJURY

13.1 Employees who are absent from work for one (1) year or less due to bona fide illness, accident or official leave of absence, shall be entitled to return to their employment when

available to do so, without loss of seniority accrued prior to absence. The one (1) year period may be extended by mutuel agreement.

13.2 Where legitimate cause exists, employees shall be required to submit to Company-paid physical examinations.

ARTICLE 14

PREMIUM PAY AND HOLIDAYS

14.1 The Employer shall pay all employees *who do not* qualify for 14.2 below, and who perform work on any of the following holidays at one and one half (1 1/2) times their regular hourly rate of pay:

New Year's Day

Good Friday

Easter Sunday

Memorial Day

July 4

Labor Day

Thanksgiving

Christmas

14.2 Effective October 1, 2002 and thereafter, all employees who average 35 hours/week in the prior calendar year and who work on a Holiday shall receive, at their choice, the greater of either:

a. Double time for all hours worked on the calendar day of that Holiday, or;

b. Straight time pay for all hours worked that day plus an additional 6 hours of additional pay.

If such employee choose not to work, or otherwise does not work, then they shall receive a paid holiday allowance of one additional regular shift at their straight time rate in their regular paycheck for the pay period including the holiday. The Holidays shall include:

New Year's Day

Memorial Day

July 4th

Labor Day

Thanksgiving

Christmas

14.3 All Hours paid for Holidays, whether worked or not, and whether under 14.1 or 14.2 shall be counted for all purposes of employment effective January 1 2003. (If the 2002 Thanksgiving Holiday credit for hours would effect anyone qualifying solely for vacation, sick, holiday or benefits then same shall be credited.) (Also, anyone who worked greater than or equal to an average of 35 hours per week in the 2002 and has worked either for all hours worked on those days as well Thanksgiving 2002 or New Years 2003, then they shall be paid and credited hours at time and one half (1 1/2) times for all hours worked on those days plus an additional 6 hours paid & credited for each of those two dates that were worked.)

ARTICLE 15

SETTLEMENT OF GRIEVANCES

15.1 Should any grievance arise between the parties, whether it deals with the meaning, application or interpretation of this Agreement or otherwise, the same shall be resolved as follows:

a. Any employee having a grievance shall present it to the Steward, in writing, within seven (7) working days after exhausting the Employer's dispute resolution

procedure. The Steward shall refer the grievance to the business representative of the Union. Grievances may be initiated by the Union or the Employers if they so desire.

b. The business representative or his designee shall take up the grievance with the department manager. If a satisfactory settlement cannot be reached at the time of this meeting with the department manager, the business representative or his designee shall take up the unsettled grievance with the General Manager, who shall, within ten (10) days after presentation to him of the grievance, submit an answer to the Union's representative. In the event that the General Manager fails to give his answer within the aforesaid ten-day period or if the Union is not satisfied with the answer that is given, the Union shall have the right to submit said grievance to arbitration as set forth below. The Employer has the right to submit Employer-initiated grievances to arbitration.

c. The Union may, after the expiration of the ten (10) day period or after receipt of the General Manager's answer, whichever is later, but not later than five (5) days thereafter, give management notice of its desire to have the grievance submitted to impartial arbitration.

d. The Union and the Employer shall attempt to agree upon the appointment of an impartial arbitrator. If the parties are unable to agree within ten (10) calendar days after the notification from the Union or Employer of its desire to arbitrate, the parties shall request that the American Arbitration Association submit to each of them a list of arbitrators from its panel of impartial arbitrators.

e. The decision of the arbitrator shall be final and binding on the parties to this Agreement and shall not be subject to appeal to any court or board.

f. Neither party shall be responsible for the expenses of witnesses called by the other party. The arbitrator's fees and expenses will be paid one half (1/2) by the Union and one-half (1/2) by the Employer.

ARTICLE 16

NOTICE OF DISCHARGE OR SUSPENSION

16.1 The business representative of the Union shall be notified, in writing, immediately after a discharge or suspension takes place, which notice shall contain the name of the employee involved and the reason for such discharge or suspension.

ARTICLE 17

TICKET ERRORS, OVERAGES AND SHORTAGES

17.1 Shortages shall be settled daily.

17.2 Overages shall be returned to the employees as soon as possible after the end of the calendar year.

17.3 Those employees responsible for accepting bets, and all those employees in any way responsible for money or tickets shall be fully accountable to the Employers for any loss or shortage therein except when such loss or shortage is caused by:

a. force or threat of bodily harm;

b. acceptance of counterfeit money which is not clearly detectible; and,

c. theft – the burden or proving a loss as a result of theft is placed on the employee and such proof must be more than a surmise or suspicion but must clearly establish that the employee's shortage is due to theft, and not his own negligence.

ARTICLE 18

RULES, REGULATIONS AND PERFORMANCE STANDARDS AND INCENTIVE STANDARDS OR PLANS

18.1 As set forth in Article 5, the Employer shall have the right to establish, implement and change reasonable rules, regulations, performance and incentive standards for the conduct of their business as they may deem necessary and advisable, and all employees shall be obligated to comply with same.

18.2 Before such rules, regulations or standards become effective, they shall be in writing and a copy shall be given to the business representative of the Union and sufficient copies shall be posted and/or distributed not less than one (1) week prior to their becoming effective in order to apprise the clerks of their obligations thereunder.

ARTICLE 19

VACATIONS

19.1 Employees who have worked 1,560 hours in the previous calendar year will be given one week off with pay. Work week will be defined as the average number of hours worked per week in the previous calendar year.

19.2 Employees who have worked 1000 hours but less than 1250 hours in the prior calendar year shall have two (2) paid personal days for use in the following year. Employees who have worked 1250 hours but less than 1560 hours in the prior calendar year shall have three (3) paid personal days for use in the following year. A personal day shall be defined as a "shift" which is 6 hours as per past practice.

19.3 All approved time off such as vacation or personal days, family leave (approved FMLA standards), medical leave, military leave, bereavement leave or jury duty leave shall be

used in the calculations for qualifying for vacation and personal days. In addition, all hours for which any employee is paid including but not limited to sick pay and holiday pay shall all count as hours worked for all purposes of employment.

19.4 Vacation pay will be equal to the employee's average number of hours worked per week in the previous calendar year multiplied by the employee's regular hourly rate of pay.

19.5 Any vacation request must be approved at least 15 days in advance. It is understood that the Employer shall have the right at all times to determine the number of employees to be granted vacation at any one time. In the event of a conflict in vacation requests, seniority shall control, provided the 15 days notice has been given. However, the employees request to utilize an available individual vacation day or to receive vacation pay shall not be unreasonably withheld.

19.6 Commencing on January 1, 2003 and thereafter, in addition to the above, any employee with five (5) or more years of service who has worked 1820 hours in the previous calendar year shall be entitled to an additional 5 shifts of vacation time at a shift length of 6 hours.

ARTICLE 20

LEAVES OF ABSENCE

20.1 No employee shall be granted a leave of absence without the prior written approval of the Employer and the Union. Unless extended by mutuel agreement, leaves of absences shall be limited to no more than one (10) year. At the end of such leave of absence, such clerk shall be reemployed in the same classification in which he was employed at the commencement of his leave, without loss of pay status and without impairment of his seniority

rights. Except as provided in Article 4 herein, seniority credit shall not accrue during an approved leave of absence.

20.2 Military Leave – Any employee represented by this Union heretofore or hereafter separated from his employment due to military service shall be reinstated in his prior position with the Employer, provided he applies for reinstatement within twelve (12) months of his honorable discharge from the military service or the first day of racing of the next racing season, whichever is later.

20.3 Any such leaves shall be without pay or benefits except as may be required by law.

ARTICLE 21

WORK NOT AVAILABLE

21.1 Any employee reporting for work who begins to perform any duties of his job shall be entitled to three (3) hours pay at straight time rates.

21.2 In case of closure of a facility, employees who have not been notified at least one and one-half (1 1/2) hours before scheduled start time shall, if they report, receive one (1) hour's pay at straight time rates.

21.3 If an employee works at least an average of eleven (11) hours of weekend shift work per week for the prior calendar quarter, then all hours for which that employee is scheduled and for which the employee shows up to work, (excluding any hours for which the employee volunteers to leave early) shall be credited as hours worked for that employee for all purposes except pay.

21.4 Once the employer has posted the completed schedule for the employees work shifts and the employer thereafter either closes on a scheduled day or cancels any scheduled shift

(except for weather or other situations beyond the employers ability to control) then the employer must immediately re-post and, in effect, re-bid by seniority all remaining days and shifts in the applicable scheduling period.

ARTICLE 22

UNIFORMS

22.1 Employees will be required to purchase shirt and pants designated by the Employer. Shirt and pants shall be of standard style and materials.

22.2 Employer shall supply at their costs any accessories, such as ties, vests, jackets and any other items that they may require employees to wear. The Employer shall have, the right to require the employee to wear such Employer supplied accessories.

22.3 The employer shall create reasonable specifications for sweaters which the employees shall be permitted to purchase and wear if they choose to do so.

ARTICLE 23

MEDICAL BENEFITS

23.1 Commencing February of each year, the Employer agrees to provide Capital Blue Cross, Custom Blue PPO, Basic Option, as currently provided to other Penn National employees or the best medical plan offered to any of the management, and in no event shall the unit employees receive a lesser benefit plan than provided to any other Penn National employee. The employer will pay 70% of the cost of said program for one full year of single coverage for any unit employee who has averaged 35 hours per week in the prior calendar year. Effective on October 1, 2002, the employer will thereafter pay 80% of the cost of these benefits.

23.2 The employee may choose to pay the difference between the “basic plan” or the “enhanced plan” and for coverage for dependents as defined by the insurance carrier.

23.3 The Employer shall take the necessary and appropriate actions to ensure that the employee’s portion of any contributions to the above coverage is deducted from the employee’s pay and is done before tax, i.e., non-taxable, dollars.

23.4 Coverage shall commence on February 1, for those qualifying based on the prior calendar year qualification (excluding Horseman’s Shutdown).

23.5 The Employer agrees to allow employees covered by this Agreement, to buy into the below referenced medical plan provided the employee accepts the provider’s minimum term of coverage.

23.6 Approved time off as per 19.3 shall be used in the calculations for qualifying for medical benefits.

ARTICLE 24

PAID SICK LEAVE

24.1 Effective October 1, 2002 and thereafter, all full-time employees, i.e. those who have worked an average of 35 hours per week in their prior calendar year, shall be eligible for paid sick leave benefits for use in the succeeding year as follows:

a. For employees with less than five (5) years of seniority, but who have completed probation, shall be entitled to use up to six (6) paid sick days per calendar year due to sickness or injury to themselves. Such payments shall commence on the third consecutive day of an absence.

b. For employees with five (5) years or more of seniority, shall be entitled to use up to six (6) paid sick days per calendar year due to sickness or injury to themselves. Such payments shall commence on the second consecutive day of absence.

24.2 If an employee is absent for three or more consecutive days, a physicians certificate may be required to verify the illness or injury and its beginning and end dates in order to receive paid sick leave pay.

24.3 Sick leave benefits will be calculated based on the employee’s earnings that the employee would have made for the time scheduled had they worked on the date of absence. A day for purposes of this section only shall mean a calendar day whether a single or a double shift.

24.4 Sick leave benefits are intended solely to provide income protection and may not be used for any absence but the employee's personal illness or injury.

24.5 Unused sick leave benefits will not be "paid out" nor can unused days be "cashed out" to employees while they are employed or upon cessation of their employment.

ARTICLE 25

SLOT MACHINE AGREEMENT

25.1 The parties agree that in consideration for the active assistance of Sports Arena Employees Local Union No. 137, AFL-CIO, LIUNA (The Union), the undersigned licensee and Employer (The Employer) agrees to amend their collective bargaining agreement at both on-track and off-track as follows if the Legislature shall pass legislation permitting the operation of any slot machines at any of their or their or their subsidiaries licensed facilities in the Commonwealth of Pennsylvania:

a. The operators agree to participate and to contribute to Local 137 Health and Welfare Fund one-half of the cost of an HMO plan or single coverage for an HMO plan to be offered for all full-time employees (on-track or off-track) who do no otherwise have coverage provided to them by the Employer-operator. Full time equates to any employee who has averaged 35 hours per week off-track, or 190 shifts on-track during the previous calendar year

inclusive of all approved time-off such as: leave of absences, vacation, jury duty, bereavement or worker's compensation. This obligation by the Employer is by this Agreement limited to either contributions of fifty percent (50%) of the costs for single, two people, or three and above, at the monthly rates of $150.00, $286.00, and $408.00, respectively. The alternative obligation regarding single coverage shall include an employee co-payment of 7.5% of the monthly premium.

b. The operators agree to provide a 401K plan to all employees (on-track or off-track) who are members of this Union with a provision for the Employer contribution of 20% of employee contributions on up to a maximum of 10% of employees gross pay.

c. Should any new form of gambling or gaming be introduced into the operations of the operators herein, including "gaming devices", then all current employees of the operator (represented by Local 137) shall be permitted 90 days to train and work in the new positions created, and to carry their seniority to the new position.

d. The Employers agree as a minimum that the personnel who will be employed by any company or entity engaged to perform the work of handling money, providing change, redeeming coins, or otherwise in any way related to such operations, except managerial, supervisory, electrical installation and/or repair personnel and warranty repair personnel, and food and beverage personnel will come under the work jurisdiction of Sports Arena Employees' Local 137, AFL-CIO, 1012 Haddonfield Road, Cherry Hill, New Jersey.

All such jobs associated with the new gambling or gaming shall be considered part of the on-track bargaining unit, and will be subject to the terms and conditions of the current on-track agreement, except that the Union and the Employer shall negotiate rates of pay for the

new positions. Further, the Union agrees to execute a separate document at the expiration of the then current contract.

e. Should the operator "lease", sub-contract, or sell any portion of the current operations or "new" gaming or gambling operations involving the work of the bargaining unit, the provisions of this agreement, as well as their current collective bargaining agreement, as well as their current collective bargaining agreement, shall become a condition of and execution of same shall be a pre-requirement of any lease, sub-contract or sale of said operations.

f. All pari-mutuel teller operated machines shall be able to accept the exact same type of bets with regard to racetrack, dollar amount, type and format of bet, as the self- service machines.

g. Implementation of slot-machines at a facility is a condition precedent for implementation or activation of obligations on Employer to provide or comply with paragraphs 1, 2 and 6 of this Agreement.

h. Parties agree that the above items will be included in both the current and the next successor Agreements at both primary and non-primary locations (C.B.A.'s).

ARTICLE 26

MISCELLANEOUS

26.1 The Employer shall allow Tellers to take a "cash position" any time during their shift with a Manager's approval and/or participation.

26.2 Tellers will be permitted to cancel tickets with the approval and/or authorization of a manager. Without specific authorization, the Teller will be able to cancel up to the last ten (10) tickets created for the employees then current customer, but only provided that the hub remains at Penn National.

26.3 The Employer shall notify the Union's Business Manager of and shall post a notice in all the Turf Club facilities of all job opportunities within the bargaining unit.

26.4 The parties hereby incorporate by reference all the terms and contents of the "Slot Machine Agreement" between the parties and dated May 5, 1997 into this collective bargaining agreement.

26.5 The employer shall permit the Tellers to choose their windows, from those designated and available, based on seniority among those scheduled to work within one hour of the report time. The goal of all parties shall be to permit the senior employees to obtain an opportunity at their preference of available windows within the reasonable confines of the employers interest to serve its customers.

26.6 Any period of eligibility established for any reason under this agreement shall be prorated so as to discount for the full amount of any period of time that an individual facility is or was not operating once it has not operated for an aggregate of six (6) days in a calendar year.

26.7 All teller operated machines shall be able to accept at least the same type of bets, same racetracks, same dollar amounts, and formats at the same time as any self-service machine so as not to disadvantage the use of tellers.

ARTICLE 27

DURATION OF AGREEMENT

27.1 This Agreement shall take effect and continue in full force and effect from the 1st day of October through September 30, 2005 and shall continue from year to year thereafter unless either party shall give the other party at least sixty (60) days notice prior to the expiration date of any continuation of the Agreement, of its desire to amend, change or terminate same.

Intending to be legally bound hereby, the parties affix their signatures as of the 14th day of July 2003.

FOR THE EMPLOYER:

PENN NATIONAL TURF CLUB, INC.

By: /s/ Richard Orbann
Richard Orbann
President, Racing Division

FOR THE UNION:

SPORTS ARENA EMPLOYEES' UNION
LOCAL NO. 137

By: /s/ Robert Liguori
Robert Liguori
Business Manager

EXHIBIT "A"

Production Standard

Minimum average number of shifts and/or hours worked shall be 22 hours including one (1) weekend shift or two (2) weekend shifts per calendar quarter.

Weekend shift is defined as any shift from Friday night through Sunday day and peak holiday shifts.

Amount of dollars sold per hour	60%
Number of tickets sold per hour	20%
Number of tickets cashed per hour	20%
	100%

PRODUCTION STANDARD

Amount of dollars sold per hour – $915
[(Amount of dollars sold – amount of dollars cancelled – amount of vouchers sold)/hours worked]

Number of tickets sold per hour – 115
[(Number of tickets sold – number of tickets cancelled – number of vouchers sold)/hours worked]

Number of tickets cashed per hour – 15
[(Number of tickets cashed – number of tickets cancelled – number of vouchers cashed) hours worked]

FORMULA

Net amount of dollars sold per hour	x	60%	=		+
Net number of tickets sold per hour	x	20%	=		+
Net number of tickets cashed per hour	x	20%	=		=

100%

(WEIGHTED STANDARD 1.00 OR GREATER QUALIFIES)

Example:

$	926/915	=	1.012	x	60%	=	.607
	#107/115	=	0.930	x	20%	=	.186
	# 17/15	=	1.133	x	20%	=	.226
	.607	+	.186	+	.226	=	1.019

Any teller with two or more disciplinary memos on file during a quarter shall be subject to the following:

first offense	–	documented verbal warning
second offense	–	written warning
third offense	–	written warning with loss of one (1) quarter incentive raise starting the following quarter

Any teller that fails to meet .80 of the standard (1.00) shall be subject to the following:

first quarter	–	documented verbal warning
second consecutive quarter	–	written warning
third consecutive quarter	–	written warning with a two (2) day suspension and mandatory retraining
fourth consecutive quarter	–	termination

With management and union approval the standard and/or standards weight can be adjusted independently at each OTW facility as necessary each quarter.

If less than 50% of the tellers make the standard, (without disqualification for disciplinary reasons), then the top 50% will be given the incentive pay. Ranking for the top 50% as follows: First qualified by time and standard. Second by time (excluding tellers below .80 of standard). Third by teller with the highest performance rating working a minimum average of 10 hours per week.

The employer will clear the record of any employees who have not committed an offense in 24 months.

Exhibit 10.15(a)

ADDENDUM NO. 1

This ADDENDUM to the Agreement, dated January 1, 2001, by and between PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY ("Employer") and the West Virginia Union of Mutual Clerks, Local 553, Service Employees International Union, AFL-CIO ("Union") (the "Agreement") is entered into as of December 27, 2004.

WHEREAS, the Agreement expires by its terms on December 31, 2004;

WHEREAS, the parties are presently negotiating in good faith the terms and conditions of a proposed new agreement;

WHEREAS, the parties desire to extend the Agreement until February 28, 2005, during which time the parties agree to continue to negotiate in good faith.

NOW, THEREFORE, it is agreed between the parties as follows:

1. The Term of the Agreement is extended until midnight February 28, 2005.

2. Provided the terms and conditions of a mutually acceptable new agreement are reached between the parties by not later than February 28, 2005, Employer agrees that any wage or other rate increases agreed upon in the new agreement will be made retroactive to January 15 2005.

3. Except as expressly modified in this Addendum No. 1, the terms and conditions of the Agreement remain in foil force and effect.

IN WITNESS WHEREOF AND INTENDING TO BE LEGALLY BOUND the parties have signed this Addendum No. 1 as of December 27, 2004.

ATTEST:

/s/Witness

PNGI CHARLES TOWN GAMING, LLC

By: /s/ Albert Britton
Albert Britton
General Manager

ATTEST:

/s/Nancy Edwards

WEST VIRGINIA UNION OF MUTUAL CLERKS, LOCAL 553, SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO

By: /s/Charles Walker
Name: Charles Walker
Title: Pres.

Exhibit 10.15(b)

ADDENDUM NO. 2

This ADDENDUM NO. 2 to the Agreement dated January 1, 2001, as amended by Addendum No. 1, by and between PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY ("Employer") and the West Virginia Union of Mutual Clerks, Local 553, Service Employees International Union, AFL-CIO ("Union") (the "Agreement") is entered into as of February 18, 2005.

WHEREAS, the Agreement expires by its terms on February 28, 2005;

WHEREAS, the parties are presently negotiating in good faith the terms and conditions of a proposed new agreement;

WHEREAS, the parties desire to extend the Agreement until March 31, 2005, during which time the parties agree to continue to negotiate in good faith.

NOW, THEREFORE, it is agreed between the parties as follows:

1. The Term of the Agreement is extended until midnight March 31, 2005.

2. Except as expressly modified in this Addendum No. 2, the terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF AND INTENDING TO BE LEGALLY BOUND the parties have signed this Addendum No. 2 as of February 18, 2005.

ATTEST:

/s/Margaret A. Fineagan

PNGI CHARLES TOWN GAMING, LLC

By: /s/ Albert Britton
Albert Britton
General Manager

ATTEST:

/s/ Nanie L. Edwards

WEST VIRGINIA UNION OF MUTUAL CLERKS, LOCAL 553, SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO

By: /s/Randall Conrad
Name: Randall Conrad
Title: President

Exhibit 10.15(c)

ADDENDUM NO. 3

This ADDENDUM NO. 3 to the Agreement dated January 1, 2001, as amended by Addenda Nos. 1 and 2, by and between PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY ("Employer") and the West Virginia Union of Mutual Clerks, Local 553, Service Employees International Union, AFL-CIO ("Union") (the "Agreement") is entered into as of March 21, 2005.

WHEREAS, the Agreement expires by its terms on March 31, 2005;

WHEREAS, the parties are presently negotiating in good faith the terms and conditions of a proposed new agreement;

WHEREAS, the parties desire to extend the Agreement until April 30, 2005 during which time the parties agree to continue to negotiate in good faith,

NOW, THEREFORE, it is agreed between the parties as follows:

1. The Term of the Agreement is extended until midnight April 30, 2005.

2. Except as expressly modified in this Addendum No. 3, the terms and conditions of the Agreement remain in full force and effect.

IN WITNESS WHEREOF AND INTENDING TO BE LEGALLY BOUND the parties have signed this Addendum No. 3 as of March 21, 2005.

ATTEST:

/s/ Margaret A. Fineagan

PNGI CHARLES TOWN GAMING, LLC

By: /s/ Albert Britton
Albert Britton
General Manager

ATTEST:

/s/ Nanie L. Edwards

WEST VIRGINIA UNION OF MUTUAL CLERKS, LOCAL 553, SERVICE EMPLOYEES INTERNATIONAL UNION, AFL-CIO

By: /s/ Randall Conrad
Name: Randall Conrad
Title: President Local 553

MEMORANDUM OF AGREEMENT

PENNSYLVANIA NATIONAL TURF CLUB, INC. / MOUNTAINVIEW RACING ASSOCIATION (collectively, the "Employer"), wholly owned subsidiaries of Penn National Gaming Inc. and SPORTS ARENA EMPLOYEES' UNION, LOCAL NO. 137 (the "Union") have engaged in negotiations for a successor collective bargaining agreement ("Successor Agreement") to the one which expired on September 30, 2002 ("Previous Agreement") and by mutual agreement the Previous Agreement has been extended by the parties. Pending ratification as set forth below, the parties hereby agree as follows:

1. The parties agree that the provisions of the Previous Agreement shall be and remain in the Successor Agreement except as modified by the following provisions and language:

2. 3 year term — December 1, 2004 to December 31, 2007.

3. Any closings or changes to the number of scheduled workdays not caused by the Union in violation of the applicable law or the no-strike clause shall cause a proportional change in the number of days required for any criteria to be met under the Successor Agreement.

4. Article IV — Grievances — change "5 calendar days" to "7 calendar days"

5. Article XXIV — Uniforms — change to replace 1c with the following:

"No vests required; No Blue Jeans; only solid colors for pants & skirts; Employees may be required to wear name tags with only the employee's first name and last initial"; and

Delete second sentence of Article XXIV, Sec. 1a; and

Delete 2a & 2nd sentence of 2c; and

Delete all of 2d.

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6. Article XXI — Death in the Family — amend to "three (3) consecutive working days off commencing within seven (7) calendar days" and add "grandchildren" to definition of family.

7. Article I — Recognition — amend to reflect that the work of the Turf Club Attendant shall be unit work, except so long as the current employee in that position continues to perform that work she will not be forced to join the union.

8. Article VII, Sec. 4 & 5 — amend from "$7.50" to "$10.00"

9. Article VII, 5(b)(4) — parties agree: no change in telebet shift length; and Employer will offer to create a "Call-in-List" to cover times when the employer needs additional operators on short notice, after shape-up is exhausted from regular procedures.

10. Article XII — Wages

Sec. 5 — amend to $10.00

Sec. 13 — amend to reflect a "hire" rate of 90% of regular rate and then each such employee shall go to 100% of rate on or after the one (1) year anniversary of their hire — effective upon ratification.

11. Article XV — Vacation — Amended to read:

All seniority shifts count	<10 yrs	>10 yrs
85% of live	5	10
65% of live	4	7
50% of live	2	4

12. Article XIX — amend Sec. 4 to read: In the event the Employer (1) sells all or a controlling interest in any of the PNRC racing operations or (2) leases any of the PNRC racing operations to a third party, then the execution and adoption of this agreement by the relevant third party shall be prerequisite to the actions described in (1) and (2) of this paragraph. During

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the term of the Successor Agreement to protect and preserve the work of the employees currently working under the Previous Agreement, the Employer agrees, to the extent permitted by law, to require that as a prerequisite to subcontracting current bargaining unit work, the entity performing the subcontracted work shall be required to assume the Successor Agreement with respect to the subcontracted work. If this prerequisite and assumption is not legally enforceable, then the Employer agrees to refrain from subcontracting current bargaining unit work to any subcontractor which does not observe the wages, hours and other economic conditions of employment equivalent to those established by the agreement, to the extent permissible by law. For clarity, this subcontracting restriction only applies to work currently performed by the bargaining unit, which is (1) admissions personnel in the racing division, (2) telebet operators in the racing division and (3) mutual personnel in the racing division. Further, the union acknowledges that any and all portions beyond the three enumerated positions in this paragraph may be subcontracted by Employer within the sole discretion of the Employer.

In Addition, the parties agree to conform Article VIII to this preceding language.

13. Schedule C — Telebet Production — amend last sentence of first page of C to delete the words "… not … nor & but …" and replace with the work "… used … and …& and …"

14. Schedule D — Shortage Policy — the parties agree to amend to include a $750.00 cap on liability of Telebet tellers to pay for any shortages, with discipline only for shortage in excess of that under the discipline policy to include progressive discipline policy currently in place.

15. Healthcare — Amend Previous Agreement to provide that upon start of slot operations by the Employer, Employer shall contribute 75% of the cost of the premiums for the

insurance coverages then provided to the current non-union employees and classified as "basic coverage limits and providing applicable coverages including dependent coverages.

… for mutual employees who achieve either 300 shifts or an average 35 hours per week in the prior calendar year and any Telebet or admissions employee who achieves either 250 shifts or any average of 35 hours per week, in the prior calendar year.

16. 401K — amend Agreement to provide that upon start of slot operations by the Employer the employer shall permit participation in the company 401 K by any employee who by the age of 21 has worked at least 1000 minimum hours and achieved 1 year of service, with the then current plan offered to the current; non-non employees.

17. Delete current Article 25.

18. Add to contract — "All pari-mutual teller operated machines shall be able to accept the exact same type of bets with regard to racetrack, dollar amount, type and format of bet, as the self-service machine."

19. Hourly conversion shall be permitted provided the effect is no loss of shifts, economics or work by virtue of such conversion. The parties agree that their intention is to make the conversion neutral and to the detriment of neither.

20. Bonuses and wage increases:

Upon ratification, the Employer shall pay to all employees currently employed and anyone on an approved leave of absence:

A) a one-time lump sum 4% bonus to be paid in 2004 based on all hours worked October 1st to December 31st in 2002 and all hours worked in 2003; and

B) a one-time lump sum bonus of 4% on all hours worked in 2004, be paid at the second pay period in 2005; and

C) effective 1/1/05 an increase of 4% on all rates of compensation in the Agreement; and

D) effective 1/1/06 an increase of 3% on all rates of compensation in the Agreement; and

E) effective 1/1/07 an increase of 3% on all rates of compensation in the Agreement.

21. Include in the Successor Agreement "Bargaining committee members shall be credited with time worked for all hours spent related to any extension of the Previous Agreement and any Successor Agreement, except for pay."

22. Article V, Sec. 11 — add the word "Dealers."

23. The parties will include in the Successor Agreement language to the effect the Employer agrees to make adjustments in the productivity standard for above average cancellations (arising from wages placed with other tellers) which causes a teller to not receive the incentive as is currently practiced.

24. Article II, B(1)(a) — "anyone working the extra pay positions of information windows or "Machine skimmer" must work the live shift which completely corresponds to the Penn National live event.

25. The parties will include references in the Successor Agreement that explicitly describe the bargaining unit as one that does not apply to positions in gaming operations other than racing.

26. Article I, Section 2 — add "pari-mutual" before "betting" on line 2, Recommendation/Ratification.

This Memorandum shall be subject to, and without any legal effect, until it has received the ratification of the Union members covered by this Agreement. The Union's negotiating team and the Union leadership as well as all other persons signed below agree that each of them will affirmatively recommend the terms of this Memorandum of Agreement to the Union membership. After ratification, these terms will be promptly documented in the Successor Agreement. Terms not in quotations in this Memorandum shall be definitively drafted and place appropriately within the Successor Agreement. Until such time the Previous Agreement remains if effect.

FOR THE UNION:

/s/Robert Liguori
Robert Liguori

FOR THE EMPLOYER:

/s/Richard Schnaars
Richard Schnaars, Manager of
Racetrack Operations

Negotiating Team Members

/s/Roay Garganese
Ray Garganese

/s/James Mahoney
James Mahoney

/s/Douglas Davis
Douglas Davis

Dec. 10, 2004

Exhibit 10.17

LIVE RACING AGREEMENT

THIS LIVE RACING AGREEMENT (the "Agreement") is effective as of October 1, 2004 by and among PENNSYLVANIA NATIONAL TURF CLUB, INC. (PNTC) and MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION (MTRA) (hereinafter collectively referred to as the "Associations") and PENNSYLVANIA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC. ("PA HBPA").

WITNESSETH

WHEREAS, the Associations operate and conduct thoroughbred horse race meetings with pari-mutuel wagering at the track facility located in Grantville, Pennsylvania, known as Penn National Race Course ("Perm National");

WHEREAS, the PA HBPA represents the horsemen, during the Term of this Agreement, who own, train and/or race horses at Penn National;

WHEREAS, the term of the March 23,1999 Agreement between the Associations and the PA HBPA ended January 1, 2004, but was extended by mutual agreement of the parties;

WHEREAS, nothing in this Agreement is intended to or has the effect of contradicting, superseding or construing the provisions of the Pennsylvania Race Horse Development and Gaming Act, July 5, 2004, Act 71; and

WHEREAS, the Associations and the PA HBPA have agreed to enter into the following Agreement with regards to the conduct of thoroughbred horse racing at Penn National.

NOW, THEREFORE, for and in consideration of the foregoing recitals and the mutual undertakings contained herein, and other good and valuable consideration, the receipt

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and sufficiency of which are hereby mutually acknowledged, the parties hereto intending to be legally bound, hereby agree as follows:

1. Purses

Purses shall be calculated by adding the totals in Section l(a) and l(b) of this Agreement.

(a) The Associations agree to allocate and pay horsemen purses equal to 33 1/3% of the Associations' receipts, fees and revenues described below:

(i) Net Commissions from the pari-mutuel handle, including the Telephone Account Betting handle, and the Associations' and horsemen's share of the breakage received from the pari-mutuel handle on Penn National live races.

(ii) Net Commissions from the gross handle on Penn National's live races being simulcast to the Associations' off-track betting sites, including horsemen's share of breakage.

(iii) Total Commissions from the handle for send intertrack wagering of Penn National's live races, including track handle, Telephone Account Betting handle and off-track betting handle.

(iv) Total out-of-state host fee when the Associations' are sending a full card of interstate simulcasting wagering ("ISW") on Penn National's live races.

(v) Net Commissions from the handle for receive intertrack wagering of Pocono Downs, Meadows and Philadelphia Park live races,

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including track handle, Telephone Account Betting handle, off-track betting handle and horsemen's share of breakage.

(vi) Net Commissions from the handle for on-track, off-track and Telephone Account Betting, including horsemen's share of breakage, when the Associations are receiving a full card of ISW, regardless of in-state host association.

(vii) Host fees received from intrastate and interstate tracks or the NTRA on account of telephone or electronic wagering by persons in geographic proximity.

(b) Revenue from slot machines at Penn National shall be allocated in the manner as set forth in the Pennsylvania Race Horse Development and Gaming Act, July 5, 2004, Act 71.

(c) Two percent (2%) of purses shall be paid monthly to PA HBPA from the purse account, which may be increased by mutual written consent of the parties. For purposes of this Article, Net Commissions are defined as the gross handle at the racetrack, telephone account betting, non-primary betting locations (OTB's), less the amounts returned to the betting public, less the amounts paid to the Commonwealth of Pennsylvania as required by statute, less host fees paid to intrastate and interstate tracks or host fees paid to the NTRA for races received or for telephone or electronic wagering received from persons in geographic proximity.

(d) The Associations will use commercially reasonable best efforts to maximize each existing component of the "gross handle" described in

Section 1 (a)(i) through (vii) above, as well as any additional source of gross handle that becomes available during the term of this Agreement.

2. Simulcasting Consents

(a) The PA HBPA grants its consent and approval to the Associations as provided for under Sections 216, 216a and 234 of the Race Horse Industry Reform Act and the provisions of the Interstate Horse Racing Act of 1978, so that the Associations may act as "host licensees" for the purpose of transmitting and receiving intrastate, international and interstate simulcast races, said consent and approval to be effective for any agreement that existed prior to the effective date of this Agreement. As to any new racetracks the Associations shall present any proposed new simulcast agreement to PA HBPA for its review and approval, which shall not be unreasonably withheld. Such approval to be given or denied within two (2) days of presentation to PA HBPA.

(b) If PA HBPA determines that an existing simulcast agreement is not in the best interest of racing or that a new simulcast agreement would be in the best interest of racing, it shall notify the Associations and the parties shall meet and discuss the existing or proposed simulcast agreement.

(c) The PA HBPA will use commercially reasonable best efforts to maximize participation of its members and their horses to assist in the goals described in Section l(d) above.

3. Compatibility of Purses

(a) It is the intent of Associations and PA HBPA to promote competitive horse racing at Penn National to (i) avoid any underpayment or overpayment of purses (except seasonal adjustments) and (ii) assure the payment, as far as practical and feasible, of consistent purses throughout the contract year.

(b) Associations shall notify PA HBPA of the racing dates applied for to the SHRC for the next following calendar year by promptly sending to the PA HBPA a copy of their application filed with the SHRC. The actual pari- mutuel handles and slot machine revenue from Penn National directed to purses from the current year for the comparable dates will be used as a guide in projecting the approximate handle for the ensuing year. The purse formula as described under paragraph 1 of this agreement will be applied to establish an average purse per day for a beginning guideline.

(c) Except with respect to the overpayment in Section in 3(f) of this Agreement, should a purse overpayment or underpayment develop in excess of $150,000, then the parties agree to automatically adjust purses down or up, in the next published condition book, by 5%. This triggering mechanism may be waived by mutual consent of the PA HBPA and Associations.

(d) If, in the opinion of the Penn National Racing Secretary, the agreed adjustment in the condition book does not alleviate the overpaid purse condition, the Associations have the right, and are required, to make immediate purse cuts in accordance with formulas mutually agreeable, to

eliminate the purse overpayment. The Associations, without prejudice, shall have the right to not exercise this right, should they so desire.

(e) If, in the opinion of the PA HBPA Condition Book Committee, the agreed adjustment in the condition book does not alleviate the underpaid purse condition, the PA HBPA shall have the right to require the Associations to make and the Associations shall make immediate purse increases in accordance with formulas mutually agreeable, to eliminate the purse underpayment. The PA HBPA, without prejudice shall have the right not to exercise this right, should it so desire.

(f) Notwithstanding Sections 3(a), (c) and (d) of this Agreement, in anticipation of slot machine revenue, the Associations will implement purse increases of fifteen (15%) percent on October 27, 2004 and, to the extent possible, another change (or changes) at a date (or dates) mutually agreed upon by the HBPA/ Management Committee (at meetings to be held monthly to address this issue), all with the objective of ensuring that the overpayment described in this subparagraph lasts through the commencement of slots at PNRC. These increases shall be based on the purse structure reflected in the condition book in place on October 1, 2004. The effect of the purse increases shall be periodically monitored and, to the extent necessary, adjusted by the PA HBPA/Management Committee to ensure, among other things, that the overpayments are spread as evenly as practicably between the effective date of this Agreement and the eventual commencement of operational slot machines at Penn National.

This payment schedule assumes that slot machines will be operational at Penn National by approximately April 1, 2006. Should the April 1, 2006 start date reasonably appear to be delayed, the parties will mutually agree to equitably adjust the rate of overpayment. The overpayment, which will not exceed $4,000,000.00, will be repaid from purses within one (1) year after there are 2,000 operating slot machines at Penn National. In the event the commencement of operational slot machines at Penn National is substantially delayed or cancelled, the PA HBPA shall repay the overpayment to Penn National by way of purse reductions over the course of no more than four years (in pro-rata amounts) beginning on July 1, 2007

4. Horsemen's Bookkeeper Account

Section 235 of the Race Horse Industry Reform Act shall govern the operation of the Horsemen's Bookkeeper Account.

5. Inactive Accounts In Horsemen's Bookkeeper Account

(a) Associations will furnish annually to PA HBPA a list of all accounts in the Horsemen's Bookkeeper Account which have been inactive for a period of four years, giving the names of such accounts, the amount thereof and the last known addresses. This list will be rendered annually prior to each June 15 during the Term hereof.

(b) PA HBPA will advertise the four-year-old inactive accounts in a Horsemen's publication of general circulation. All unclaimed inactive accounts one year

after they are advertised shall be paid to the PA HBPA's Benevolent Fund. PA HBPA agrees to hold Associations harmless and to indemnify them as to any claim, liability, cost or expense (including reasonable attorney's fees) as a result of the payment of inactive accounts to the PA HBPA's Benevolent Fund.

6. PA HBPA Fire And Hazard Insurance

Associations agree to pay 1:0 HBPA National office, on or before May 15 of each year during the term hereof, their proportionate share of the total annual premium as determined annually by the National HBPA for a national policy of fire and other hazards insurance covering horses and tack belongings to PA HBPA members stabled at Penn National or at locations as covered by said HBPA policy. It is understood, however, that the limits and types of coverage will not be increased without the prior written agreement of Associations.

7. Track Committees

(a) Equine Safety Committee

The Associations and the PA HBPA agree to establish an Equine Safety Committee. The membership will consist of representatives from all constituent groups That affect live racing at Penn National. The committee will meet at least once a month, if not more frequently, to discuss the variety of issues that affect all aspects of equine safety at Penn National.

(b) Condition Book Committee

The PA HBPA may appoint a committee of not more than five individuals, which will be known as the "Condition Book Committee". The Condition Book Committee shall be entitled to meet with the Associations and/or the Racing Secretary and/or General Manager in order to establish guidelines for preparing the condition book and for filling and carding races and other matters of concern to the horsemen, including the mix of races and purse levels for particular condition books consistent with Section 3(a) above.

(c) PA HBPA/Management Committee

During the term of this Agreement, Associations and the PA HBPA shall organize and maintain a joint committee to be known as the "PA HBPA/Management Committee." This Committee shall be composed of not more than five representatives from the PA HBPA (including the President) and not more than five representatives from Associations (including the General Manager). This Committee shall meet regularly at the request of any member of said Committee. The Committee shall discuss such things as barn area issues, track conditions, racing program, track kitchen, other matters which relate to attendance, pari-mutuel handle, the quality of racing and any other issue not specifically addressed in this Agreement which will assist the Pennsylvania thoroughbred horse racing industry to be progressive and competitive. The Committee shall determine how to

resolve any of the foregoing issues and it may recommend any impose to arbitration in accordance with Section 8.(b) of this Agreement.

8. PA HBPA Covenant

(a) PA HBPA covenants that so long as Associations comply with the provisions of this Agreement, PA HBPA will not institute or instigate, promote, encourage, condone, or engage in any boycott, close down, slow down, stoppage of, or interference with any

race meet or race meets of Associations at Perm National. PA HBPA will use its best efforts to ensure that its members comply with this paragraph.

(b) In the event that there is a disagreement between the parties as to whether any party has complied with the terms or conditions in this Agreement, then the Associations shall choose an Arbitrator and the PA HBPA shall choose an Arbitrator. The two Arbitrators shall choose a third Arbitrator, and the Board of Arbitrators shall decide the issues involved and each party agrees to be bound by the decision of the arbitration panel. No action shall be taken by PA HBPA prohibited by paragraph 8(a) unless and until the Arbitrators have determined that Associations are not in compliance with the terms hereof.

9. Associations' Covenants

(a) The Associations will not, by means of agreement or otherwise, seek to establish or impose upon the horsemen a monopoly concerning horseshoers, feedmen, tack suppliers, jockeys or any other suppliers or

servicemen customarily used by horsemen. Notwithstanding the foregoing, the Associations reserve the right to impose reasonable nondiscriminatory requirements for security, safety and environmental reasons on the Associations' premises and to limit access to only those vendors, suppliers and servicemen who are properly licensed by the State Horse Racing Commission and conditioned upon their compliance with reasonable rules and regulations promulgated by the Associations.

(b) The Associations will not, in making their stall allocations, discriminate against any horsemen because of the horseman's participation in lawful PA HBPA activities. Allocations of stalls shall, subject to the limitations and conditions described throughout this Agreement, remain the prerogative of the Associations.

10. Recognition of PA HBPA

Subject to applicable law, Associations recognize PA HBPA as the exclusive representative of the horse owners and trainers racing at Penn National, the majority of whom are members of the PA HBPA and, during the term of this Agreement, and any extension, for purposes of negotiating a successor live racing agreement. During the term of the Agreement, and any extension, Associations agree that they will not negotiate with any other group purporting to represent horsemen at Penn National and Associations further agree that they will not revoke the foregoing recognitions, and will not supplant, attempt to supplant or encourage the supplanting of the PA HBPA as the exclusive representative of horsemen at Penn National.

11. Term of Agreement

This Agreement will continue for a term commencing October 1, 2004 and ending September 30, 2011. This Agreement shall continue for a further Term of two years without change unless any party shall, at least ninety days prior to September 30, 2011, or each successive two-year Term thereafter, give notice to the other of its intention that this Agreement shall not be automatically renewed pursuant to the provisions of this paragraph. In the event notice of intent not to renew is given by either party, the parties agree that weekly negotiation sessions shall be held commencing no later than 75 days prior to the expiration of the term or successive term and the parties mutually agree to bargain in good faith, without waiving rights or prerogatives of either party. In the event that a successor agreement is not reached on or before 30 days prior to the expiration of the term or successor term, the parties agree to utilize the services of the Pennsylvania Bureau of Mediation for non-binding negotiation. Subject to all applicable laws, if a successor Live Racing Agreement is not signed by the expiration of the term or any extensions thereof (the "Expiration") and the PA HBPA fails to honor all the terms and conditions of this Agreement (including without limitation the obligation to race in accordance with past practices) following the Expiration, Associations agree that the horsemen shall have 30 days thereafter within which to remove their horses from the backstretch area at Penn National and that the facilities listed in paragraph 16 shall be available during that 30 day period of time. This additional 30-day period of time shall not be construed as evidence of the Associations' recognition of the PA HBPA as the exclusive representative of

the horsemen subsequent to the expiration of the term of this Agreement. Nothing in this paragraph or in this Agreement is intended to or may be construed as superseding applicable law, including without limitation Act 71.

12. Notices

All notices or other communication pursuant hereto by any party shall be sent by certified mail, return receipt requested to:

PNTC: Pennsylvania National Turf Club, Inc.
P.O. Box 100
Grantville, Pa. 17128
Attn: General Manager

With a copy to General Counsel
Penn National Gaming, Inc.
825 Berkshire Boulevard
Wyomissing, PA 19610

MTRA: Mountainview Thoroughbred Racing Association
P.O. Box 32
Grantville, Pa. 17128
Attn: General Manager

PA HBPA: Pennsylvania Division, Horsemen's Benevolent and
Protective Association, Inc.
P.O. Box 88
Grantville, Pa. 17028
Attn: President

13. Stakes Schedule

The PA HBPA/Management Committee shall determine the stakes schedules. It is understood by both of the Associations and the PA HBPA that the overnight purses will be the first priority in purse increases followed by stakes races.

14. Application For Racing Days In Penn National Live Program

Associations agree to apply for the maximum number of racing days during each calendar year as can be raced for the maximum benefit of Associations and consistent with their leases, with the owner of Penn National. The determination of the number of racing days shall be decided exclusively by the Associations, but in no event shall it be less than 199 days without the approval of the Board of HBPA.

15. Availability of Facilities

During the term of this Agreement and any extension, the racing strip, barns, dormitories, track kitchen, tack rooms and all other facilities of Penn National useful for training purposes, shall be made available to Horsemen approved by Associations, without charge. Associations agree that these facilities shall be available for at least twenty-one days prior to the opening date of each thoroughbred race meet or reopening after a shutdown. Associations shall also make water and electricity available without charge, and shall, at their own expense, keep the track properly harrowed and watered daily and available during reasonable hours for training purposes, all subject to weather conditions. Associations shall continue to provide PA HBPA offices and restroom facilities on a year round basis. Heating, cooling and electric services are to be provided. PA HBPA shall be responsible for cleaning and interior maintenance of its facilities. Structural maintenance of roofs, wall, floor and restrooms shall be the responsibility of Associations.

16. Approval By SHRC

This Agreement shall be subject to approval by the Pennsylvania State Horse Racing Commission.

17. Binding Effect

This Agreement shall be binding upon and inure to the benefit of the parties hereto or their respective successors and approved assigns. Each party will supply all parties with a certified copy of a Resolution approving this Agreement.

18. Mutual Cooperation

The Associations and PA HBPA agree that there will be opportunities where there will be a need for cooperation between the parties because of the mutual benefit to racing. The parties agree to support each other's positions where there is a mutual benefit.

19. Entire Agreement

This Agreement contains the entire agreement and understanding of the parties hereto with respect to the subject matter interest and supersedes all prior or contemporaneous agreements with respect to such subject matters; and may not be modified or amended except in writing signed by all parties hereto. Notwithstanding the aforementioned, the Stall Agreements shall remain in full force and effect. This Agreement further incorporates, and supersedes the York and Lancaster OTW Agreements.

20. Headings

The paragraph headings of this Agreement are for convenience of reference only and do not form a part of the terms or conditions of this Agreement or give full notice thereof.

IN WITNESS WHEREOF, the Associations and PA HBPA have executed this Live Racing Agreement this 1st day of October 2004.

ASSOCIATIONS:

Attest:

PENNSYLVANIA NATIONAL TURF CLUB INC.

By: /s/Frederick D. Lipkin
Witness

/s/ Richard T. Schnaars
Name: Richard T. Schnaars
Title: Vice President/General Manager

Attest:

MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION

By: /s/Witness
Witness

/s/ Richard T. Schnaars
Name: Richard t. Schnaars
Title: Vice President/General Manager

Attest:

PENNSYLVANIA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

By: /s/Witness
Witness

/s/ John J. Wames
Name: John J. Wames
Title: President

A G R E E M E N T

THIS AGREEMENT, made and entered into this as of the 21st day of December, 2004, by and between **PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY**, a West Virginia Limited Liability Company (hereinafter "Charles Town Races"), and **CHARLES TOWN HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.**, a West Virginia not-for-profit corporation (hereinafter "HBPA").

W I T N E S S E T H:

WHEREAS, Charles Town Races is licensed by the West Virginia Racing Commission, pursuant to Chapter 19, Article 23-1, et seq., of the West Virginia Code, to conduct live thoroughbred horse racing with pari-mutuel wagering and, in accordance with that licensure, Charles Town Races owns and operates a thoroughbred racing facility under the trade name Charles Town Races (hereinafter the physical facility will be referred to as the "Racetrack"); and

WHEREAS, the HBPA is an Association comprised of owners, trainers and owner-trainers (the "members") of thoroughbred racing horses; and

WHEREAS, the HBPA provides benevolent programs and other services for its members and their employees who are engaged in live thoroughbred racing at the Racetrack; and

WHEREAS, the parties desire to reaffirm their mutual interest in the promotion, preservation, and enhancement of live thoroughbred racing at the Racetrack; and

WHEREAS, the parties hereto reaffirm their support for quality live thoroughbred racing activities and reaffirm their desire to the promotion of such activities in the State of West Virginia; and

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WHEREAS, Charles Town Races acknowledges that the HBPA is the exclusive bargaining agent and representative of its members, as certified by the West Virginia Racing Commission. Charles Town Races shall only negotiate with the exclusive bargaining agent and representatives of the Horsemen as certified by the West Virginia Racing Commission during the term of this Agreement and any amendments thereto or any Agreement, which shall supersede this Agreement for the provision of services in connection with live thoroughbred racing activities, safety and back stretch conditions; and

WHEREAS, the parties hereto desire to memorialize and set forth in writing the contractual agreements by and between Charles Town Races and the HBPA concerning live thoroughbred racing at the Racetrack.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties desire to be legally bound, do agree as follows:

1. **Term of Agreement**. This Agreement shall become effective as of January 1, 2005, and shall remain in full force and effect until December 31, 2007 (the "Initial Term"). At the end of the Initial Term, the term of this Agreement shall automatically be extended under the same terms and conditions for a period of one (1) year (hereinafter the "First Extension Term") unless either party shall give notice to the other party, in writing, of its intent to terminate the Agreement not later than September 30, 2007. At the end of the First Extension Term, the term of the Agreement shall automatically be extended under the same terms and conditions for a period of an additional one (1) year (hereinafter the "Second Extension Term"), unless either party shall give notice to the other party, in writing, of its intent to terminate the Agreement not later than September 30, 2008.

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2. **Exclusive Representation**. The HBPA is currently recognized by the West Virginia Racing Commission to be the duly qualified and exclusive representative of the owners, trainers, and owner-trainers of live thoroughbred horse racing at the Racetrack as certified by the West Virginia Racing Commission. Charles Town Races shall only negotiate with the exclusive bargaining agent and representative of the Horsemen as certified by the West Virginia Racing Commission. Any negotiation or discussion of the terms and provisions of this Agreement, or any amendment thereto, or any Agreement, which shall supersede the terms and provisions of this Agreement with any person, entity or representative of an entity that is not the exclusive bargaining agent and representative of the Horsemen, as certified by the West Virginia Racing Commission, shall constitute a breach of this Agreement.

Charles Town Races does agree that it shall negotiate with and conduct any and all business which is the subject of this Agreement and any matters reasonably related to any provision of this Agreement with the duly elected officers of the HBPA or their duly designated representatives.

The HBPA does agree that it shall provide to Charles Town Races, in writing, on an annual basis, the name and address of each and every duly elected member of the Board of Directors, the name and address of each duly elected officer of the HBPA who shall have the authority to negotiate with the Charles Town Races, and the name and address of each representative duly designated by the Board of Directors of the HBPA to negotiate on its behalf.

3. **Racing Schedule**. During the term of this Agreement, Charles Town Races shall each year request a license from the West Virginia Racing Commission to conduct racing, and in fact conduct racing, for not less than the minimum number of days required by the West Virginia racing statute, which is currently two hundred ten (210) days per year. Charles Town Races shall

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provide a copy of it's Annual License Application filed with the West Virginia Racing Commission to the HBPA within three (3) days of the date of its filing. Notwithstanding the first sentence of this paragraph, it is understood and agreed that, subject to receiving approval from the West Virginia Racing Commission, Charles Town Races shall schedule a total of 245 racing days, with not less than 10 races per racing day, during 2005. In the event racing days

are cancelled due to weather, track conditions, unavailability of horses or any other reason beyond the reasonable control of Charles Town Races, any such cancellation and the fact that 245 racing days are not held, shall not be considered a breach of this Agreement.

Within seven (7) days of cancellation of a race day, Charles Town Races shall reschedule such race day and provide notice to the HBPA of the rescheduled date to the extent necessary to achieve the minimum number of racing days required by the West Virginia racing statute. Charles Town Races agrees, subject to availability of horses, to program no less than the minimum number of races per day for not less than the minimum number of days per year, as required under applicable law for the remaining months of the year.

Charles Town Races agrees that it will not discontinue racing for a period of more than one (1) three (3) week period in any calendar year, unless agreed upon by the HBPA, except in the event of an act of God or other catastrophe, or conditions beyond the reasonable control of Charles Town Races.

4. **Minimum Purse and Purse Scheduling**.

A. **Minimum Daily Purses**. The daily minimum purse schedule payable by Charles Town Races during the term of this Agreement shall be not less than One Hundred Twenty-five Thousand Dollars ($125,000.00) per day, except as provided herein below. It is mutually agreed that, as far as possible and consistent with the foregoing, the principle of "better

purse for better horses" shall be followed in establishing the purse payable for any one race. Charles Town Races further agrees that, if necessary, better purses will be reduced to maintain minimum purse schedules. Charles Town Races may increase or decrease the purse schedule each year by up to 20%. The daily purse schedule as of January 1, 2005, is deemed to be One Hundred Eighty-five Thousand Dollars ($185,000.00) as an average for each Condition Book. Any increase or decrease in the purse schedule of more than twenty percent (20%) during any calendar year shall be subject to the approval of HBPA, which approval shall not be unreasonably withheld or unduly delayed. Except as provided below with respect to Stake Races, Charles Town agrees to pay purses back through not less than six (6) places.

B. **Purse Schedule Distribution**. Charles Town Races and HBPA will establish and publish a purse schedule distribution, which shall show the purse distribution planned for various classes of horses at various distances. Such schedule shall be updated as necessary. Said schedule with any amendments thereto shall be posted in the Racing Secretary's office. In the event of a purse schedule distribution decrease, the purses for bottom claiming races shall not be reduced unless the purses for all races are also reduced (though not necessarily by the same percentage).

At such time as the Underpayment Money reaches One Million Dollars ($1,000,000.00) or below, Charles Town Races and HBPA shall mutually agree to decrease the daily purse distribution in an attempt to avoid an overpayment.

C. **Stakes Schedule**. Each year purses for Stake races shall not exceed, in the aggregate, eight percent (8%) of the total purses paid, from the purse account, in the immediately preceding calendar year excluding the amounts paid for stake races and amounts received for sponsorship of races unless otherwise authorized by the HBPA. Charles Town

Races shall determine the number of and purses for stake races and submit the stakes schedule to HBPA for written comment prior to submission of the stakes schedule to the West Virginia Racing Commission.

D. Charles Town Races agrees to pay purses for Stakes Races back through not less than five (5) places.

E. It is understood by both parties that purse schedules shall not be in conflict with the rules of racing of the West Virginia Racing Commission as presently constituted or as maybe amended.

F. **West Virginia Accredited Races**. Charles Town Races shall include in its Conditions Book a minimum of one (1) race one very live racing day devoted exclusively for West Virginia accredited horses unless sufficient horses and purse funds are not available therefore, in accordance with the requirements of the West Virginia Racing Commission pursuant to the provisions of § 19-23-13(b) of the West Virginia Code. Races devoted exclusively for West Virginia accredited horses shall be run if no less than seven (7) betting interests have been entered therein.

5. **Purse Funds**.

A. During the term of this Agreement, Charles Town Races shall allocate and pay purse moneys as provided by state law, including any additional percentage of the mutual handle, which maybe legislated and incorporated into the West Virginia Code during the period of this Agreement, if specifically legislated for purses.

B. In the event any Underpayment Money exists in the purse account at the end of any calendar year, then said Underpayment Money shall be added to the sum available for the payment of purses for the next year.

C. This is the Agreement regarding the proceeds from video lottery terminals as provided in West Virginia Code § 29-22A-7 (a) (6).

6. **Revenue from Off-Track Betting, Telephone Wagering, Table Gaming, or any other form of Gaming**. In the event additional revenue or payments from telephone wagering, off-track betting, table gaming, or any other form of gaming of any kind or nature is available as a result of legislation, the percentage distribution as set forth in the legislation shall determine the party's interest in such additional revenue. In the event there is no division of revenue in the statutory legislation, the parties agree to negotiate in good faith whether a division of revenue is to occur and if so, the amount thereof.

7. **Condition Book**. HBPA represents that it has created a Condition Book Committee to consult with Horsemen concerning the conditions of racing and to make known to Charles Town Races the results of their consultations. Charles Town Races agrees that this Committee shall have the right to meet with appropriate Charles Town Races personnel to discuss and approve each Condition Book at least seventy-two (72) hours before printing in order to permit Committee review, suggestions, and recommendations. Charles Town Races shall make an effort to comply with the Committee's suggestions and recommendations.

8. **Horsemen's Bookkeeper**. A Horsemen's Bookkeeper shall be employed by Charles Town Races and shall be subject to the policies generally applicable to Charles Town Races' employees. The Horsemen's Bookkeeper shall perform those functions set forth from time to time by statute and the West Virginia Rules of Racing, and Charles Town Races shall provide such equipment as shall be reasonably necessary for the performance of the Horsemen's Bookkeeper's statutory duties.

9. **Segregated Bank Accounts**. The following bank accounts shall be maintained by Charles Town Races in a bank approved by the West Virginia Racing Commission. Currently, the approved bank is United Bank.

A. **Purse Account**. Charles Town Races shall establish and maintain a separate overnight investment account and a separate checking account into which all monies received for the future payment of purses are to be deposited. All disbursements from these accounts shall be solely for the payment of earned purses and such other disbursements as may be authorized by law or as otherwise directed by the West Virginia Racing Commission. All interest earned on this Purse Account shall be added to the funds available for the payment of purses. These accounts shall be subject to inspection and audit by the Racing Commission at any time. The HBPA shall also be permitted to review these accounts upon request during normal business hours.

B. **Horsemen's Trust Accounts**. Charles Town Races shall establish and maintain a separate investment account (the "Horsemen's Investment Account") and a separate checking account (the "Horsemen's Daily Account") (collectively, hereafter, the "Horsemen's Trust Accounts") into which the Horsemen's Bookkeeper shall receive, maintain and disburse the purses of each race and all stakes, entrance money, jockey fees, purchase money in claiming races, along with all applicable taxes and other monies that properly come into the Horsemen's Bookkeepers' possession in accordance with the provisions of the Racing Commission Rules.

All of the funds in Horsemen's Trust Accounts are recognized as being trust funds held for the benefit of all of the respective account owners, as reflected by the records maintained by the Horsemen's Bookkeeper.

Charles Town Races agrees to transfer from the Purse Account and deposit into the Horsemen's Daily Account the full amount of daily earned purses within two (2) business days. Purse winnings will be posted within two (2) business days and made available to the earners thereof when the race results are declared official, i.e. once drug test results have been received; provided further, however, that in the event of any dispute as to the result of a race due to a drug test or other regulatory inquiry, the purse money shall not be made available to the earners thereof until there has been a final non-appealable resolution thereof by the Charles Town Races Stewards, the West Virginia Racing Commission, or a court of competent jurisdiction, as the case may be.

The Horsemen's Bookkeeper will deduct from the owner ledger accounts, jockey fees, pony fees, valet fees, track lasix fees, nomination fees, entry fees, starting fees, valet pool, photographs, veterinary lasix charges, and sales tax on claiming amounts. No other deductions shall be made by the Horsemen's Bookkeeper unless requested in writing by the person, persons or entities to whom such monies are payable, or to his, her or its duly authorized representative, or as required by order of the Charles Town Races Stewards, the West Virginia Racing Commission, or a court of competent jurisdiction. Notwithstanding the preceding clause, nothing herein shall be construed as requiring the Horsemen's Bookkeeper to provide personal accounting services to any horseman and/or the payment of any expenses of any horsemen not contemplated by the provision of this paragraph, even if authorized in writing.

The Horsemen's Trust Accounts shall be subject to inspection by the Racing Commission at any time and may be examined by the President of the HBPA or his or her duly designated representative at the offices of Charles Town Races at such reasonable time or times as shall be

determined upon the mutual agreement of Charles Town Races and the HBPA. Such consent shall not be unreasonably withheld.

The interest earned on monies invested in the Horsemen's Investment Account will be transferred to the Horsemen's Daily Account and paid to Charles Town Horsemen's Welfare & Benefit Trust.

10. **Racing Committee/Arbitration**.

A. Charles Town Races and the HBPA shall organize and maintain a joint committee (hereinafter the "Racing Committee") to address issues related to and associated with live thoroughbred racing at the Racetrack. The HBPA and Charles Town shall each appoint three (3) representatives to the Racing Committee. This Committee shall meet at the request of any member of the Racing Committee. The Racing Committee shall have no authority to alter the terms and conditions of this Agreement.

B. Arbitration. In the event there is a disagreement between the parties as to whether any party has complied with the terms or conditions in this Agreement, then Charles Town Races and the HBPA shall each choose an Arbitrator and the two Arbitrators shall choose a third Arbitrator. The Board of Arbitrators shall decide the issues involved and each party agrees to be bound by the decision of the arbitration panel.

11. **Stalls**.

A. Charles Town Races shall make available a minimum of 1,148 stalls, free of charge, to Horsemen each race meeting. It is recognized by both parties that effective stall utilization is important to Charles Town Races management and that equitable allocation is essential to the livelihood of Horsemen. During the Initial Term of this Agreement, Charles Town Races agrees that it will not tear down or demolish the existing Charles Town stalls unless

required to do so as a result of governmental order or an act of God beyond the reasonable control of Charles Town Races.

B. Charles Town Races shall not discriminate in the allocation of stalls by reason of HBPA membership or activity or condone its representatives or employees discriminating in the allocation of stalls. Subject to this limitation, the allocation of stalls shall be in the discretion of Charles Town Races.

C. Charles Town Races shall establish a cut-off date for stall applications. Charles Town Races shall make every effort to provide Horsemen with five (5) days prior notice of the acceptance or rejection of stall applications and may demand immediate confirmation from the Horsemen of their intent to use allotted stalls.

D. The terms and conditions for all stall applications shall be determined by and set forth in an application by Charles Town Races. Charles Town Races shall send to the HBPA, not later than ten (10) days prior to the first day of each Race Meeting, a copy of its current Stall Application Agreement.

E. Charles Town Races agrees to provide stall and shed row area with proper fill within a reasonable time period, upon written request of HBPA.

12. **Barn Area**.

A. Barn area will be available to Horsemen at all times and the Racetrack will be available to Horsemen during scheduled training times (including scheduled training times during the period racing is discontinued).

B. HBPA recognizes an obligation of Horsemen and backside personnel to maintain the stable area in a sanitary condition, free from litter and other foreign objects. HBPA will use its best efforts to ensure that Horsemen and their employees fulfill their obligations in

this regard. Horse washing will only be permitted in certain areas designated by Charles Town Races for such purposes. This provision has been made mandatory by the Rules of the West Virginia Department of Environment Protection. Charles Town Races retains its right to discipline (including removal) Horsemen or their employees who fail to obey Charles Town Races' published rules and regulations.

C. Charles Town Races shall maintain all barn area restroom facilities in a safe and healthy environment.

D. During winter months, Charles Town Races agrees to maintain both main roads leading to and from the Racetrack, between all barns and all Horsemen parking lots, for both training and racing purposes. Charles Town Races further agrees to make necessary repairs to the backside and stall areas as Charles Town Races considers appropriate giving consideration to any input provided by the HBPA.

E. Charles Town Races agrees to remove all manure from the barn area at no cost to the Horsemen.

F. Charles Town Races in conjunction with the HBPA shall establish Barn Area Rules and Regulations for the purpose of promoting safety and security on the backstretch, which shall remain in full force and effect and shall be binding upon the parties pursuant to their own terms and provisions during the term or terms of these agreements.

13. **Racing Surfaces**.

A. The Track Surface Committee, consisting of two Horsemen, two jockeys (appointed by their respective associations), the Charles Town Races Superintendent, at least one steward, and a representative of Charles Town Races, shall meet pursuant to a published schedule to assess track surface conditions. Charles Town Races shall maintain the Racetrack as

it determines to be appropriate giving consideration to input provided by the Track Surface Committee.

B. Trainers shall have the right to enter onto the Racetrack for the purpose of determining the safety of the racing surface.

14. **Racetrack Facilities**. The racing strip, the barns, and related backside facilities at the Racetrack (collectively known as the "backside facilities") necessary for training purposes shall be made available by Charles Town Races without charge to Horsemen who have horses training for the immediate upcoming live race meet. Charles Town Races will, at its own expense, make water, hot water, tack room heating, and electricity available to each barn in use and keep the racing surface harrowed and watered.

The racing strip, barns, tack rooms and other facilities of Charles Town Races useful for training purposes, shall be made available for Horsemen approved by Charles Town Races, without charge. Charles Town Races agrees that these facilities shall be made available to Horsemen during reasonable

hours for training purposes, subject to weather conditions.

At least thirty (30) days written notice shall be given to the HBPA of any intended shut-down of the Racetrack. Included with such notice shall be the date of closing, the date of re-opening, and any plans concerning the availability of stalls in the stable area during the shutdown. The notice period shall be calculated from the last scheduled race meeting day of the then current race meeting.

15. **New Training Facility**. Charles Town Races has agreed to construct a new training track. The training track shall be a minimum 3/8 of a mile in length with a width of 45 feet. However, Charles Town Races acknowledges the HBPA's desire for a longer training track. The track surface shall be the same as the track surface on the Charles Town track after the

resurfacing project. There shall be a chute with a small starting gate together with a necessary crew of not less than three (3) individuals for training purposes only as well as a warning system for loose horses. An outrider during training hours, a general shack for trainers and proper guards to manage the facility shall likewise be provided. Charles Town agrees to provide the HBPA's consultant with a copy of the design plans for review.

In connection with the training track, three (3) new barns for approximately two hundred forty (240) horses with not less than two washing stalls per barn shall be constructed.

Until such time as the training track and barns are completed, the existing Agreement between Charles Town Races and HBPA relative to use of Shenandoah Downs Racetrack as a training track facility shall remain in full force and effect.

16. **Racetrack Kitchen**. As of this date of this Agreement, Charles Town Races provides a Racetrack kitchen which includes a seating area, for use by the Horsemen and Charles Town Races shall continue to provide and not reduce the size of the Racetrack kitchen during the Term of this Agreement. The HBPA may propose modifications and improvements to the Racetrack kitchen for review and consideration by Charles Town Races provided that the HBPA shall pay the cost and expense of such modifications and improvements. The Racetrack kitchen shall continue to be equipped with customary fixtures and equipment for the operation of a food service operation of its type. It is understood and agreed that the space provided for the Racetrack kitchen and the fixtures and equipment shall be provided by Charles Town Races at no cost to the HBPA or the operator of the kitchen. The HBPA shall be permitted to select an operator of its choice to provide provisions and prepare food, subject to the approval of Charles Town Races which shall not be unreasonably withheld or unduly delayed. The Racetrack kitchen must be operated in compliance with all health, sanitation and regulatory requirements

for the legal and safe operation of the Racetrack kitchen. The operator selected by the HBPA shall be required to have general liability and personal injury insurance coverage in amounts customarily required of similarly situated vendors conducting business on Charles Town Races' property. Evidence of such coverage shall be provided and the operator shall be required to name Charles Town Races and the HBPA as an additional insured on such policy(ies).

17. **Paddock Blacksmith**. Charles Town Races shall provide a paddock blacksmith to be available in the paddock for each and every race day.

18. **HBPA Amenities**.

A. Charles Town Races shall provide one (1) grandstand box with twelve (12) seats available to Horsemen on each racing day.

B. Charles Town Races shall provide parking consisting of seventy-five (75) spaces designated for trainers only.

C. Charles Town Races shall provide seventy-five (75) parking spaces for owners.

D. Charles Town Races shall provide the HBPA with at least two hundred (200) programs each racing day during the week and three hundred (300) programs on each racing day that falls on a Saturday, Sunday, or holiday at an agreed upon location.

19. **Other Agreements**. The parties shall also use their best efforts to address and resolve in a timely and expeditious manner the following matters of mutual concern to the parties:

A. Rodent and pest control and eradication.

B. Uniform rules and regulations concerning the operation of all vending or concession enterprises in the stable area.

C. Creation and continuing maintenance of a common fund for the payment of rewards for information leading to a conviction for theft, conversion, or malicious destruction of personal property belonging to Horsemen or their employees, Charles Town Races or its employees, and the general public.

20. **Racing Officials**. Charles Town Races shall mail to the President of the HBPA a written list of the persons appointed by Charles Town Races to serve as racing officials during any race meeting on the same date that it submits said list to the West Virginia Racing Commission in accordance with the provisions of the West Virginia Regulations.

21. **HBPA Facilities**. Charles Town Races shall provide, at no cost to the HBPA, an office for its use. The office shall be located on Charles Town Races property, shall be approximately 17 feet 8 inches by 12 feet 10 inches and shall have separate access from the exterior of the building. The office shall be provided with lighting, heat and air conditioning at no cost to the HBPA. The HBPA shall be responsible for providing its own office furniture and

equipment and for the interior cleaning of the office. It is understood and agreed that the HBPA shall be permitted, at HBPA's cost, to partition the interior of the office to create a separate office.

22. **HBPA Administrative Fund**. In accordance with Chapter 19, Article 23, Section 9(b)(1) of the West Virginia Code, Charles Town Races agrees to pay to HBPA during the term of this Agreement an amount equal to two percent (2%) of regular purses (excludings takes races, accredited races and other sponsored races) actually paid during the preceding month from the special fund, i.e., "purse account" required by this section for the HBPA's medical trusts for backstretch personnel and administrative fees. The sums due HBPA shall be paid by the end of each month.

23. **Indemnification**. The HBPA shall indemnify and save harmless Charles Town Races, its agents, representatives, employees, officers, directors and shareholders, and their respective successors and assigns, and all persons acting by, through, under or in concert with any of them, from and against any and all demands, liabilities, loss, cost, damages or expenses of whatever nature or kind, including attorney's fees and all other expenses, costs or loss arising out of or in any way related to or occasioned by Charles Town Races' performance under paragraph 22 of this Agreement relating to contributions to the HBPA.

24. **No Monopoly on Goods and Services**. Charles Town Races shall not establish or impose upon Horsemen a monopoly, restriction or requirement regarding the use of blacksmiths, feed men, track suppliers, veterinarians or other services customarily used by Horsemen. Charles Town Races will permit any supplier of commodities or services to enter the stable area; provided, however, that such supplier of services or commodities has received a clearance from management and the West Virginia Racing Commission, which will authorize admission to the stable area. Charles Town Races agrees not to unreasonably withhold said clearance. Any owner or trainer stabled on grounds will be permitted at any time to haul in hay or grain for his own use only.

25. **Security**. Charles Town Races agrees to provide and maintain reasonable security at its main gate and such other gates providing ingress and egress to its stable areas.

26. **Starting Gate**.

A. Charles Town Races agrees to provide a minimum often (10) assistant starters for the safety of jockeys and horses for each and every race and on each and every race day.

B. Charles Town Races agrees to double load horses into the starting gate for each and every race.

27. **Daily Meeting Figures**. The pari-mutuel handle and purse distribution figures as well as the percentage figures which represent the relationship between purses and the total of pari-mutuel handle, shall be given to the HBPA office each day of a race meet in progress.

28. **Valuable Property Right**. Charles Town Races recognizes that the horses and participants in races and related events occurring prior or subsequent to the running of a race are valuable property rights belonging to the owners and trainers, and Charles Town Races will not produce or exhibit still or motion pictures, videotapes, radio or television programs, or authorize or license others to make or exhibit motion pictures or television programs of any of said events without prior consultation and written agreement of the HBPA. Notwithstanding the preceding sentence, it is understood and agreed that Charles Town Races shall have the right to use pictures, still or moving, of the horses and participants to advertise and/or promote the Racetrack facility at no cost and without prior consultation and written agreement of the HBPA.

29. **HBPA Fire and Hazard Insurance**. Charles Town Races agrees to pay to HBPA's national office on or before May 15th of each year during the term of this Agreement, its proportional share of the total annual premium as determined annually by the National HBPA for a national policy of fire and other hazards insurance covering horses and tack belonging to HBPA members stabled at Charles Town Races or at locations covered by such HBPA policy. It is understood, however, by and between the parties, that the limits and types of coverage and the annual premium amount will not be increased without the prior written consent of Charles Town Races.

30. **Dead Horse Removal**. The cost of removing dead horses from the racing strip shall be paid by Charles Town Races. The cost of removing dead horses from the Racetrack facility generally shall be paid one-half by the HBPA and one-half by Charles Town Races.

31. **Right to Terminate**. Each party may terminate this Agreement upon the other party's failure to substantially perform its duties and obligations as required under the terms and provisions of this Agreement, and such failure continues for thirty (30) days following the date in which written notice of default is mailed in accordance with paragraph 35, Notices, of this Agreement. Such termination shall not constitute an election of remedy, nor shall it constitute a waiver of a party's other remedies at law or in equity.

32. **Further Assurances**. The HBPA and Charles Town Races shall execute such instruments and documents, and give such further assurances as may be necessary to accomplish the purposes and intent of this Agreement.

33. **Counter-part Originals**. This Agreement may be executed in two or more counter-part originals, each of which shall be deemed an original, but all of which shall constitute one and the same instrument.

34. **Notices**. All notices, requests, demands or other communications which may be required by this Agreement shall be in writing, and if mailed, shall be mailed by certified mail, return receipt requested, and shall be deemed to have been given when received by personal delivery or otherwise. A courtesy copy of such communication shall also be sent via facsimile to the last known facsimile number of the other party. Current addresses of the persons to whom communications are to be sent are as follows:

Charles Town: Albert Britton, General Manager
U. S. Route 340
P. O. Box 551
Charles Town, WV 25414

Copy to: Kevin DeSanctis, President
c/o Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Blvd., Suite 203
Wyomissing, PA 19610

Copy to: Carl Sottosanti, VP/Deputy General Counsel
c/o Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Blvd., Suite 203
Wyomissing, PA 19610

Copy to: Phyllis LeTart, VP/Legal Affairs
c/o Charles Town Races
P. O. Box 551
Charles Town, WV 25414

HBPA: Wayne Harrison, President
Charles Town HBPA, Inc.
P. O. Box 581
Charles Town, WV 25414

Copy to: Harry L. Buch, Esquire
Bailey, Riley, Buch & Harman, L.C.
P. O. Box 631
Wheeling, WV 26003

35. **Waivers**. No waiver of any breach of this Agreement or any term hereof shall be effective unless such waiver is in writing. No waiver of any breach shall be deemed a waiver of any other or subsequent breach.

36. **Simulcasting**. Simulcasting at Charles Town Races shall be governed by the West Virginia statutes and the Federal Interstate Horse Racing Act of 1978. Prior to February 1, 2005, and prior to February 1 of each year of this Agreement, a Simulcasting Agreement in the form attached as Exhibit "A", for a term of twelve calendar months, being February 1 of each year through January 31 of the following year, containing site approvals will be executed by the parties and shall be a part of this Agreement. Any additions or deletions to the scheduled

simulcasting locations will be provided to the HBPA for review and approval, which shall not be unreasonably withheld or unduly delayed.

37. **Applicable Law**. This Agreement shall be executed and delivered by the parties hereto in the State of West Virginia, and shall be interpreted, construed and enforced in accordance with the laws of the State of West Virginia. Nothing in this Agreement is intended to or has the effect of contradicting, superseding or construing the provision of Article 23, Chapter 19 (§ § 19-23-1 et seq.), Horse and Dog Racing and/or Article 29, Chapter 22A (§ § 22-A-1 et seq.) The Racetrack Video Lottery Act.

38. **Severability**. If any provision of this Agreement is declared invalid by any Court of competent jurisdiction, or becomes invalid or inoperative by the operation of law, the remaining provisions of this Agreement shall not be affected thereby and shall remain in full force and effect.

39. **Entire Agreement; Modification**. This Agreement contains the entire agreement between the parties and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject hereof. No modification, variation or amendment of this Agreement shall be effective unless such modification, variation or amendment shall be in writing and has been signed by all parties to this Agreement.

40. **Binding Effect**. This Agreement shall be binding upon the parties, their successors and assigns.

WITNESS the following signatures:

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

By: /s/ Richard Moore
Richard Moore
Its: General Manager Racing

CHARLES TOWN HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC.

By: /s/ Wayne A. Harrison
Wayne A. Harrison
Its: President

EXHIBIT A

Re: Simulcast Agreement and Site Approval

Charles Town Horsemen's Benevolent & Protective Association (the "HBPA") hereby authorizes Charles Town Race Track (the "Track") to export live thoroughbred horse races conducted at the Track to the attached list of guest site and to import live thoroughbred and harness horse races and dog races from the attached list of host sites from February 1, 2005 through January 31, 2006, subject to the following conditions:

1. That fees derived therefrom shall be divided according to the mandates of the West Virginia statutes;

2. That any thoroughbred racetrack approved as an interstate off-track betting ("OTB") outlet maintains a contract with the applicable thoroughbred horsemen's group as defined in the 1978 Interstate Horse Racing Act;

3. That present circumstances at any approved OTB outlet do not materially change hereafter such that live thoroughbred horse racing becomes threatened or adversely affected;

4. That no approved OTB outlet combines with other OTB outlets to threaten not to, or refuse to purchase interstate simulcasts except upon similar terms and conditions for purchase being made to each of any combination of such outlets;

5. That all approved OTB outlets obtain all other consents or approvals required by the 1978 Interstate Horse Racing Act;

6. That the Track agrees, upon five (5) days written notice from the HBPA, to discontinue export/import of live races to/from any guest/host site that is deemed not to be in good standing with such site's local HBPA or the National HBPA, at the discretion of the HBPA;

7. That re-disseminating the Track's races to facilities not named on the attached list is prohibited without the prior written approval of the HBPA and the Track;

8. That the Track agrees to provide a copy of all executed contracts with host/guest tracks and their sites to the HBPA; and

9. That the HBPA agrees that from time to time the Track may choose to add new sites to the attached list of guest/host sites and may do so with written approval of the HBPA.

The HBPA expressly reserves the right to rescind this consent hereafter should any of the foregoing conditions be violated.

/s/ Wayne A. Harrison	/s/ Richard Moore
Wayne A. Harrison	Richard Moore
President	General Manager – Racing
Charles Town HBPA	Charles Town Race Track

Exhibit 10.19(b)

WAIVER TO
CREDIT AGREEMENT

This WAIVER TO CREDIT AGREEMENT (this "**Waiver**"), dated as of February 18, 2005, is made by and among PENN NATIONAL GAMING, INC. ("**Borrower**"); the Subsidiary Guarantors party hereto; and BEAR STEARNS CORPORATE LENDING INC., as administrative agent (in such capacity, "**Administrative Agent**").

RECITALS:

WHEREAS, Borrower and Subsidiary Guarantors have entered into that certain Credit Agreement dated as of March 3, 2003, as amended and restated as of December 5, 2003 (as amended to date, the "**Credit Agreement**") with the Lenders party thereto; Bear Stearns Corporate Lending Inc., as swingline lender, as administrative agent and as collateral agent; and the other agents party thereto; and

WHEREAS, the Lenders and Administrative Agent have agreed to waive certain provisions of the Credit Agreement as provided herein upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto hereby agree as follows:

AGREEMENT:

SECTION 1. Definitions. Unless otherwise expressly defined herein, all capitalized terms used herein and defined in the Credit Agreement shall be used herein as so defined.

SECTION 2. Waiver. The Lenders hereby waive compliance with the provisions of Section 10.10 of the Credit Agreement to the extent necessary to permit Borrower to issue a notice of redemption of, and to redeem, its outstanding $11^{1/8}$% Senior Subordinated Notes due 2008 (which are redeemable at Borrower's option commencing on March 1, 2005) in accordance with the terms of the indenture governing such notes (the "**Redemption**"); and (ii) to use the proceeds of Revolving Loans, together with cash on hand, to fund the Redemption.

SECTION 3. Representations and Warranties; No Default or Event of Default. The Credit Parties hereby confirm that, after giving effect to the effectiveness of this Waiver, (a) all representations and warranties contained in the Credit Agreement are true and correct in all material respects as of the date hereof, except to the extent that any such representation and warranty specifically relates to an earlier date, and (b) no Default or Event of Default has occurred and is continuing.

SECTION 4. Miscellaneous.

(a) This Waiver shall become effective when Administrative Agent shall have received (i) counterparts of this Waiver executed by Borrower and the Subsidiary Guarantors, and (ii) executed Lender Consents, substantially in the form attached hereto as Annex I, from a number of Lenders sufficient to constitute the Majority Lenders.

(b) Except as provided herein, the Credit Agreement shall continue to be and shall remain in full force and effect in accordance with its terms, and nothing in this Waiver shall be deemed to constitute a waiver of compliance by any Credit Party with respect to any other term or provision of any Credit Document.

(c) This Waiver may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed an original, but all such counterparts together shall constitute but one and the same instrument.

(e) **THIS WAIVER SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF NEW YORK.**

[*signature pages follow*]

IN WITNESS WHEREOF, the parties hereto have caused this Waiver to be duly executed and delivered as of the date first above written.

PENN NATIONAL GAMING, INC.

By: /s/William J. Clifford
Name: William J. Clifford
Title: Chief Financial Officer and Senior Vice President, Finance

SUBSIDIARY GUARANTORS:

BANGOR ACQUISITION CORP.
BANGOR HISTORIC TRACK, INC.
DEL'S-SEAWAY SHRIMP & OYSTER COMPANY, INC.
HOLLYWOOD CASINO-AURORA, INC.

By: /s/Kevin DeSanctis
Name: Kevin DeSanctis
Title: President

PNGI CHARLES TOWN FOOD & BEVERAGE LIMITED LIABILITY COMPANY

By: /s/Richard Moore
Name: Richard Moore
Title: Manager

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

By: PENN NATIONAL HOLDING COMPANY, Managing Member

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

PENN NATIONAL GSFR, LLC

By: PENN NATIONAL GAMING, INC., Sole Member and Manager

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

W-B DOWNS, INC.
WILKES BARRE DOWNS, INC.

By: /s/William J. Clifford
Name: William J. Clifford
Title: President

BSL, INC.
BTN, INC.
CHC CASINOS CORP.
CRC HOLDINGS, INC.
EBETUSA.COM, INC.
HOLLYWOOD CASINO CORPORATION
HOLLYWOOD MANAGEMENT, INC.
HWCC DEVELOPMENT CORPORATION
HWCC-HOLDINGS, INC.
HWCC-GOLF COURSE PARTNERS, INC.
HWCC-TRANSPORTATION, INC.
HWCC-TUNICA, INC.
LOUISIANA CASINO CRUISES, INC.
MOUNTAINVIEW THOROUGHBRED

RACING ASSOCIATION
PNGI POCONO, INC.
PENN BULLPEN, INC.
PENN BULLWHACKERS, INC.
PENN MILLSITE, INC.
PENN NATIONAL HOLDING COMPANY
PENN NATIONAL SPEEDWAY, INC.
PENN SILVER HAWK, INC.
PENNSYLVANIA NATIONAL TURF CLUB, INC.
STERLING AVIATION, INC.
THOROUGHBRED ACQUISITION CORP.

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

BEAR STEARNS CORPORATE LENDING INC.,
as Administrative Agent and as a Lender

By: /s/Keith C. Barnish
Name: Keith C. Barnish
Title: Executive Vice President

Annex I

LENDER CONSENT

February , 2005

Reference is made to the Credit Agreement dated as of March 3, 2003, as amended and restated as of December 5, 2003 (as amended to date, the "**Credit Agreement**"; the terms defined therein being used herein as therein defined) among Penn National Gaming, Inc. as Borrower; the Subsidiary Guarantors party thereto; the Lenders party thereto; Bear Stearns Corporate Lending Inc., as swingline lender, as administrative agent and as collateral agent; and the other agents party thereto.

The undersigned, as a Lender, hereby consents to the Waiver to Credit Agreement (the "**Waiver**") in the form delivered to the undersigned Lender on or prior to the date hereof.

Pursuant to Section 13.04 of the Credit Agreement, the undersigned Lender hereby consents to the execution by Bear Stearns Corporate Lending Inc., as Administrative Agent, of the Waiver.

(Name of Lender)

By:
Name:
Title:

Exhibit 10.29

Non-Employee Director Compensation Policy

Penn National Gaming, Inc. (the "Company") pays director's fees to each director who is not an employee of the Company. Each outside director receives an annual fee of $18,000, which is paid in twelve equal monthly installments throughout the year, plus $1,500 for each Board meeting attended in person and reimbursement for out-of-pocket expenses in connection with their attendance at such meetings. Each member of the Audit Committee receives $1,000 for each audit committee meeting in which they participate. In addition, in each of 2003, 2004 and 2005, each non-employee director received a grant of options to purchase 60,000 shares (adjusted for the 2-for-1 split of the Company's common stock effected on March 7, 2005) of Common Stock of the Company. The exercise price of the options granted to non-employee directors was equal to the fair market value of the Company's Common Stock on the date of the grant.

Exhibit 10.30

Compensatory Arrangements with Certain Executive Officers

Set forth below are the discretionary cash bonuses paid to named executive officers for performance in 2004:

Name and Title	Cash Bonus for Fiscal 2004(1)
Peter M. Carlino Chairman and Chief Executive Officer	$ 832,000
Kevin G. DeSanctis President and Chief Operating Officer	$ 728,000
Leonard M. DeAngelo Executive Vice President of Operations	$ 460,000
William J. Clifford Senior Vice President-Finance and Chief Financial Officer	$ 400,000
Jordan B. Savitch Senior Vice President and General Counsel	$ 315,000

(1) The bonuses granted were based on the Company's overall performance, including its earnings, in 2004 as well as the executives' individual performance in 2004.

Exhibit 21.1

Subsidiaries of Penn National Gaming, Inc.

Name of Subsidiary	State or Other Jurisdiction of Incorporation
Penn National Gaming, Inc.	PA
BSL, Inc.	MS
BTN, Inc.	MS
Bangor Acquisition Corp.	DE
Bangor Historic Track, Inc.	ME
CHC Casinos Canada Limited	Nova Scotia
CHC Casinos Corp.	FL
CHC (Ontario) Supplies Limited	Nova Scotia
CRC Holdings, Inc.	FL
Casino Rama Services, Inc.	Ontario
Del's-Seaway Shrimp & Oyster Company, Inc.	MS
eBetUSA.com, Inc.	DE
Louisiana Casino Cruises, Inc.	LA
Mountainview Thoroughbred Racing Association	PA
PNGI Charles Town Gaming Limited Liability Company	WV
PNGI Charles Town Food & Beverage Limited Liability Company	WV
PNGI Pocono, Inc.	DE
Penn Bullpen, Inc.	CO
Penn Bullwhackers, Inc.	CO
Penn Millsite, Inc.	CO
Penn National GSFR, LLC	DE
Penn National Holding Company	DE
Penn National Speedway, Inc.	PA
Penn Silver Hawk, Inc.	CO
Pennwood Racing, Inc.	DE
Pennsylvania National Turf Club, Inc.	PA
Sterling Aviation, Inc.	DE
Thoroughbred Acquisition Corp.	DE
W-B Downs, Inc.	PA
Hollywood Casino Corporation	DE

Name of Subsidiary	State or Other Jurisdiction of Incorporation
HWCC-Golf Course Partners, Inc.	DE
HWCC-Tunica, Inc.	TX
Hollywood Casino-Aurora, Inc.	IL
HCS I, Inc.	LA
HCS, II, Inc.	LA
HWCC-Louisiana , Inc.	LA
HWCC-Shreveport, Inc.	LA
Shreveport Capital Corporation	LA
Tunica Golf Course LLC	DE
Hollywood Casino Shreveport	LA
HCS Golf Course, LLC	DE

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

Penn National Gaming, Inc. and subsidiaries
Wyomissing, Pennsylvania

We hereby consent to the incorporation by reference in the Registration Statements on Form S-8 (Nos. 33-98640, 333-61684, and 333-108173) of Penn National Gaming, Inc and subsidiaries of our reports dated March 25, 2005, relating to the consolidated financial statements, and the effectiveness of Penn National Gaming, Inc, and subsidiaries' internal control over financial reporting, which appear in the Company's Annual Report to Shareholders on Form 10-K.

/s/BDO Seidman, LLP

BDO Seidman, LLP
Philadelphia, Pennsylvania
March 30, 2005

Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, Peter M. Carlino, certify that:

1. I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2005

/s/ Peter M. Carlino

Name: Peter M. Carlino
Title: Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

I, William J. Clifford, certify that:

1. I have reviewed this annual report on Form 10-K of Penn National Gaming, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 30, 2005

/s/ William J. Clifford
Name: William J. Clifford
Title: Chief Financial Officer

Exhibit 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
18 U.S.C. SECTION 1350

In connection with the Annual Report of Penn National Gaming, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Peter M. Carlino, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Peter M. Carlino
Peter M. Carlino
Chief Executive Officer
March 30, 2005

Exhibit 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002,
18 U.S.C. SECTION 1350

In connection with the Annual Report of Penn National Gaming, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2004 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, William J. Clifford, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350 that, to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ William J. Clifford
William J. Clifford
Chief Financial Officer
March 30, 2005

Exhibit 99.1

Description of Governmental Regulations

General

The ownership and operation of our gaming and racing facilities are subject to pervasive regulation under the laws and regulations of each of the jurisdictions in which we operate. Gaming laws are generally based upon declarations of public policy designed to protect gaming consumers and the viability and integrity of the gaming industry. Gaming laws also may be designed to protect and maximize state and local revenues derived through taxes and licensing fees imposed on gaming industry participants as well as to enhance economic development and tourism. To accomplish these public policy goals, gaming laws establish procedures to ensure that participants in the gaming industry meet certain standards of character and fitness. In addition, gaming laws require gaming industry participants to:

- Establish procedures designed to prevent cheating and fraudulent practices;
- Establish and maintain responsible accounting practices and procedures;
- Maintain effective controls over their financial practices, including establishment of minimum procedures for internal fiscal affairs and the safeguarding of assets and revenues;
- Maintain systems for reliable record keeping; and
- File periodic reports with gaming regulators.

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, our shareholders and holders of our debt securities, to obtain licenses from gaming authorities. Licenses typically require a determination that the applicant qualifies or is suitable to hold the license. Gaming authorities have very broad discretion in determining whether an applicant qualifies for licensing or should be deemed suitable. Criteria used in determining whether to grant a license to conduct gaming operations, while varying between jurisdictions, generally include consideration of factors such as:

- The 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 through 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. Licenses in many of the jurisdictions in which we conduct gaming operations are granted for limited durations and require renewal from time to time. Our management agreement through which we operate Casino Rama extends until 2011, with the Province of Ontario possessing the option to extend the agreement for an additional ten-year period. There can be no assurance that any of our licenses will be renewed or that our management agreement in Ontario will be extended beyond 2011. The failure to renew any of our licenses or to obtain an extension to our management agreement in Ontario could have a material adverse effect on our gaming operations.

In addition to us and our direct and indirect subsidiaries engaged in gaming operations, gaming authorities may investigate any individual who has a material relationship to, or material involvement with, any of these entities to determine whether such individual is suitable or should be licensed as a business associate of a gaming licensee. Our officers, directors and certain key employees must file applications with the gaming authorities and may be required to be licensed, qualify or be found suitable in many jurisdictions. Gaming authorities may deny an application for licensing for any cause which they deem reasonable. Qualification and suitability determinations require submission of detailed personal and financial information followed by a thorough investigation. The applicant must pay all the costs of the investigation. Changes in licensed positions must be reported to gaming authorities and in addition to

their authority to deny an application for licensure, qualification or a finding of suitability, gaming authorities have jurisdiction to disapprove a change in a corporate position.

If 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, any of our stockholders or holders of our debt securities may be required to undergo a suitability investigation similar to that described above. Many jurisdictions require any person who acquires beneficial ownership of more than a certain percentage of our voting securities, typically 5%, to report the acquisition to gaming authorities, and gaming authorities may require such holders to apply for qualification or a finding of suitability. Most gaming authorities, however, allow an “institutional investor” to apply for a waiver. An “institutional investor” is generally defined as an investor acquiring and holding voting securities in the ordinary course of business as an institutional investor, and not for the purpose of causing, directly or indirectly, the election of a majority of the members of our board of directors, any change in our corporate charter, bylaws, management, policies or operations, or those of any of our gaming affiliates, or the taking of any other action which gaming authorities find to be inconsistent with holding our voting securities for investment purposes only. Even if a waiver is granted, an institutional investor generally may not take any action inconsistent with its status when the waiver was granted without once again becoming subject to the foregoing reporting and application obligations.

Generally, any person who fails or refuses to apply for a finding of suitability or a license within the prescribed period after being advised it is required by gaming authorities may be denied a license or found unsuitable, as applicable. Any stockholder found unsuitable or denied a license and who holds, directly or indirectly, any beneficial ownership of our voting securities beyond such period of time as may be

prescribed by the applicable gaming authorities may be guilty of a criminal offense. Furthermore, we may be subject to disciplinary action if, after we receive notice that a person is unsuitable to be a stockholder or to have any other relationship with us or any of our subsidiaries, we: (i) pay that person any dividend or interest upon our voting securities; (ii) allow that person to exercise, directly or indirectly, any voting right conferred through securities held by that person; (iii) pay remuneration in any form to that person for services rendered or otherwise; or (iv) fail to pursue all lawful efforts to require such unsuitable person to relinquish his voting securities including, if necessary, the immediate purchase of said voting securities for cash at fair market value.

The gaming jurisdictions in which we operate also require that suppliers of certain goods and services to gaming industry participants be licensed and require us to purchase and lease gaming equipment, 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.

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 licenses under gaming laws are generally not transferable, our ability to grant a security interest in any of our gaming assets is limited and subject to receipt of prior approval by gaming authorities.

License Fees and Gaming Taxes

We pay substantial license fees and taxes in many jurisdictions, including some of the counties and cities in which our operations are conducted, in connection with our casino gaming operations, computed in various

ways depending on the type of gaming or activity involved. Depending upon the particular fee or tax involved, these fees and taxes are payable with varying frequency. License fees and taxes are based upon such factors as:

- a percentage of the gross revenues received;
- the number of gaming devices and table games operated; and
- admission fees for customers boarding our riverboat casinos.

In many jurisdictions, gaming tax rates are graduated such that they increase as gross 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.

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-owned businesses in construction projects to the maximum extent practicable. Similarly, we may be required to give employment preference to minorities and in-state residents in certain jurisdictions.

In addition, our ability to conduct certain types of games, introduce new games or move existing games within our facilities may be restricted or subject to regulatory review and approval. Some of our operations are subject to restrictions on the number of gaming positions we may have and the maximum wagers allowed to be placed by our customers.

In Maine, we are a party to a development agreement with the City of Bangor which requires that either we or an alternative developer construct a hotel when gaming revenues at the Bangor facility exceed $60 million in a calendar year.

In Mississippi, we are required to include a 500 car parking facility in close proximity to the casino complex and infrastructure facilities that will amount to at least twenty five percent of the casino cost. This requirement has recently been increased for any new casinos in Mississippi.

In Pennsylvania, the holder of a category 1 license will be required to create a fund to be used for the improvement and maintenance of the backside area of the racetrack. A category 1 licensee must deposit into the fund $5,000,000 over the initial five year period of the license and an amount not less than $250,000 or more than $1,000,000 annually for the five years thereafter.

Riverboat Casinos

In addition to all other regulations generally applicable to the gaming industry generally, our riverboat casinos are also subject to regulations applicable to vessels operating on navigable waterways, including regulations of the U.S. Coast Guard. These requirements set limits on the operation of the vessel, mandate that it must be operated by a minimum complement of licensed personnel, establish periodic inspections, including the physical inspection of the outside hull, and establish other mechanical and operations rules. In addition, the riverboat casinos may be subject to future U.S. Coast Guard regulations 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 and Grantville, Pennsylvania and at our harness racetrack in Bangor, Maine. We also have a 50% ownership interest in a harness racetrack in Freehold, New Jersey through a joint venture agreement. We operated a harness racetrack in Wilkes-Barre, Pennsylvania until that facility and the related assets and off-track wagering facilities were sold in January of 2005. We currently operate video lottery terminals at the Charles Town racetrack and anticipate slot machine operations to be conducted at the Grantville and

Bangor racetracks pursuant to recently enacted legislation. Generally, our slot operations at racetracks are regulated in the same manner as our other gaming operations in those jurisdictions. In some jurisdictions, our ability to conduct gaming operations may be conditioned on the maintenance of agreements or certain arrangements with horsemen’s or labor groups.

Regulations governing our horse racing operations are administered separately from the regulations governing gaming operations, with separate licenses and license fee structures. The racing authorities responsible for regulating our racing operations have broad oversight authority, which may include: annually reviewing and granting racing licenses and racing dates; approving the opening and operation of off track wagering facilities; approving simulcasting activities; licensing all officers, directors, racing officials and certain other employees of a company; and approving all contracts entered into by a company affecting racing, pari-mutuel wagering, phone/internet wagering and off track wagering operations.