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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, 2003

OR

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

For the transition period from to

Commission File Number 0-24206

Penn National Gaming, Inc.

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-2234473**
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
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, 2003, the aggregate market value of the voting stock held by non-affiliates of the registrant was approximately $811.6 million. 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, 2003. 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 2, 2004 was 39,896,450.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's definitive proxy statement for its 2004 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, as amended. These statements are included throughout the document, including the section entitled "Risk Factors," and relate to our business strategy, our prospects and our financial position. These statements can be identified by the use of forward-looking terminology such as "believes," "estimates," "expects," "intends," "may," "will," "should" or "anticipates" or the negative or other variation of these or similar words, or by discussions of strategy 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;
- 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 authorities with regard to our business and the impact of any such actions;
- the expected effect of regulatory changes that we are pursuing or monitoring; and
- our expectations of the continued availability 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;
- our ability to maintain regulatory approvals for our existing businesses and to receive regulatory approvals for our new businesses;
- the maintenance of agreements with our horsemen and pari-mutuel clerks;
- our dependence on key personnel;
- the impact of terrorism and other international hostilities;
- the availability and cost of financing; and
- the outcome and financial impact from the event of default under the indentures governing the 13% senior secured notes due 2006 and 13% first mortgage notes due 2006 issued by the Hollywood Casino Shreveport general partnership and Shreveport Capital Corporation.

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. 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 two racetracks and eleven OTWs in Pennsylvania, one racetrack in West Virginia, 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.

On March 3, 2003, we completed the acquisition of Hollywood Casino Corporation for a purchase price and related acquisition costs of approximately $397.9 million plus debt, bringing three new regional markets to our expanded gaming portfolio: Aurora, Illinois, Tunica, Mississippi and Shreveport, Louisiana. We believe this combination with Hollywood Casino Corporation makes us the sixth largest publicly-traded gaming company in the United States based on reported total revenues.

The following table summarizes certain features of our properties and our managed facility as of March 1, 2004:

	Location	Type of Facility	Gaming Square Footage	Gaming Machines	Table Games
Owned Gaming Properties:					
Charles Town Entertainment Complex	Charles Town, WV	Land-based gaming/ Thoroughbred racing	121,700	3,500	—
Hollywood Casino Aurora	Aurora, IL	Dockside gaming	53,000	1,161	28
Casino Rouge	Baton Rouge, LA	Dockside gaming	28,000	1,097	31
Casino Magic-Bay St. Louis	Bay St. Louis, MS	Dockside gaming	39,500	1,210	30
Hollywood Casino Tunica	Tunica, MS	Land-based gaming	54,000	1,626	39
Boomtown Biloxi	Biloxi, MS	Dockside gaming	33,600	1,118	21
Hollywood Casino Shreveport	Shreveport, LA	Dockside gaming	59,000	1,434	71
Bullwhackers	Black Hawk, CO	Land-based gaming	20,700	890	—
Operated Gaming Property:					
Casino Rama	Orillia, Ontario	Land-based gaming	90,766	2,312	122
Racing Properties:					
Penn National Race Course(1)	Harrisburg, PA	Thoroughbred racing	—	—	—
Pocono Downs(1)	Wilkes-Barre, PA	Harness racing	—	—	—

Freehold Raceway(2)	Monmouth, NJ	Harness racing	—	—	—
Totals			500,266	14,348	342

(1) In addition to our racetracks, Penn National Race Course and Pocono Downs operate six and five off-track wagering facilities, respectively, located throughout Pennsylvania.

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

Recent Developments

Discussions concerning the potential acquisition of Wembley plc

On November 19, 2003, we announced that we were in discussions with Wembley plc concerning the cash acquisition of some or all of the assets of Wembley plc. On January 27, 2004, the boards of MGM Mirage and Wembley announced that they reached an agreement on an acquisition by MGM Mirage of Wembley plc. We wrote off all of our costs in connection with the due diligence related to the potential acquisition of Wembley plc.

Development activity in Maine

In November 2003, Maine voters approved legislation permitting the operation of slot machines at existing commercial racetracks provided that the commercial racetrack receives local referendum approval of such operations on or before December 31, 2003. The law required that any such local referendum occur in the racetrack's home community or in a community within a five-mile radius of the racetrack.

There are two commercial racetracks in the State of Maine. Bangor Raceway is located in Bangor, Maine. It is operated by Bangor Historic Track, Inc., or BHT, on property owned by the City of Bangor. Scarborough Downs is located in Scarborough, Maine. It is owned and operated by Davric Maine Corporation. Voters in Bangor approved the operation of slot machines at Bangor Raceway in June 2003. Voters in Scarborough declined to approve the operation of slot machines at Scarborough Downs in November 2003.

On December 10, 2003, we announced the execution of an agreement with Davric Maine Corporation that grants us the exclusive rights to develop and operate any gaming facilities, subject to local and regulatory approvals, that Scarborough Downs may be entitled to develop. Under the terms of the agreement, we agreed to provide funding and to work with Scarborough Downs to obtain the local and other approvals necessary to operate a racing and gaming facility in Southern Maine and to obtain a site for such facility. In addition, provided that the necessary approvals have been granted, we agreed to fund the construction costs for the facility. Scarborough Downs would operate the racing facility and receive 100% of the racing facility's net income. Subject to licensing requirements, we would operate the proposed gaming facility and receive 100% of the proposed gaming facility's net income subject to a net gaming revenue sharing arrangement with Scarborough Downs that varies depending on the gaming taxes, horsemen purses and other statutory payments.

In December 2003, we worked with Scarborough Downs in an attempt to obtain local referendum approval in Westbrook, Maine and Saco, Maine. Voters in both towns declined to approve the operation of slot machines in special municipal elections held on December 30, 2003. As a result, absent a change to current legislation, Scarborough Downs does not currently have an opportunity to obtain the legal right to operate slot machines at its facility. Both Scarborough Downs and we have made proposals to the legislature to amend the current legislation; however, no assurance can be given that the legislature will approve such amendments. As of December 31, 2003, we have expensed approximately $750,000 for costs associated with seeking local approvals to operate a gaming facility.

On January 6, 2004, we entered into an agreement with Shawn Scott and Capital Seven, LLC to purchase all of the shares of BHT. In conjunction with the purchase agreement, we also secured an option to purchase the interests in Vernon Downs, which does business as Mid-State Raceway, a harness racing facility in Vernon, New York, controlled by an affiliate of Capital Seven, LLC. Initially, the purchase agreement provided that the purchase price would consist of up front cash, progress and milestone payments and a final and more significant payment, subject to adjustment based on the final passage of gaming legislation. The agreement also provided that the closing was subject to a number of conditions and contingencies, including gaming and other approvals.

On January 15, 2004, the Maine Harness Racing Commission, or MHRC, issued an order providing that they would issue a conditional license to BHT if, among other things, we accelerated our purchase of BHT. In order to comply with the MHRC order, we amended our purchase agreement to provide for an accelerated closing without the payment of any additional funds and to provide for the payment of the balance of the purchase price over time if, and when, the various conditions and contingencies specified for such additional payments were satisfied. In addition, we also provided for a put mechanism allowing us to dispose of our ownership interest under certain circumstances. Upon exercise of the put, the shares would be transferred to a trustee who has been instructed to resell the shares for the benefit of the seller. In such event, the seller will be entitled to keep any amounts paid or accrued through the date of the put. On February 12, 2004, after the completion of the due diligence process, we decided not to exercise our option to purchase the interest in Vernon Downs.

At this stage, no assurance can be given that we will be able to complete the transaction contemplated by the purchase agreement. In addition, both the regulatory and legislative environment are currently subject to significant uncertainty. While the voter initiated legislation authorizing the operation of slot machines at commercial tracks became effective in February 2004, the MHRC has not yet commenced the process of adopting rules and regulations necessary to allow for the issuance of gaming related licenses. In addition, the Maine legislature is currently considering various amendments to the existing legislation that may adversely impact the timing and ability of BHT to conduct gaming operations. Finally, although the MHRC issued an order on March 3, 2004 conditionally granting to BHT a license, subject to certain conditions, to conduct racing operations at Bangor Raceway in 2004, certain special interest groups have commenced litigation challenging the grant of the racing license to BHT. While we intend to defend BHT vigorously, such challenges, if successful, may adversely impact the timing and ability of BHT to conduct racing or gaming operations at Bangor Raceway.

Bid for Illinois license

On January 22, 2004, we submitted a bid to finance and construct a casino in the greater Chicago area. We were one of seven companies seeking to purchase the bankrupt Emerald Casino, Inc. and one of three companies proposing to construct a casino in Rosemont, Illinois. We were not among the three finalists selected by the Illinois Gaming Board on February 24, 2004.

Hollywood Casino Shreveport

On February 3, 2004, our indirect subsidiary, HCS I, Inc., the managing general partner of Hollywood Casino Shreveport general partnership, or HCS, announced that its Board of Directors has initiated a process that it hopes will result in the sale or other disposition of the riverboat casino/hotel complex of HCS located in Shreveport, Louisiana. The announcement followed action by the Board authorizing HCS's financial advisor, Libra Securities LLC, to begin contacting potential acquirers. The Board also authorized the creation of an independent committee to oversee the sale process, consisting of the director who is not employed directly by us. The Board created the independent committee in case we seek to participate as a bidder in the sale process. The Board took action after consultation with an ad hoc committee of holders of the $150 million First Mortgage Notes due 2006 and the $39 million Senior Secured Notes due 2006, which we refer to as the Hollywood Casino Shreveport notes, issued by HCS and its subsidiary Shreveport Capital Corporation. Although no formal agreement has been reached with the ad hoc committee regarding the sale process, HCS anticipates that it will consult with the ad hoc committee throughout the process. There can be no assurance that the process will result in the sale or other disposition of the riverboat casino/hotel complex or that, if it does, the sale proceeds will be adequate to pay the Hollywood Casino Shreveport notes in full. HCS currently anticipates that any transaction would be effected through a federal bankruptcy proceeding. HCS did not make the August 1, 2003 and the February 1, 2004 interest payments, aggregating $24.6 million, due on the Hollywood Casino Shreveport notes. The Hollywood Casino Shreveport notes have been in

default under the terms of their respective note indentures since May 2003. The Hollywood Casino Shreveport notes are non-recourse to us and our subsidiaries (other than HCS, Shreveport Capital Corporation, HCS I, Inc., HCS II, Inc. and HWCC-Louisiana, Inc.).

Owned Gaming Properties

Charles Town Entertainment Complex

The Charles Town Entertainment Complex in Charles Town, West Virginia was our most profitable property for 2003. The Charles Town Entertainment Complex features approximately 3,500 gaming machines (up from 2,715 in 2002), 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 $^{3}/_{4}$-mile all-weather, lighted thoroughbred racetrack with a 3,000-person grandstand. Significant undeveloped land surrounds the property and we have a right of first refusal for an additional 250 acres that are adjacent to the complex.

We have undertaken a number of initiatives to drive growth at Charles Town. In September 2002, we opened 20,000 square feet of new gaming space along with a five-outlet food court, two lounges and a larger retail shop. On July 1, 2003, we opened the Hollywood slot gaming area, a 38,100 square foot themed area with 746 slot machines. The new gaming area offers a stage, lounge and new valet entrance. In 2004, we seek to expand the parking garage and add an additional 300 gaming machines.

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 is a 53,000 square foot single-level dockside casino facility with 28 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 1950's-style diner, 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, 1,097 gaming machines and 31 table games and has a capacity of 1,800 customers. The dockside embarkation facility offers a variety of amenities, including a steakhouse, a 268-seat buffet, food and bar service, a 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 1,210 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 291-room Bay Tower Hotel, the 201-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 a 54,000 square foot, single-level casino with approximately 1,626 slot machines and 39 table games. Hollywood Casino Tunica's 494-room hotel and 123-space recreational vehicle park provide overnight accommodations for its patrons. In 2003, we completed the conversion of 22 hotel rooms into eleven new suites and renovations to the rest of the hotel rooms.

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 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 Harrah's 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 1,118 slot machines and 21 table games. In addition, the property includes a full service buffet/menu service restaurant, a 120-seat deli-style restaurant, a full-service bakery, a western dance hall/cabaret and a 20,000-square foot family entertainment center.

Boomtown Biloxi offers gaming and entertainment amenities to primarily local, middle-income customers. 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.

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.

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. An 85-foot wide seamless entrance connects the casino to the land-based pavilion on all three levels resulting in the feel of a land-based casino. Other amenities include the Fairbanks gourmet steakhouse, the Hollywood Epic Buffet, the Hollywood Diner, the Director's Club and the Celebrity Lounge. Hollywood Casino Shreveport also features the unique Hollywood theme throughout its gaming, dining and entertainment facilities that has been successfully applied at Hollywood Casino Aurora and Hollywood Casino Tunica.

Bullwhackers

In April 2002, we acquired the assets of the Bullwhackers properties in Black Hawk, Colorado from Colorado Gaming and Entertainment Co., a subsidiary of Hilton Group plc. These assets include the Bullwhackers Casino, the adjoining Bullpen Sports Casino and the Silver Hawk Saloon and Casino. The Bullwhackers Casino includes 20,700 square feet of gaming space consisting of 890 slot machines. These casinos are located on leased land and 3.25 acres of land purchased by us in the acquisition, most of which is utilized for a 475-car parking area.

In 2003, we completed renovations to the interior and exterior of our casinos to improve the quality of the customer experience and increase our market share. On April 24, 2003, we completed the purchase of the land lease for Bullwhackers Casino for $6.1 million including closing costs.

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 90,766 square feet of gaming space, 2,312 gaming machines and 122 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, we own and operate Penn National Race Course, Pocono Downs and eleven off-track wagering facilities, or OTWs, in Pennsylvania and 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.

Pocono Downs, located on approximately 400 acres in Plains Township, outside Wilkes-Barre, Pennsylvania, is one of only two harness racetracks in Pennsylvania. The property includes a $^{5}/_{8}$-mile all-weather, lighted harness racetrack, a grandstand and a clubhouse.

Our OTWs and racetracks provide areas for viewing import simulcasts and televised sporting events, placing pari-mutuel wagers and dining. We operate eleven 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 and receiving simulcasts of races from other OTWs for wagering by customers at our OTW locations year-round for more than eight years. Import simulcasts typically include races from premier racetracks such a Belmont Park, Churchill Downs, Gulfstream Park, Hollywood Park, Santa Anita and Saratoga.

In October 1998, we formed a 50%-50% joint venture with Greenwood New Jersey, Inc., a subsidiary of Greenwood Racing, Inc. In January 1999, Greenwood New Jersey acquired certain assets of Garden State Park and Freehold Raceway on behalf of the joint venture. In July 1999, after receiving New Jersey Racing Commission approval, we completed our investment in the joint venture through our interest in Pennwood Racing, Inc. Until May 2001, we operated and held a leasehold interest in Garden State Park through our interest in Pennwood Racing, Inc. In May 2001, Garden State Park was sold and the joint venture ceased operating it. Freehold Raceway is located on a 51-acre site in western Monmouth, New Jersey and is the nation's oldest harness track. The property is located less than fifty miles from New York City. Daytime racing has been conducted at Freehold Raceway since 1853 and pari-mutuel wagering commenced in 1941. The grandstand can accommodate up to 10,000 spectators in its 150,000 square foot, five level, steel frame, enclosed, fully heated and air conditioned facility. The grandstand also offers a sit-down restaurant and seven concession stands.

Agreements with Horsemen and Pari-Mutuel Clerks

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 June 30, 2004. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks which expires on December 31, 2004.

Our agreement with the Pennsylvania Thoroughbred horsemen at Penn National Race Course expires on March 31, 2004. Our agreement with the Pennsylvania Harness horsemen at Pocono Downs expires on March 16, 2004.

We have an agreement in place with the Sports Arena Employees Local 137 (AFL-CIO) with respect to pari-mutuel clerks and admission personnel at six of our OTWs. That agreement expires on September 30, 2005. We also have an agreement with Local 137 at Penn National Race Course with respect to pari-mutuel clerks and admissions and Telebet personnel that expired on September 30, 2002. To date, we have operated under that contract by formal and informal extensions.

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

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. In 1995, Pocono Downs instituted Dial-A-Bet®, a similar account betting system.

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 the Pennsylvania Harness 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.

In April 2001, we entered into an agreement with Playboy.com, Inc., a wholly-owned subsidiary of Playboy Enterprises, Inc., to develop and operate the PlayboyRacingUSA.com, an online pari-mutuel horseracing wagering site. We are responsible for the day-to-day operations of the site and Playboy is responsible for marketing related services, user interface and design.

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," "Dial-A-Bet" 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 highly fragmented and 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). These venues 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, both Maryland and Pennsylvania are considering the legislation permitting slot machines in their states. 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 considering a bill to allow certain table games at racetracks in the state, although it appears that there are insufficient votes to pass table games legislation this season.

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 and one land-based casino in the New Orleans area, which is approximately 75 miles from Baton Rouge, and from 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 will face competition from this racetrack once it operates gaming machines. We also face competition from several 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, 2003. 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, and by statute cannot vote on such an issue again until November 2004. 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.

Shreveport, Louisiana. The Shreveport/Bossier City gaming market is characterized by intense competition. Hollywood Casino Shreveport competes directly with five casinos and a racetrack in the Shreveport market. All but one of these competitors have operated in the Shreveport market for several years and have established customer bases and the newest facility is owned by one of the existing participants in the market. Casino gaming is currently prohibited in several jurisdictions from which the Shreveport market draws customers, primarily Texas. Although casino gaming is currently not permitted in Texas, the Texas legislature has considered proposals to authorize casino gaming in the past. In July 2003, the Chickasaw Nation announced the opening of WinStar Casinos, a Las Vegas-style, 110,000-square-foot gaming facility located in Oklahoma approximately 60 miles north of the Dallas/Fort Worth area. Although gaming in Oklahoma is limited by law to Class II-type games, which games have previously been technologically incapable of offering a similar entertainment experience to Hollywood Casino Shreveport's Class III-type games, recent innovations have allowed the Class II-type product to compete much more effectively than in the past. Since Hollywood Casino Shreveport draws a significant amount of its customers from the Dallas/Fort Worth area but is located approximately 180 miles from that area, we believe Hollywood Casino Shreveport will face increased competition from these types of facilities.

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 five 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. Central City has received approval for the development of a road directly connecting Central City and Black Hawk with Interstate 70, which would allow customers to reach Central City without driving by or through Black Hawk. Construction has begun and it is anticipated that the project will be completed by the end of 2004.

Currently, limited stakes gaming in Colorado is constitutionally authorized in Central City, Black Hawk, Cripple Creek and two Native American reservations in southwest Colorado. At present, Colorado law does not authorize video lottery terminals and, in November 2003, voters defeated a ballot referendum to permit 500 video lottery terminals at each of the state's five currently licensed horse and greyhound race tracks. However, Colorado law permits the legislature, with executive approval, to authorize new types of lottery gaming, such as video lottery terminals, which could compete with slot machine gaming. The legalization of gaming closer to Denver could have a material adverse effect on our Bullwhackers operation. Bullwhackers also competes with other existing forms of gaming in Colorado, including lottery gaming, and horse and dog racing.

Ontario. Our operation of Casino Rama through CHC Casinos Canada Limited faces competition in Ontario from two other commercial casinos, six charity casinos and at least 15 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 three 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 an interim commercial casino located in Niagara Falls, Ontario, 80 miles southwest of Toronto with approximately 135 gaming tables and 2,700 gaming machines. There is a permanent casino under development in Niagara Falls with a similar number of gaming tables and gaming machines as the interim casino that is scheduled for completion in the spring of 2004.

—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.

Our OTWs compete with OTWs owned by other Pennsylvania racetracks, a number of which are in close proximity to us, and new OTWs that may compete with our existing wagering facilities. There are currently two thoroughbred and two harness racetracks in Pennsylvania. On September 26, 2002, MTR Racing Group, Inc. announced that its wholly-owned subsidiary, Presque Isle Downs, Inc., was granted a license by the Pennsylvania State Horse Racing Commission to conduct thoroughbred horse racing and pari-mutuel wagering in Erie, Pennsylvania. MTR Racing Group plans to build a state-of-the-art horse racing facility with dirt and turf racing and simulcasting that will also offer concerts, entertainment, and fine and casual dining. In the event MTR does so, MTR has agreed to purchase from us our OTW in Erie, Pennsylvania.

U.S. and Foreign Revenues

Our revenues from operations in the U.S. for 2001, 2002 and 2003 were approximately $508.8 million, $644.5 million and $1,149.3 million, respectively. Our revenues from operations in Canada for 2001, 2002 and 2003 were approximately $8.3 million, $11.5 million and $13.7 million, respectively. We currently do not derive revenue from any countries other than the U.S. and Canada and had no operations in Canada prior to 2001.

Segments

We operate in two segments, gaming and pari-mutuel operations. For financial data about our segments for the years ended December 31, 2001, 2002 and 2003, please see Note 11 to our Consolidated Financial Statements.

Management

Name	Position
Peter M. Carlino	Chairman and Chief Executive Officer
Kevin G. DeSanctis	President and Chief Operating Officer
Leonard M. DeAngelo	Executive Vice President of Operations
William J. Clifford	Senior Vice President—Finance and Chief Financial Officer
Robert S. Ippolito	Vice President, Secretary and Treasurer
Jordan B. Savitch	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 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, Atlantic City, New Orleans 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, New Jersey. 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, Nevada. From May 1989 to November 1993, Mr. Clifford was Controller for

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

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 industry is highly regulated, and we must maintain our licenses and pay gaming taxes to continue our operations. Each of our casinos 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 2, 2004, we had 12,919 full-time employees.

At the Charles Town Entertainment Complex, we have an agreement with the Charles Town horsemen that expires on June 30, 2004. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks which expires on December 31, 2004.

Our agreement with the Pennsylvania Thoroughbred horsemen at Penn National Race Course expires on March 31, 2004. Our agreement with the Pennsylvania Harness horsemen at Pocono Downs expires on March 16, 2004.

We have an agreement in place with the Sports Arena Employees Local 137 (AFL-CIO) with respect to pari-mutuel clerks and admission personnel at six of our OTWs. That agreement expires on September 30, 2005. We also have an agreement with Local 137 at Penn National Race Course with

respect to pari-mutuel clerks and admissions and Telebet personnel that expired on September 30, 2002. To date, we have operated under that contract by formal and informal extensions.

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

Risks Related to Our Business

A substantial portion of our revenues and operating income is derived from our Charles Town and Aurora facilities.

Approximately 45.7% and 69.6% of our revenue and operating income, respectively, for the year ended December 31, 2003 was derived from our Charles Town and Aurora operations. We expect that a substantial portion of our revenues and operating income for the immediate future will be derived from our Charles Town, West Virginia and Aurora, Illinois facilities. If, among other things, new competitors enter one of these markets, our effective rate of taxation is increased, economic conditions in one of these regions deteriorates or a business interruption occurs, our operating revenues and cash flow could decline significantly. For example, in July, 2003, the State of Illinois increased admissions tax rates, certain tax rates and added new tax brackets for gaming licenses. 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 successful, we cannot assure you that they will continue to be successful.

There is substantial risk inherent in potential acquisitions in the gaming industry.

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 involvement in potential acquisitions may result in uncapitalized expenses, non-recurring charges, litigation, substantial obligations and a substantial risk of loss.

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

The integration of any properties we may acquire will require the dedication of management resources that may temporarily divert attention from our day-to-day business and may interrupt the activities of those businesses, which could have a material adverse effect on our business, financial condition and results of operations.

We continually evaluate opportunities to acquire new properties, some of which are potentially significant in relation to our size. We expect to continue pursuing expansion and acquisition opportunities and could face significant challenges in managing and integrating the expanded or combined operations. Management of new properties, especially in new geographic areas, may require that we increase our managerial resources. If we fail to effectively manage any growth we may have, it could materially adversely affect our operating results. 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.

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.

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 capital expenditures at our properties. These enhancements involve risks, including cost over-runs, delays, market deterioration and receipt of required licenses, permits or authorizations, among others.

Any proposed enhancement will 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 these facilities at their optimal levels. The failure to employ the necessary work force could result in inadequate customer service that could ultimately harm profitability.

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

Gaming Operations. The gaming industry is highly fragmented and 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., 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 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 entities will increase competition for our gaming operations and could have a material adverse impact on us.

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 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.

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. 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 believe that we have defenses to these lawsuits and are contesting them vigorously. However, we cannot be sure that we will be successful in defending these claims, which could result in settlements or damages that could significantly impact our business, financial condition and results of operations.

We face extensive regulation from gaming and other regulatory authorities.

Licensing requirements. As owners and operators of gaming and pari-mutuel betting 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 Division of Gaming, the Illinois Gaming Board, the Louisiana Gaming Control Board, 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 Pennsylvania State Harness Racing Commission, the West Virginia Racing Commission and the West Virginia Lottery Commission may, for any reason set forth in the applicable legislation, rules and regulations, limit, condition, suspend or revoke a license or registration to conduct gaming operations or prevent us from owning the securities of any of our gaming subsidiaries. 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 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. If we expand our gaming operations in Canada, Colorado, Illinois, Louisiana, Mississippi, New Jersey, Pennsylvania, West Virginia or to new areas, we will have to meet 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. An unsuccessful license application or renewal in one jurisdiction can adversely affect licensing in other jurisdictions.

Gaming authorities in the U.S. generally can require that any beneficial owner of our securities, including holders of our common stock file an application for a finding of suitability. If a gaming authority requires a record or beneficial owner of our common stock, to file a suitability application, the owner must 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 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 regulatory environment. 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 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, in July 2003, the State of Illinois increased the graduated gaming tax rate structure by increasing certain tax rates, adding new brackets and raising the highest marginal tax rate from 50% to 70%. Additionally, Illinois increased the admission tax from $3 to $4 or $5 per person, depending on

the prior year's annual admissions. In the absence of any operational response by us, the tax increases would have reduced our operating income by $30 million in 2003. We have taken steps that have successfully mitigated some of the impact of the tax increase. However, we cannot provide assurance that the steps we took will continue to be successful.

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.

Inclement weather and other conditions could seriously disrupt our business, 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. Our dockside facilities in Mississippi, Louisiana and Illinois are subject to risks in addition to those associated with land-based casinos, including loss of service due to casualty, mechanical failure, extended or extraordinary maintenance, flood, hurricane or other severe weather conditions. Reduced patronage and the loss of a dockside casino or riverboat from service for any period of time due to severe weather could adversely affect our business, financial condition and results of operations.

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

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 June 30, 2004. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutuel Clerks which expires on December 31, 2004.

Our agreement with the Pennsylvania Thoroughbred horsemen at Penn National Race Course expires on March 31, 2004. Our agreement with the Pennsylvania Harness horsemen at Pocono Downs expires on March 16, 2004.

We have an agreement in place with the Sports Arena Employees Local 137 (AFL-CIO) with respect to pari-mutuel clerks and admission personnel at six of our OTWs. That agreement expires on September 30, 2005. We also have an agreement with Local 137 at Penn National Race Course with respect to pari-mutuel clerks and admissions and Telebet personnel that expired on September 30, 2002. To date, we have operated under that contract by formal and informal extensions.

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

If we fail to maintain operative agreements with the horsemen at a track, we will not be permitted to conduct live racing and export and import simulcasting at that track and OTWs, and, in West Virginia, we will not be permitted to operate our gaming machines. In addition, our simulcasting agreements are subject to the horsemen's approval. If we fail to renew or modify existing agreements on satisfactory terms, this failure could have a material adverse effect on our business, financial condition and results of operations. There can be no assurance that these agreements will be renewed or extended.

We experience quarterly fluctuations in our results of operations.

Our quarterly operating results fluctuate because of seasonality and other factors. We typically generate the best operating profits in our second and third fiscal quarters, which end in June and September, respectively. These seasonal trends may impact our financial condition to the extent we need more funds during periods of slower activity in the future.

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

We are subject to various federal, state and local environmental laws and regulations that govern our operations, including emissions and discharges into the environment, and the handling and disposal of hazardous and nonhazardous substances and waste. 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 incur costs and obligations for correcting environmental noncompliance matters. To date, none of these matters has had a material adverse effect on our business, financial condition or results of operations; however, there can be no assurance that such matters will not have such an effect in the future.

We are also 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 such 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 occur 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 of 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.

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 may negatively affect our results of operations. The extent of the impact is subject to the magnitude and duration of the energy and fuel price increases. Dramatic increases in fuel prices may also adversely affect customer visits.

Risks Related to our Capital Structure

Our substantial indebtedness could adversely affect our financial health.

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

- make it more difficult for us to satisfy our obligations with respect to the our debt;
- increase our vulnerability to general adverse economic and industry conditions;
- require us to dedicate a substantial portion of our cash flow from operations to debt service, thereby reducing the availability of our cash flow to fund working capital, capital expenditures 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 have less debt; and
- limit, along with the financial and other restrictive covenants in our indebtedness, among other things, our ability to borrow additional funds. A failure to comply with those covenants could result in an event of default.

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, for example, to fund new acquisitions. The terms of our existing indebtedness relating to the notes do 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 bank 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 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, 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. A failure to comply with the restrictions contained in our senior secured credit facility and the indentures governing our existing senior subordinated notes could lead to an event of default thereunder which could result in an acceleration of such indebtedness.

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 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 senior secured credit facility in amounts sufficient to enable us to fund our liquidity needs 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 senior secured credit facility or 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 on attractive terms, commercially reasonable terms or at all. 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.

An event of default has occurred under the indentures governing the Hollywood Casino Shreveport notes.

Under the terms of the indentures governing the Hollywood Casino Shreveport notes, HCS and Shreveport Capital Corporation were required to make an offer to purchase the Hollywood Casino Shreveport notes at 101% of the principal amount thereof within ten days of March 3, 2003, which was the date our wholly-owned subsidiary consummated its merger with Hollywood Casino Corporation. At such time, HCS and Shreveport Capital Corporation determined that they did not have the liquidity to repurchase the Hollywood Casino Shreveport notes at 101% of their principal amount and, accordingly, could not make an offer to purchase the Hollywood Casino Shreveport notes as required under the indentures. The Hollywood Casino Shreveport notes are non-recourse to us and our subsidiaries (other than HCS, Shreveport Capital Corporation, HCS I, Inc., HCS II, Inc. and HWCC-Louisiana, Inc. which we refer to as the Shreveport entities).

On March 14, 2003, the HCS issuers were notified by an ad hoc committee of holders of the Hollywood Casino Shreveport notes that they had 60 days from receipt of the notice to cure the failure to offer to purchase the Hollywood Casino Shreveport notes as required under the indentures governing the notes or an Event of Default would occur. HCS did not cure such failure and, therefore, on May 14, 2003 the representative of the holders of the HCS notes declared an Event of Default. In addition, the managing general partner of HCS did not make the interest payments aggregating $24.6 million that became due on the Hollywood Casino Shreveport notes on August 1, 2003 and February 1, 2004. On February 3, 2004, HCS I, Inc., the managing general partner of HCS, announced that its Board of Directors has initiated a process that it hopes will result in the sale or other disposition of the riverboat casino/hotel complex of HCS located in

Shreveport, Louisiana. The Board took action after consultation with an ad hoc committee of holders of the Hollywood Casino Shreveport notes, whom HCS expects that it will consult with throughout the process. HCS currently anticipates that any transaction would be effected through a federal bankruptcy proceeding.

There can be no assurance that the process will result in the sale or other disposition of the riverboat casino/hotel complex or that, if it does, the sale proceeds will be adequate to pay the Hollywood Casino Shreveport notes in full. In addition, there can be no assurance that the holders of the Hollywood Casino Shreveport notes will not challenge the non-recourse nature of the Hollywood Casino Shreveport notes or that we will not incur significant costs in connection with the Hollywood Casino Shreveport notes.

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 $^{3}/_{4}$-mile thoroughbred racetrack and an enclosed grandstand/clubhouse. We have a right of first refusal for an additional 250 acres that are adjacent to the facility.

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 Harrah's Entertainment, 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 5.1 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.

Hollywood Casino Shreveport. We lease approximately nine acres of land in Shreveport, Louisiana, which contains a dockside casino with 59,000 square feet of gaming space along with a hotel and land-based pavilion that includes various entertainment amenities.

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

Pocono Downs. We own approximately 400 acres in Plains Township, outside of Wilkes-Barre, Pennsylvania where Pocono Downs is located. The property includes a $^{5}/_{8}$-mile all weather, lighted harness track, a grandstand and a clubhouse. A two-story 14,000 square foot building that house the Pocono Downs office is also located on the property.

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.

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

Our OTW Locations

Location	Size (Sq. Ft.)	Owned/Leased	Date Opened
Erie, PA	22,500	Owned	May, 1991
Reading, PA	22,500	Leased	May, 1992
Allentown, PA	28,500	Owned	July, 1993
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
Carbondale, PA	13,000	Owned	March, 1998
Hazleton, PA	13,000	Leased	March, 1998
Johnstown, PA	14,220	Leased	September, 1998
East Stroudsburg, PA	12,000	Leased	July, 2000

Other. We lease 19,045 square feet of office space in two office buildings in Wyomissing, Pennsylvania for our executive offices. The office buildings are owned by an affiliate of Peter M. Carlino, our Chairman and Chief Executive Officer. Prior to March 6, 2003, we also leased an aircraft from a company owned by one of our directors. We believe the lease terms for both the executive office and aircraft 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 is believed to be 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 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 ourselves.

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 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. In February 2004, we filed another motion for partial judgment on most of the remaining issues. A hearing date has not yet been set. Further litigation on the remaining issues is anticipated.

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. Discovery is substantially complete at this time and a trial date has been set for April 2004.

In October 2003 we and one of our subsidiaries brought a declaratory action for coverage against Lexington Insurance Company and National Union Fire Insurance of Pittsburgh, Pennsylvania, or National Union, in the Circuit Court of Jefferson County, West Virginia. The case involves a dispute over coverage for punitive damage awards for claims arising in West Virginia. Subsequent to the filing of this action in West Virginia, National Union brought an action against us and several of our subsidiaries in the Court of Common Pleas of Berks County, Pennsylvania denying coverage for punitive damage awards for claims arising in West Virginia. We have resolved the underlying cases in West Virginia in which punitive damages had been pled, paid out the settlement amounts in the first quarter of 2004 (which amounts will be included in miscellaneous assets) and are seeking reimbursement for these settlement amounts in the West Virginia action.

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

None.

PART II

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
2002		
First Quarter	$ 19.05	$ 12.43
Second Quarter	20.89	14.81
Third Quarter	20.85	11.00
Fourth Quarter	22.25	14.61
2003		
First Quarter	$ 19.42	$ 14.69
Second Quarter	23.60	14.75
Third Quarter	23.46	19.53
Fourth Quarter	25.95	21.02

The closing sale price per share of common stock on The Nasdaq National Market on March 8, 2004, was $26.39. As of March 2, 2004, there were approximately 604 holders of record of common stock.

Dividend Policy

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

ITEM 6. SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial and operating data for the years ended December 31, 1999, 2000, 2001, 2002 and 2003 are derived from our consolidated financial statements that have been audited by BDO Seidman, LLP, independent certified public accountants. 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,				
	1999	2000(1)	2001(2)	2002(3)	2003(6)
	(in thousands, except per share data)				
Income statement data:(4)					
Net Revenues	$ 170,360	$ 291,801	$ 517,137	$ 655,961	$ 1,162,995
Total operating expenses	152,695	246,642	440,246	553,786	979,812
Income from operations	17,665	45,159	76,891	102,175	183,183
Other income (expenses), net	(7,155)	(27,645)	(40,525)	(52,381)	(100,020)
Income before income taxes	10,510	17,514	36,366	49,794	83,163
Taxes on income	3,777	5,522	12,608	18,931	31,692
Net income	$ 6,733	$ 11,992	$ 23,758	$ 30,863	$ 51,471
Per share data:(5)					
Basic net income per share	$ 0.23	$ 0.40	$ 0.78	$ 0.82	$ 1.30
Diluted net income per share	$ 0.22	$ 0.39	$ 0.75	$ 0.79	$ 1.27
Weighted shares outstanding—basic	29,674	29,936	30,653	37,775	39,473
Weighted shares outstanding—diluted	30,392	30,886	31,837	39,094	40,612
Other data:					
Net cash provided by operating activities	$ 22,461	$ 41,813	$ 85,833	$ 100,854	$ 154,942

Net cash used in investing activities	(29,756)	(229,770)	(216,335)	(102,433)	(320,953)
Net cash provided by financing activities	9,903	201,810	145,593	18,312	217,459
Depreciation and amortization	7,733	12,039	32,093	36,456	67,487
Interest expense	9,613	20,644	46,096	42,104	97,492
Capital expenditures	13,243	27,295	41,511	88,902	57,482
Balance sheet data:					
Cash and cash equivalent	$ 9,434	$ 23,287	$ 38,378	$ 55,121	$ 106,969
Total assets	189,712	439,900	679,377	765,480	1,609,599
Total debt	91,213	309,299	458,909	375,018	1,109,468
Shareholders' equity	66,272	79,221	103,265	247,000	309,878

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

(5) 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 stock split.

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

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 two racetracks and eleven OTWs in Pennsylvania, one racetrack in West Virginia, and through a joint venture, own and operate a racetrack in New Jersey. We operate in two segments, gaming and pari-mutuel operations, and derive substantially all of our revenues from such operations. Since September 1997, when we started our gaming operations at Charles Town, our gaming revenues have increasingly accounted for a larger share of our total revenues. 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 particularly in attractive regional markets.

We have made significant acquisitions over the last three 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. We acquired 100 percent of its outstanding common stock for approximately $397.9 million in cash, including acquisition costs of $50.8 million. The Hollywood Casino Corporation acquisition significantly increased our revenues and cash flow. With the acquisition of Hollywood Casino Corporation in the first quarter of 2003, our gaming revenue accounted for over 90.0% of our total revenue in 2003. Gaming revenues are derived primarily from gaming on slot machines and table games.

Pari-mutuel 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 at out-of-state locations. Other revenues are derived from hotel, dining, retail, admissions, program sales, concessions and certain other ancillary activities.

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

- Pari-mutuel 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 at out-of-state locations.

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 maintenance capital expenditures, fund new capital projects at existing properties and provide excess cash for future development and acquisitions.

Results of Operations

The results of operations for the years ended December 31, 2001, 2002, and 2003 are summarized below (in thousands):

	2001	2002	2003
Revenue:			
Gaming	$ 364,139	$ 490,240	$ 976,411
Racing	112,087	113,340	107,900
Management service fee	8,297	11,479	13,726
Other	57,193	68,615	139,282
Gross revenues	541,716	683,674	1,237,319
Less: Promotional allowances	(24,579)	(27,713)	(74,324)
Net Revenues	517,137	655,961	1,162,995
Operating expenses:			
Gaming	206,633	278,399	528,270
Racing	78,110	83,291	79,745
Food, beverage and other expenses	31,407	41,674	100,319
General and administrative	92,003	113,966	203,991
Depreciation and amortization	32,093	36,456	67,487
Total operating expenses	440,246	553,786	979,812
Income from operations	$ 76,891	$ 102,175	$ 183,183

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

- The acquisitions of five casino properties and the Casino Rama management contract since January 1, 2001.
- The continued emphasis on slot revenue 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.
- 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.
- Recent economic conditions 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.
- A number of states are currently considering 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.
- Financing in a favorable interest environment and under an improved credit profile facilitates our growth.

The results of operations by property level for the years ended December 31, 2001, 2002, and 2003 are summarized below (in thousands):

	Revenues(1)			Income from operations		
	2001	2002	2003	2001	2002	2003
Charles Town Entertainment Complex	$ 193,624	$ 253,539	$ 329,150	$ 40,830	$ 56,891	$ 72,929
Hollywood Casino Aurora(4)	—	—	201,938	—	—	54,547
Casino Rouge(2)	61,980	105,034	106,940	10,729	21,608	23,650
Casino Magic-Bay St. Louis	86,146	95,756	106,315	11,190	10,333	12,333
Hollywood Casino Tunica(4)	—	—	96,648	—	—	11,041
Boomtown Biloxi	69,761	73,225	72,644	8,433	9,264	9,766
Hollywood Casino Shreveport(4)	—	—	113,925	—	—	2,933
Bullwhackers(3)	—	16,815	26,431	—	948	1,626
Casino Rama Management Contract(2)	8,297	11,479	13,726	7,662	10,608	12,343
Pennsylvania Racing Operations	98,713	101,855	96,894	10,400	9,528	8,233
Corporate eliminations(5)	(1,384)	(1,742)	(1,616)	—	—	—
Corporate overhead	—	—	—	(12,353)	(17,005)	(26,218)
Total	$ 517,137	$ 655,961	$ 1,162,995	$ 76,891	$ 102,175	$ 183,183

(1) Net revenues are net of promotional allowances.

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

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

(4) Reflects results since the March 3, 2003 acquisition.

(5) Primarily reflects intracompany transactions related to import/export simulcasting.

Revenues

Revenues increased in 2003 by $507.0 million, or 77.3%, to $1,163.0 million from $656.0 million in 2002. The three new Hollywood Casino properties contributed $412.5 million of the increase. From the properties we owned prior to the acquisition of the Hollywood Casino properties, revenues increased by $94.5 million, or 14.4%. 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 $10.6 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.

Revenues for the year ended December 31, 2002 increased by $138.9 million, or 26.9%, to $656.0 million in 2002 from $517.1 million in 2001. Revenues from the CRC Holdings, Inc. (Casino Rouge and Casino Rama management contract), or CRC, and Bullwhackers properties acquisitions generated $63.1 million. Revenues increased at the Charles Town Entertainment Complex by $59.9 million, or 30.9%, to $253.5 million in 2002 from $193.6 million in 2001 as a result of the addition of gaming space, the building of a parking facility, an increase in the number of gaming machines in 2002 and a higher percentage in 2002 of coin-out machines compared to video voucher machines. Revenues increased at Casino Magic—Bay St. Louis and Boomtown Biloxi by $13.1 million, or 8.4%, to $169.0 million in 2002 from $155.9 million in 2001, as a result of the new hotel and increased marketing efforts.

Income from operations

Operating income increased by $81.0 million, or 79.3%, to $183.2 million in 2003 from $102.2 million in 2002. The three new Hollywood Casino properties contributed $68.5 million. Operating income from Charles Town increased in 2003 by $16.0 million. In 2003, we made new capital expenditures of $23.9 million to expand and add new additional gaming machines at Charles Town which resulted in an increase in our depreciation and amortization expense of $6.5 million.

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 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.

Operating income for the year ended December 31, 2002 increased by $25.3 million, or 32.9%, to $102.2 million in 2002 from $76.9 million in 2001. Operating income from the CRC and Bullwhackers acquisitions generated $14.8 million. Operating income at Charles Town increased in 2002 by $16.1 million.

Corporate overhead increased by $4.6 million, or 37.1%, to $17.0 million in 2002 from $12.4 million in 2001 primarily due to additional corporate staff and office space needed to support the recent acquisitions.

Depreciation and amortization

Depreciation and amortization expense increased by $31.0 million, or 84.9%, to $67.5 million in 2003 from $36.5 million in 2002. The addition of the Hollywood Casino properties increased depreciation and amortization expense by $22.2 million. The remaining increase of $8.8 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.

For the year ended December 31, 2002 there was no significant change in depreciation and amortization compared to the year ended December 31, 2001.

Other income (expense) summary (in thousands):

December 31,	2001	2002	2003
Other income (expense):			
Interest expense	$ (46,096)	$ (42,104)	$ (97,492)
Interest income	3,040	1,553	1,770
Earnings from joint venture	2,531	1,965	1,825
Other	—	(52)	(4,286)
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	$ (40,525)	$ (52,381)	$ (100,020)

Interest expense

Interest expense increased by $55.4 million in 2003 as a result of borrowing an additional $700 million for the acquisition of Hollywood Casino Corporation and the interest expense associated with the Hollywood Casino Shreveport notes. During the year 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.

Interest expense decreased by $4.0 million in 2002 as a result of reducing and restructuring our debt. By using the proceeds of our February 2002 equity offering and the $175 million 8 7/8% senior subordinated note offering, we were able to reduce our outstanding debt by approximately $84 million.

Other non-recurring expense

In 2003, we incurred other expenses of $4.3 million. These expenses included costs for debt negotiations incurred at Hollywood Casino Shreveport, the write-off of an option on a greyhound race track and costs incurred for due diligence in the Wembley plc potential acquisition.

During the year ended 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.

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 $154.9 million for the year ended December 31, 2003. This consisted of net income of $51.5 million, non-cash reconciling items of $112.9 million and net decreases in current liability accounts along with net decreases in current asset accounts of $9.5 million, net of assets and liabilities acquired in the Hollywood Casino Corporation acquisition.

Cash flows used in investing activities totaled $321.0 million for the year ended December 31, 2003. Expenditures for property, plant, and equipment totaled $57.5 million in 2003 and included $23.9 million at Charles Town for additional gaming space, $9.2 million in renovations and the land lease purchase at Bullwhackers and $23.6 million in maintenance capital expenditures including new slot machines. Net payments under interest rate swaps were $1.9 million. The aggregate cash purchase price for the Hollywood Casino Corporation acquisition, net of cash acquired, was $264.1 million.

Cash flows from financing activities provided net cash flow of $217.5 million for the year ended December 31, 2003. During the year we borrowed $700 million under a new credit facility to finance the purchase of Hollywood Casino Corporation and issued $200 million in 6 7/8% senior notes. We also incurred $23.3 million in deferred financing costs for these two transactions. Principal payments on long-term debt included $101.6 million in payments under our credit facility, $360.0 million in payments for the Hollywood Casino Corporation senior notes that were refinanced by the credit facility and $200 million in payments that were refinanced with the 6 7/8% senior notes. Net proceeds from the exercise of stock options totaled $2.3 million.

Outlook

Based on our current level of operations, and anticipated revenue growth, we believe that cash generated from operations and amounts available under our credit facility will be adequate to meet our anticipated debt service requirements, capital expenditures and working capital needs for the foreseeable future. We cannot assure you, however, that our business will generate sufficient cash flow from operations, that our anticipated revenue growth will be realized, or that future borrowings will be available under our 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, if we consummate significant acquisitions in the future, our cash requirements may increase significantly. 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

The following table summarizes our capital expenditures, other than maintenance capital expenditures, by property for the fiscal year ended December 31, 2003 (in thousands):

Property	Budget	Actual
Charles Town Entertainment Complex	$ 24,000	$ 23,865
Boomtown Biloxi	24,000	485
Bullwhackers Casino	10,000	9,160
Corporate	600	327

Totals	$ 58,600	$ 33,837

The Charles Town facility added 38,100 square feet of gaming space, which houses 746 additional slot machines, expanded the food court and provided space for an entertainment facility. The additional gaming space was opened to the public on July 1, 2003 and brought the total number of slot machines in operation at the facility to 3,500.

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 will be 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 the lawsuit filed by our landlord that goes to trial in 2004. Moving the casino barge is estimated to cost approximately $20.0 million.

At Bullwhackers, we purchased the land lease for Bullwhackers Casino, refurbished the exterior facade and renovated the interior gaming areas. On April 24, 2003, we completed the purchase of the land lease for $6.1 million, including closing costs. The purchase will save approximately $1.0 million per year in rent expense based on current operating performance. The property underwent interior renovations during most of the year. This project was completed in December, before the holiday season. The interior renovations consisted of paint, wallpaper, new trim work and carpet throughout the facility, requiring the closing of gaming areas and reducing the number of slot machines available for play while construction was going on.

During 2003, we began expanding our corporate offices to provide additional workstations and office space for our employees. The first part of this project was completed in the second quarter of 2003. Additional office space expansion is planned for 2004.

For 2003, we spent approximately $23.6 million for maintenance capital expenditures at our properties, including $13.5 million for new slot machines.

Cash generated from operations funded our capital expenditures and maintenance capital expenditures in 2003.

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

Property	Year Ending December 31, 2004
Charles Town Entertainment Complex	$ 21,700
Boomtown Biloxi	5,460
Corporate	1,000
Totals	$ 28,160

The Charles Town Entertainment Complex has started the design work for Phase III of the facility expansion. Phase III includes the expansion of the parking garage by approximately 1,050 spaces, adding an additional 300 slot machines and related equipment and infrastructure improvements, including a loading dock, dry storage area, offices and a maintenance shop. The parking garage should be completed by the third quarter of 2004 and the new gaming area should be open by the fourth quarter of 2004.

Due to the ongoing litigation with our landlord at the Boomtown Biloxi property, we have 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, we may elect to revisit the decision.

In 2004, we expect to complete expanding our corporate offices to allow for additional workstations and office space for our employees.

For 2004, we expect to spend approximately $55.1 million for maintenance capital expenditures at our properties. Of this total, approximately $11.1 million will be spent on slot machines and ticket-in, ticket-out ("TITO") 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 maintenance capital expenditures in 2004.

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.

At December 31, 2003, we had an outstanding balance of $399.7 million on the Term Loan D facility and $91.8 million available to borrow under the revolving credit facility after giving effect to outstanding letters of credit of $8.2 million. The weighted average interest rate on the Term D facility is 3.63% at year-end excluding swaps and deferred finance fees.

11 1/8% Senior Subordinated Notes due 2008

On March 12, 2001, we completed a private offering of $200 million of 11 1/8% senior subordinated notes due 2008. The net proceeds of the 11 1/8% notes were used, in part, to finance our acquisition of Casino Rouge and the management contract at Casino Rama, including the repayment of certain existing indebtedness at CRC. Interest on the 11 1/8% notes is payable on March 1 and September 1 of each year. The 11 1/8% notes mature on March 1, 2008. As of December 31, 2003, the entire principal amount of the 11 1/8% notes is outstanding. The 11 1/8% notes are general unsecured obligations and are guaranteed on a senior subordinated basis by certain of our current and future wholly-owned domestic subsidiaries.

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 1, 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 all of certain current and future wholly-owned domestic subsidiaries.

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. At December 31, 2003, we were in compliance with all required financial covenants.

Commitments and Contingencies

—Contractual Cash Obligations

As of December 31, 2003, there was no indebtedness outstanding under our revolving credit facility and there was approximately $91.8 million available for borrowing under the revolving credit portion of the credit facility. The following table presents our contractual cash obligations as of December 31, 2003 (in thousands):

		Payments Due By Period			
	Total	2004	2005 - 2006	2007 - 2008	2009 and After
Senior secured credit facility(1)	$ 399,700	$ 3,997	$ 7,994	$ 387,709	$ —
11 1/8% senior subordinated notes due 2008(2)					
Principal	200,000	—	—	200,000	—
Interest	100,125	22,250	44,500	33,375	—
8 7/8% senior subordinated notes due 2010(3)					
Principal	175,000	—	—	—	175,000
Interest	100,953	15,531	31,063	31,062	23,297
6 7/8% senior subordinated notes due 2011(4)					
Principal	200,000	—	—	—	200,000
Interest	109,885	13,635	27,500	27,500	41,250

13% Hollywood Casino Shreveport notes(5)					
Principal	189,000	189,000	—	—	—
Interest	24,808	24,808	—		
Purchase obligations	23,791	15,365	5,972	2,454	—
Construction commitments	5,000	5,000	—	—	—
Capital Leases	15,423	1,637	3,694	4,377	5,715
Operating Leases	20,990	4,464	5,403	3,215	7,908
Total	$ 1,564,675	$ 295,687	$ 126,126	$ 689,692	$ 453,170

(1) As of December 31, 2003 there was no indebtedness outstanding under the credit facility and there was approximately $91.8 million available for borrowing under the revolving credit portion of the credit facility.

(2) The $200.0 million aggregate principal amount of $11^{1}/_{8}$% notes matures on March 1, 2008. Interest payments of approximately $11.1 million are due on each March 1 and September 1 until March 1, 2008.

(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.

(5) The $150.0 million aggregate principal amount of 13% senior secured notes matures August 1, 2006 and the $39.0 million aggregate principal amount of 13% first mortgage notes matures

August 1, 2006. Interest payments of approximately $12.3 million are due on the notes each August 1 and February 1 until August 1, 2006. The Hollywood Casino Shreveport notes are non-recourse to us and our subsidiaries (other than HCS, Shreveport Capital Corporation, HCS I, Inc., HCS II, Inc. and HWCC-Louisiana, Inc.). 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 at December 31, 2003.

—Other Commercial Commitments

The following table presents our material commercial commitments as of December 31, 2003 for the following future periods:

		Amount of Commitment Expiration Per Period			
	Total Amounts Committed	2004	2005 - 2006	2007 - 2008	2009 and After
		(in thousands)			
Revolving Credit Facility(1)	$ —	$ —	$ —	$ —	$ —
Letters of Credit(1)	8,166	8,166	—	—	—
Guarantees of New Jersey Joint Venture Obligations(2)	8,817	8,817	—	—	—
Total	$ 16,983	$ 16,983	$ —	$ —	$ —

(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 $17.6 million term loan. Our obligation as of December 31, 2003 under this guarantee is approximately $8.8 million.

—Interest Rate Swap Agreements

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

Hollywood Casino Shreveport Notes

Hollywood Casino Shreveport 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, and the partnership interests held by HCS I, Inc. and HCS II, Inc. and the stock held by HWCC-Louisiana, Inc.

On February 3, 2004, our indirect subsidiary, HCS I, Inc., the managing general partner of Hollywood Casino Shreveport general partnership, or HCS, announced that its Board of Directors has initiated a process that it hopes will result in the sale or other disposition of the riverboat casino/hotel complex of HCS located in Shreveport, Louisiana. The announcement followed action by the Board

authorizing HCS's financial advisor, Libra Securities LLC, to begin contacting potential acquirers. The Board also authorized the creation of an independent committee to oversee the sale process, consisting of the director who is not employed directly by us. The Board created the independent committee in case we seek to participate as a bidder in the sale process. The Board took action after consultation with an ad hoc committee of holders of the $150 million First Mortgage Notes due 2006 and the $39 million Senior Secured Notes due 2006, which we refer to as the Hollywood Casino Shreveport notes, issued by HCS and its subsidiary Shreveport Capital Corporation. Although no formal agreement has been reached with the ad hoc committee regarding the sale process, HCS anticipates that it will consult with the ad hoc committee throughout the process. There can be no assurance that the process will result in the sale or other disposition of the riverboat casino/hotel complex or that, if it does, the sale proceeds will be adequate to pay the Hollywood Casino Shreveport notes in full. HCS currently anticipates that any transaction would be effected through a federal bankruptcy proceeding. HCS did not make the August 1, 2003 and the February 1, 2004 interest payments, aggregating $24.6 million, due on the Hollywood Casino Shreveport 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 at December 31, 2003.

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.

Valuation of long-lived tangible and intangible assets, including goodwill

As a result of our recent acquisitions, intangible assets and goodwill increased significantly. 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. Upon completion of the valuation process, approximately $589.9 million was allocated to goodwill and $25.7 million to the management contract. The management contract is amortizable under Financial Accounting Standards Board, or FASB, Statement No. 142 "Goodwill and Other Intangible Assets," or SFAS 142. 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. The purchase price allocation process requires management estimates and judgments as to the remaining useful lives of the assets purchased and present value computations for the management services contract. If growth rates, operating margins, or useful lives, among other assumptions, differ from the estimates and judgments used in the purchase price allocation, the amounts recorded in the financial statements could result in a possible impairment

of the intangible assets and goodwill or require an acceleration in amortization expense of the management contract.

At December 31, 2003, we had a net property and equipment balance of $740.5 million, representing 46.0% 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. Future events such as property expansions, new competition and new regulations, could result in a change in the manner in which we are using certain assets requiring changes in the estimated useful lives of such assets. 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.

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 2003

In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," or Interpretation No. 46, clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Interpretation No. 46 is applicable immediately for variable interest entities created after January 31, 2003. For variable interest entities created prior to February 1, 2003, the provisions of Interpretation No. 46 are applicable at the end of the annual reporting period ending after December 15, 2003. This interpretation did not have an effect on the consolidated financial statements.

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," or SFAS 145. The rescission of

FASB No. 4, "Reporting Gains and Losses from Extinguishment of Debt" applies to us. 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 our fiscal year beginning January 1, 2003. We had losses on early extinguishment of debt, net of income taxes of $5.2 million for the year ended December 31, 2002. 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 are included in "Other (expense)" in our consolidated statements of income.

There are no accounting standards issued before December 31, 2003 but effective after December 31, 2003 which are expected to have a material impact on our financial reporting.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Certified Public Accountants

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, 2002 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2003. 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 auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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, 2002 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Summary of Significant Accounting Policies in the consolidated financial statements, in January 1, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets."

/s/ BDO SEIDMAN, LLP

BDO Seidman, LLP

Philadelphia, Pennsylvania
January 30, 2004, except for Note 15,
which is as of February 22, 2004

Penn National Gaming, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share and per share data)

December 31,	2002	2003
Assets		
Current assets:		
Cash and cash equivalents	$ 55,121	$ 106,969
Receivables	19,418	28,304
Prepaid income taxes	6,415	7,593
Prepaid expenses and other current assets	9,080	29,592
Deferred income taxes	4,405	17,285
Total current assets	94,439	189,743
Net property and equipment, at cost	450,886	740,507
Other assets:		
Investment in and advances to unconsolidated affiliate	16,152	17,187
Excess of cost over fair market value of net assets acquired	160,506	603,470
Management contract (net of accumulated amortization of $4,206 and $6,719, respectively)	21,539	19,027
Deferred financing costs, net	10,463	28,214
Miscellaneous	11,495	11,451
Total other assets	220,155	679,349
	$ 765,480	$ 1,609,599
Liabilities and Shareholders' Equity		
Current liabilities:		
Current maturities of long-term debt	$ 18	$ 124,979
Accounts payable	19,450	28,155
Accrued liabilities:		
Expenses	21,973	46,117
Interest	18,041	36,516
Salaries and wages	17,351	29,925
Gaming, pari-mutuel, property and other taxes	9,282	11,624
Other current liabilities	6,867	9,722

Total current liabilities	92,982	287,038
Long-term liabilities:		
Long-term debt, net of current maturities	375,000	984,489
Other liabilities	—	403
Deferred income taxes	50,498	27,791
Total long-term liabilities	425,498	1,012,683
Commitments and contingencies		
Shareholders' equity:		
Preferred stock, $.01 par value; 1,000,000 shares authorized; none issued	—	—
Common stock, $.01 par value; 200,000,000 shares authorized; shares issued 40,033,684 and 40,621,350, respectively	403	409
Treasury stock, at cost 849,400 shares	(2,379)	(2,379)
Additional paid-in capital	154,049	162,442
Retained earnings	96,584	148,055
Accumulated other comprehensive (loss) income	(1,657)	1,351
Total shareholders' equity	247,000	309,878
	$ 765,480	$ 1,609,599

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,	2001	2002	2003
Revenues:			
Gaming	$ 364,139	$ 490,240	$ 976,411
Racing	112,087	113,340	107,900
Management service fee	8,297	11,479	13,726
Food, beverage and other revenue	57,193	68,615	139,282
Gross revenues	541,716	683,674	1,237,319
Less: Promotional allowances	(24,579)	(27,713)	(74,324)
Net revenues	517,137	655,961	1,162,995
Operating expenses:			
Gaming	206,633	278,399	528,270
Racing	78,110	83,291	79,745
Food, beverage and other expenses	31,407	41,674	100,319
General and administrative	92,003	113,966	203,991
Depreciation and amortization	32,093	36,456	67,487
Total operating expenses	440,246	553,786	979,812
Income from operations	76,891	102,175	183,183
Other income (expense):			
Interest expense	(46,096)	(42,104)	(97,492)
Interest income	3,040	1,553	1,770
Earnings from joint venture	2,531	1,965	1,825
Other	—	(52)	(4,286)
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	(40,525)	(52,381)	(100,020)
Income before income taxes	36,366	49,794	83,163
Taxes on income	12,608	18,931	31,692

Net income	$ 23,758	$ 30,863	$ 51,471
Per share data:			
Basic net income per share	$ .78	$ .82	$ 1.30
Diluted net income per share	$ .75	$ .79	$ 1.27
Weighted average shares outstanding:			
Basic	30,653	37,775	39,473
Diluted	31,837	39,094	40,612

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	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total	Compre-hensive Income
Balance, December 31, 2000	30,918,350	$ 155	$ (2,379)	$ 39,482	$ 41,963	$ —	$ 79,221	$ —
Exercise of stock options including tax benefit of $1,196	948,500	5	—	4,123	—	—	4,128	—
Change in fair value of interest rate swap contracts, net of income tax benefit of $2,043						(3,794)	(3,794)	(3,794)
Foreign currency translation adjustment	—	—	—	—	—	(48)	(48)	(48)
Net income	—	—	—	—	23,758	—	23,758	23,758
Balance, December 31, 2001	31,866,850	160	(2,379)	43,605	65,721	(3,842)	103,265	$ 19,916
Exercise of stock options including tax benefit of $3,528	1,466,834	15	—	14,161	—	—	14,176	$ —
Issuance of common stock	6,700,000	68	—	96,009	—	—	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	—
Stock split	—	160	—	(160)	—	—	—	—
Foreign currency translation adjustment	—	—	—	—	—	10	10	10
Net income	—	—	—	—	30,863	—	30,863	30,863
Balance, December 31, 2002	40,033,684	403	(2,379)	154,049	96,584	(1,657)	247,000	$ 31,791
Exercise of stock options including tax benefit of $6,067	587,666	6	—	8,393	—	—	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	40,621,350	$ 409	$ (2,379)	$ 162,442	$ 148,055	$ 1,351	$ 309,878	$ 52,962

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

Year ended December 31,	2001	2002	2003
Cash flows from operating activities:			
Net income	$ 23,758	$ 30,863	$ 51,471
Adjustments to reconcile net income to net cash provided by operating activities:			

Depreciation and amortization	32,093	36,456	67,487
Amortization of deferred financing costs charged to interest expense	2,444	2,036	4,247
Amortization of the unrealized loss on interest rate swap contracts charged to interest expense net of income tax benefit.	—	1,257	1,517
Loss on sale of fixed assets	809	735	1,819
Earnings from joint venture	(2,531)	(1,965)	(1,825)
Loss relating to early extinguishment of debt	—	5,906	1,310
Deferred income taxes	6,959	10,454	31,764
Accelerated vesting of stock options	—	434	—
Tax benefit from stock options exercised	1,196	3,528	6,067
Loss on change in value of interest rate swap contracts	—	5,819	527
Decrease (increase), net of businesses acquired, in			
Receivables	2,226	1,160	94
Prepaid income taxes	1,905	(6,415)	(1,178)
Prepaid expenses and other current assets	(546)	(1,045)	(10,756)
Miscellaneous other assets	(1,149)	(1,813)	9,914
Increase (decrease), net of businesses acquired, in			
Accounts payable and accrued liabilities	15,414	8,176	5,647
Gaming, pari-mutuel, property and other taxes	2,456	3,689	(10,740)
Income taxes payable	180	(180)	—
Other current liabilities	619	1,759	(2,423)
Net cash provided by operating activities	85,833	100,854	154,942
Cash flows from investing activities:			
Expenditures for property and equipment	(41,511)	(88,902)	(57,482)
Net payments under interest rate swaps	—	(3,830)	(1,902)
Proceeds from sale of property and equipment	299	369	722
Distributions from joint venture	2,928	—	790
Acquisition of businesses, net of cash acquired	(182,658)	(9,570)	(264,081)
(Increase) decrease in cash in escrow	4,607	(500)	1,000
Net cash used in investing activities	(216,335)	(102,433)	(320,953)
Cash flows from financing activities:			
Proceeds from exercise of options	2,932	10,646	2,332
Proceeds from sale of common stock	—	96,077	—
Proceeds from issuance of long-term debt	211,000	173,752	900,000
Principal payments on long-term debt	(61,389)	(258,891)	(661,566)
Increase in deferred financing cost	(6,950)	(3,272)	(23,307)
Net cash provided by financing activities	145,593	18,312	217,459
Effect of exchange rate fluctuations on cash	—	10	400
Net increase in cash and cash equivalents	15,091	16,743	51,848
Cash and cash equivalents at beginning of year	23,287	38,378	55,121
Cash and cash equivalents at end of year	$ 38,378	$ 55,121	$ 106,969

See accompanying notes to consolidated financial statements.

Penn National Gaming, Inc. and Subsidiaries

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 2002, the Company acquired five other gaming properties through its Mississippi (Casino Magic-Bay St. Louis and Boomtown Biloxi), CRC Holdings, Inc.

(Casino Rouge and Casino Rama management contract), and Bullwhackers properties acquisitions. The transition continued with the acquisition of Hollywood Casino Corporation on March 3, 2003.

The consolidated financial statements include the accounts of Penn and its wholly-owned subsidiaries. The Company owns and operates, through its subsidiaries, eight gaming properties in Charles Town, West Virginia; Bay St. Louis, Biloxi and Tunica, Mississippi; Baton Rouge and Shreveport, Louisiana; Black Hawk, Colorado; and Aurora, Illinois. The Company also owns Penn National Race Course, a thoroughbred racetrack in Grantville, Pennsylvania, Pocono Downs, a harness racetrack in Wilkes-Barre, Pennsylvania and eleven off-track wagering ("OTW") facilities located throughout Pennsylvania. 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").

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 $12.1 million due from Casino Rama for management service fees of $1.3 million and reimbursement of $10.8 million of expenses to be paid on behalf of Casino Rama as of December 31, 2003. The payable on behalf of Casino Rama is included in accrued salaries in the accompanying consolidated balance sheet at December 31, 2003.

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, 2003, 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 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.

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 and 2003, no impairment charges were required as a result of the 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 bases 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. Cash flows from derivatives held for speculative purposes are classified as investing cash flows.

Revenue Recognition

In accordance with gaming industry practice, the Company recognizes casino revenues as the net of gaming wins less losses. Net revenues exclude the retail value of complimentary rooms, food and beverage furnished gratuitously to customers. These amounts that are included in promotional allowances were as follows:

Year ended December 31,	2001	2002	2003
		(In thousands)	
Rooms	$ 1,468	$ 1,721	$ 10,920
Food and beverage	22,405	23,416	56,000
Other	706	2,576	7,404
Total promotional allowances	$ 24,579	$ 27,713	$ 74,324

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

Year ended December 31,	2001	2002	2003
		(In thousands)	
Rooms	$ 952	$ 1,108	$ 8,164
Food and beverage	13,681	13,308	40,598
Other	523	1,570	4,825
Total cost of complimentary services	$ 15,156	$ 15,986	$ 53,587

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 156,000, 337,500, and 130,000 shares of common stock were outstanding during the years ended December 31, 2001, 2002 and 2003, 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 reconciliation from basic earnings per share to diluted earnings per share.

Year ended December 31,	2001	2002	2003
		(In thousands)	
Determination of shares:			
Weighted average common shares outstanding	30,653	37,775	39,473
Assumed conversion of dilutive stock options	1,184	1,319	1,139

Diluted weighted average common shares outstanding	31,837	39,094	40,612

Stock-Based Compensation

The Company grants stock options for a fixed number of shares to employees with an exercise price equal to 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 less than or equals 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, 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,	2001	2002	2003
		(In thousands)	
Net income, as reported	$ 23,758	$ 30,863	$ 51,471
Add: Stock-based employee compensation expense included in reported net income, net of related tax effects	—	270	—
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(773)	(1,971)	(2,912)
Pro forma net income	$ 22,985	$ 29,162	$ 48,559
Earnings per share:			
Basic-as reported	$ .78	$ .82	$ 1.30
Basic-pro forma	$ .75	$ .77	$ 1.23
Diluted-as reported	$ ..75	$ ..79	$ 1.27
Diluted-pro forma	$ .72	$ .75	$ 1.20

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 2001, 2002 and 2003:

	2001	2002	2003
Risk-free interest rate	6.0%	3.0%	3.0%
Volatility	75.8%	50.0%	41.0%
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.

Accounting Pronouncements Adopted in 2003

In January 2003, FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities" ("Interpretation No. 46"), clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity at risk for the entity to finance its activities without additional subordinated financial support from other parties. Interpretation No. 46 is applicable immediately for variable interest entities created after January 31, 2003. For variable interest entities created prior

to February 1, 2003, the provisions of Interpretation No. 46 are applicable at the end of the annual reporting period ending after December 15, 2003. This Interpretation did not have an effect on the consolidated financial statements.

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 us. 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 our fiscal year beginning January 1, 2003. We had losses on early extinguishment of debt, net of income taxes of $5.2 million for the year ended December 31, 2002,

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 (expense)" in our consolidated statements of income.

Recent Accounting Pronouncements

There are no accounting standards issued before December 31, 2003 but effective after December 31, 2003 which are expected to have a material impact on our financial reporting.

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. 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 $397.9 million in cash, including acquisition costs of $50.8 million. 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. The acquisition expanded the Company's customer base and provided increased geographic diversity. 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 goodwill resulting from this acquisition is based on the excess of the amounts paid over the estimated fair value of the net assets acquired and this goodwill is not tax deductible.

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	$ 170,718
Property and equipment	299,109
Other assets, including deferred income taxes of $32,436	64,501
Goodwill	442,964
Total assets acquired	977,292
Current liabilities	(72,157)
Other liabilities	(8,277)
Debt, current and non-current	(498,910)
Total liabilities assumed	(579,344)
Net assets acquired	$ 397,948

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	$	1.14	$	1.34
Diluted	$	1.10	$	1.30
Weighted shares outstanding				
Basic		37,775		39,473
Diluted		39,094		40,612

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.

CRC Acquisition

On April 27, 2001, the Company completed its acquisitions of (i) CRC Holdings, Inc. ("CRC") from the shareholders of CRC and (ii) the minority interest in Louisiana Casino Cruises, Inc. ("LCCI") not owned by CRC from certain shareholders (together, the "CRC Acquisition"). The CRC Acquisition

was accomplished pursuant to the terms of Agreement and Plan of Merger among CRC Holdings, Inc., Penn National Gaming, Inc., Casino Holdings, Inc. and certain shareholders of CRC Holdings, Inc., dated as of July 31, 2000 (the "Merger Agreement"), and a Stock Purchase Agreement by and among Penn National Gaming, Inc. and certain shareholders of LCCI, dated as of July 31, 2000. Under the Merger Agreement, CRC merged with Casino Holdings, Inc., a wholly-owned subsidiary of the Company (the "Merger"). The aggregate consideration paid by the Company for the CRC Acquisition was approximately $182 million, including the repayment of existing debt of CRC and its subsidiaries. The purchase price of the CRC Acquisition was funded by the proceeds of the Company's offering of senior subordinated notes, which was completed in March 2001.

The assets acquired pursuant to the Merger and CRC Acquisition consist primarily of the Casino Rouge riverboat gaming facility in Baton Rouge, Louisiana, and a management contract for Casino Rama, a gaming facility located in Orillia Ontario, Canada.

The management contract expires July 31, 2011. CHC Casinos Canada Limited ("CHC"), a wholly-owned subsidiary of the Company, operates Casino Rama in the Province of Ontario. The Company derives all of its management service fee revenue from this agreement. As of the date of the acquisition, the fair value of the management contract was $25.7 million.

3. Property and Equipment

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

December 31,	2002	2003
Land and improvements	$ 88,885	$ 123,660
Building and improvements	289,782	530,845
Furniture, fixtures, and equipment	143,760	216,503
Transportation equipment	1,127	1,246
Leasehold improvements	14,657	14,495
Construction in progress	3,880	6,093
Total property and equipment	542,091	892,842
Less: accumulated depreciation and amortization	91,205	152,335
Property and equipment, net	$ 450,886	$ 740,507

Interest capitalized in connection with major construction projects was $.5 million, $1.6 million, and $.3 million in 2001, 2002 and 2003, respectively. Depreciation and amortization expense, for property and equipment, totaled $26.9 million, $34.0 million, and $65.0 million in 2001, 2002, and 2003, respectively.

4. Excess of the Cost Over Fair Value of Net Assets Acquired (Goodwill) and Other Intangible Assets

For the year ended December 31, 2001, the Company recorded amortization of goodwill of $3.5 million. Excluding amortization of goodwill, pro forma net income and diluted net income per share for the year ended December 31, 2001 would have been $26.2 million and $.82 per share, respectively. Substantially all of the goodwill relates to the Company's gaming operations.

At December 31, 2003, the Company had goodwill of $603.5 million, an increase of $443.0 million from the prior year. The increase in goodwill is attributed to the Hollywood Casino Corporation acquisition (see Note 2).

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 $6.7 million as of December 31, 2003. The average annual amortization expense for the remaining life of the Contract is approximately $2.5 million.

Amortization expense for the Contract totaled $1.7 million in 2001 and $2.5 million in 2002 and 2003, respectively.

5. Long-term Debt

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

December 31,	2002	2003
Senior secured credit facility. This credit facility is secured by substantially all of the assets of the Company.	$ —	$ 399,700
$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
Hollywood Casino Shreveport non-recourse debt:		
13% Shreveport First Mortgage Notes	—	150,000
13% Shreveport Senior Secured Notes, including bond premium of $686	—	39,686
Less: Bond valuation allowance	—	(70,348)
Capital leases	—	15,423
Other notes payable	18	7
	375,018	1,109,468
Less current maturities	18	124,979
	$ 375,000	$ 984,489

The following is a schedule of future minimum repayments of long-term debt as of December 31, 2003 (in thousands):

2004	$ 124,979
2005	5,779
2006	5,909
2007	389,796
2008	202,290
Thereafter	380,715
Total minimum payments	$ 1,109,468

At December 31, 2003, the Company was contingently obligated under letters of credit issued pursuant to the senior secured credit facility with face amounts aggregating $8.2 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 that replaced its $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 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 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. 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 Term Loan D 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. The Term Loan B facility had allowed the Company to raise an additional $100 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.

At December 31, 2003, the Company had an outstanding balance of $399.7 million on Term Loan D facility and $91.8 million available to borrow under the revolving credit facility after giving effect to outstanding letters of credit of $8.2 million. The weighted average interest rate on the Term D facility is 3.63% 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 notes of Hollywood Casino Shreveport. 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. Over the next twelve months, approximately $125,000 will be reclassified to income.

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 2003, 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, 2003, the 90-day LIBOR rate was 1.15%.

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.

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 all 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 all 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.

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. At December 31, 2003, the Company was in compliance with all required financial covenants.

Hollywood Casino Shreveport Notes

Hollywood Casino Shreveport 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 (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 Penn and its subsidiaries (other than Hollywood Casino Shreveport, Shreveport Capital Corporation, HCS I, Inc., HCS II, Inc. and HWCC-Louisiana, Inc. (collectively the "Shreveport Entities") and are secured by substantially all of the assets of the casino, and the partnership interests held by HCS I, Inc. and HCS II, Inc. and the stock held by HWCC-Louisiana, Inc.

The indentures governing the Hollywood Casino Shreveport Notes require the issuers to make an offer to purchase the Hollywood Casino Shreveport Notes at 101% of the principal amount thereof within 10 days of the occurrence of a "Change of Control" as defined in the indentures. A "Change of Control" was deemed to have occurred under the indentures on March 3, 2003 as a result of the consummation of the merger of our wholly-owned subsidiary with and into Hollywood Casino Corporation. Hollywood Casino Shreveport determined that it did not have the liquidity to repurchase the Hollywood Casino Shreveport Notes at 101% of their principal amount.

On March 14, 2003, the Hollywood Casino Shreveport and Shreveport Capital Corporation were notified by an ad hoc committee of holders of the Hollywood Casino Shreveport Notes that they have 60 days from receipt of the notice to cure the failure to offer to purchase the Hollywood Casino Shreveport Notes or an event of default will have occurred under the indentures. Neither Hollywood Casino Shreveport nor Shreveport Capital Corporation made a Change of Control offer to purchase the Hollywood Casino Shreveport Notes within the sixty days. Hollywood Casino Shreveport did not make the August 1, 2003 interest payment of $12.3 million due on the Hollywood Casino Shreveport Notes. There can be no assurance that the holders of the Hollywood Casino Shreveport Notes will not pursue all rights and remedies that they may have under the indentures as a result. Further, any action on the part of the note holders may require the Shreveport Entities to seek the protection of the bankruptcy laws or other similar remedies. (See Note 15 for subsequent events).

6. Commitments and Contingencies

Litigation

Penn and its subsidiaries 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. 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 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. A hearing date has not yet been set. Further litigation on the remaining issues is anticipated. (See Note 15 for subsequent events).

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 our 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. Discovery is substantially complete at this time and a trial date has been set for April 2004.

In October 2003, the Company and one of its subsidiaries brought a declaratory action for coverage against Lexington Insurance Company and National Union Fire Insurance of Pittsburgh, Pennsylvania ("National Union") in the Circuit Court of Jefferson County, West Virginia ("the West Virginia Action"). The case involves a dispute over coverage for punitive damage awards for claims arising in West Virginia. Subsequent to the filing of the West Virginia action, National Union brought an action against the Company and several of its subsidiaries in the Court of Common Pleas of Berks County, Pennsylvania denying coverage for punitive damage awards for claims arising in West Virginia. The Company is currently a defendant in several cases in West Virginia in which punitive damages have been plead. (See Note 15 for subsequent events).

Operating Leases

The Company is liable under numerous operating leases for automobiles, other equipment and buildings, which expire through 2010. Total rental expense under these agreements was $4.0 million, $5.2 million, and $6.6 million for the years ended December 31, 2001, 2002, and 2003, respectively.

The future lease commitments relating to noncancelable operating leases as of December 31, 2003 are as follows (in thousands):

Year ending December 31,	
2004	$ 4,464
2005	3,057
2006	2,346
2007	1,714
2008	1,501

Thereafter	7,908
	$ 20,990

The Company leases land for use by Boomtown Biloxi. The lease term is 99 years and is cancelable upon one year's notice. The lease called for an initial deposit by the Company of $2.0 million and for annual base lease rent payments of $2.0 million and percentage rent equal to 5.0% of adjusted gaming win (as defined in the lease) over $25.0 million and 6.0% of the amount by which the adjusted gaming win exceeds $50.0 million. For the years ended December 31, 2001, 2002 and 2003 the Company paid lease rent under this agreement of $3.6 million, $4.2 million, and $4.3 million respectively.

The Company leases land for use by Bullwhackers Casinos in Black Hawk, Colorado. There are four leases with terms of one to 20 years. The leases consist of annual base lease rent payments, which are included in the above table, plus a percentage rent based on a percent of adjusted gaming win as described in the leases. The annual base lease rent payments were $1.2 million for the period April 28, 2002 to December 31, 2002. Total lease payments for the period were $1.9 million. On April 24, 2003, the Company completed the purchase of the leased land for the Bullwhackers Casino for a purchase price of $6.1 million. Based on current operating performance, this purchase reduces the rent expense by approximately $1.0 million per year. In 2003, base lease payments were $1.1 million and total lease payments were $1.3 million.

Commitments

As of December 31, 2003, the Company is contractually committed to spend approximately $5.0 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, 2001, 2002 and 2003 were $1.8 million, $2.5 million and $2.8 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 2001, 2002 and 2003 were $.5 million, $.3 million and $.6 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, the Company has an agreement with the Charles Town horsemen that expires on June 30, 2004. The pari-mutuel clerks at Charles Town are represented under a collective bargaining agreement with the West Virginia Division of Mutual clerks, which expires on December 31, 2004.

The Company's agreement with the Pennsylvania Thoroughbred horsemen at Penn National Race Course expires on March 31, 2004. The Company's agreement with the Pennsylvania Harness horsemen at Pocono Downs expires on March 16, 2004.

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 six of its 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 expired on September 30, 2002. To date, the Company has operated under that contract by formal and informal extensions.

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

New Jersey Joint Venture

On January 28, 1999, the Company, along with its joint venture partner, Greenwood New Jersey, Inc. 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, 2003 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, 2001, 2002 and 2003, respectively.

The Company entered into a Debt Service Maintenance Agreement with a bank to guarantee 50% of a $23.0 million term loan to the joint venture. As of December 31, 2003, the Company's obligation under its guarantee of the term loan was limited to approximately $8.8 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 (expense) in the accompanying consolidated statements of income.

7. Income Taxes

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

December 31,	2002	2003
Deferred tax assets:		
Federal net operating losses	$ —	$ 35,230
Federal general business credits	—	743
Accrued expenses	1,356	11,945
State net operating losses	7,443	12,683
Accumulated other comprehensive income (loss)	872	(559)
Gross deferred tax assets	9,671	60,042
Less Valuation Allowance	(6,096)	(10,604)
Net Deferred Tax Asset	3,575	49,438
Deferred tax liabilities:		
Property, plant and equipment	(49,668)	(59,944)
Net deferred taxes	$ (46,093)	$ (10,506)
Reflected on consolidated balance sheets:		
Current deferred tax asset, net	$ 4,405	$ 17,285
Noncurrent deferred tax liabilities, net	(50,498)	(27,791)
Net deferred taxes	$ (46,093)	$ (10,506)

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 $127.2 million available to reduce future state income taxes primarily for the Commonwealth of Pennsylvania as of December 31, 2003. 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 provision for income taxes charged to operations was as follows (in thousands):

Year ended December 31,	2001	2002	2003
Current tax expense			
Federal	$ 5,542	$ 9,662	$ 1,926
State	107	740	722
Total current	5,649	10,402	2,648
Deferred tax expense (benefit)			
Federal	7,159	8,453	29,141
State	(200)	76	(97)
Total deferred	6,959	8,529	29,044
Total provision	$ 12,608	$ 18,931	$ 31,692

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,	2001	2002	2003
Percent of pretax income			
Federal tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	(.2)	1.0	.5
Permanent differences, including amortization of management contract	.3	2.0	2.0
Other miscellaneous items	(.4)	—	.6
	34.7%	38.0%	38.1%

8. Supplemental Disclosures of Cash Flow Information

Year ended December 31,	2001	2002	2003
		(In thousands)	
Cash payments of interest	$ 36,709	$ 39,886	$ 75,340
Cash payments of income taxes	3,480	12,752	—
Acquisitions:			
Cash paid	182,000	7,114	397,948
Fair value of assets acquired	250,388	7,504	977,292
Fair value of liabilities assumed	211,662	1,495	579,344

9. Shareholder's Equity

Equity Offering

On February 20, 2002, the Company completed a public offering of 9,200,000 shares of its common stock at a public offering price of $15.25 per share. Of the common stock sold in the offering, the Company sold 6,700,000 shares and The Carlino Family Trust, a related party, sold 2,500,000 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

The Board of Directors authorized a two-for-one stock split of the Company's common stock on May 22, 2002 to shareholders of record on June 4, 2002. The stock split was effective on June 25, 2002. 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 6,000,000 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. At December 31, 2003, there were 18,750 options available for future grants under the 1994 Plan. Unless the Board of Directors terminates the 1994 Plan earlier, the 1994 Plan will terminate 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 6,000,000 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, 2003, there were 5,545,000 options available for future grants under the 2003 Plan.

Stock options that expire between May 26, 2004 and February 6, 2013 have been granted to officers and directors to purchase Common Stock at prices ranging from $1.67 to $23.75 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, 2003:

	Option Shares	Average Exercise Price
Outstanding at January 1, 2001	2,827,500	$ 4.01
Granted	1,070,392	6.00
Exercised	(948,500)	3.10
Canceled	(46,000)	2.39
Outstanding at December 31, 2001	2,903,392	5.08
Granted	1,035,500	15.85
Exercised	(867,334)	6.22
Canceled	(138,392)	5.00
Outstanding at December 31, 2002	2,933,166	8.55
Granted	1,057,500	17.58
Exercised	(587,666)	8.96
Canceled	(36,250)	9.42
Outstanding at December 31, 2003	3,366,750	12.18

In addition, common stock options in the amount of 647,500 were issued to the Company's Chairman outside of the 1994 Plan and the 2003 Plan. 600,000 shares were issued in 1996 and 47,500 shares were issued in 2003. These options were issued at prices ranging from $8.82 to $15.90 per share and are exercisable through February 6, 2013. During the year 2002, 600,000 of these options were exercised.

Exercisable at year-end:

	Option Shares	Weighted Average Exercise Price
2001	1,820,836	$ 5.73
2002	917,875	3.53
2003	1,054,125	7.61

The following table summarizes information about stock options outstanding at December 31, 2003:

	Exercise Price Range			Total
	$1.67 to $6.63	$7.19 to $15.90	$15.98 to $23.75	$1.67 to $23.75
Outstanding options				
Number outstanding	1,141,000	1,412,250	861,000	3,414,250
Weighted average remaining contractual life (years)	4.34	6.01	6.18	5.50
Weighted average exercise price	$ 4.30	$ 14.51	$ 18.97	$ 12.22
Exercisable options				
Number outstanding	676,500	225,500	152,125	1,054,125
Weighted average exercise price	$ 3.78	$ 12.41	$ 17.53	$ 7.61

11. Segment Information

The Company reviews the results from operations, depreciation and amortization and total assets based on two segments: gaming and 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, 2001				
Revenue	$ 420,199	$ 98,713	$ (1,775)(2)	$ 517,137
Income from Operations	66,465	10,426		76,891
Depreciation and Amortization	28,072	4,021		32,093
Total Assets	1,092,400	90,014	(503,037)(3)	679,377
Year ended December 31, 2002				
Revenue	$ 555,886	$ 101,854	$ (1,779)(2)	$ 655,961
Income from Operations	91,643	10,532		102,175
Depreciation and Amortization	33,012	3,444		36,456
Total Assets	1,198,009	98,358	(530,887)(3)	765,480
Year ended December 31, 2003				
Revenue	$ 1,067,713	$ 96,894	$ (1,612)(2)	$ 1,162,995
Income from Operations	173,919	9,264		183,183
Depreciation and Amortization	64,041	3,446		67,487
Total Assets	2,716,800	98,109	(1,205,310)(3)	1,609,599

(1) Reflects results of the CRC acquisition since April 28, 2001, the Bullwhackers acquisition since the April 25, 2002 and the Hollywood Casino acquisition since March 3, 2003.

(2) Primarily reflects intercompany transactions related to import/export simulcasting.

(3) 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, 2002 and 2003:

	Fiscal Quarter			
	First	Second	Third	Fourth
	(In thousands, except per share data)			
2002				
Total revenues	$ 153,489	$ 164,097	$ 174,404	$ 163,971
Income from operations	24,501	26,975	28,097	22,602
Net income	4,131	9,162	9,936	7,634
Basic earnings per share	.12	.24	.25	.21
Diluted earnings per share	.12	.23	.25	.19
2003				
Total revenues	$ 225,210	$ 324,968	$ 316,122	$ 296,695
Income from operations	38,803	52,843	49,635	41,902
Net income	13,187	15,475	13,618	9,191
Basic earnings per share	.34	.39	.35	.22
Diluted earnings per share	.33	.38	.34	.22

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, 2003, the Company has recorded receivables from such trusts in the amount of $1,670,000. The Company paid premiums of $238,000, $227,000, and $249,000 in 2001, 2002, and 2003, respectively.

Executive Office Lease

The Company currently leases executive office facilities from an affiliate of its Chief Executive Officer. Rent expense for the years ended December 31, 2001, 2002 and 2003 amounted to $105,000, $154,000, and $326,000. The Company added 6,653 square feet of office space this year and currently leases 19,045 square feet of office space in Wyomissing, Pennsylvania. The lease expires in June 2012 and provides for minimum annual future payments of $358,000.

14. Subsidiary Guarantors

Under the terms of the senior secured credit facility, all of the Company's domestic subsidiaries are guarantors under the agreement, except for Onward Development, LLC, an inactive subsidiary, Tennessee Downs, Inc., an inactive subsidiary, 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").

Summarized financial information as of and for the year ended December 31, 2003 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	$ 1,153,015	$ 124,220	$ 46,231	$ (1,133,723)	$ 189,743
Net property and equipment, at cost	1,793	627,970	110,744	—	740,507
Other assets	70,634	679,152	1,150	(71,587)	679,349
Total	$ 1,225,442	$ 1,431,342	$ 158,125	$ (1,205,310)	$ 1,609,599
Current liabilities	$ 55,944	$ 64,489	$ 162,708	$ 3,897	$ 287,038
Long-term liabilities	976,012	1,207,221	5,734	(1,176,284)	1,012,683
Shareholder's equity	193,486	159,632	(10,317)	(32,923)	309,878
Total	$ 1,225,442	$ 1,431,342	$ 158,125	$ (1,205,310)	$ 1,609,599
Year Ended December 31, 2003					
Condensed Consolidating Statement of Income (In thousands)					
Total revenues	$ —	$ 1,036,955	$ 127,652	$ (1,612)	$ 1,162,995
Total operating expenses	21,749	835,847	123,829	(1,612)	979,813
Income (loss) from operations	(21,749)	201,108	3,823	—	183,182
Other income (expense)	61,722	(135,961)	(25,780)	—	(100,019)
Income (loss) before income taxes (benefit)	39,973	65,147	(21,957)	—	83,163
Taxes (benefit) on income (loss)	15,161	24,239	(7,708)	—	31,692
Net income (loss)	$ 24,812	$ 40,908	$ (14,249)	$ —	$ 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)	$ 470,386	$ 14,949	$ —	$ 154,942
Net cash used in investing activities	(240,461)	(80,123)	(369)	—	(320,953)
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	30,586	13,389	—	51,848
Cash and cash equivalents at beginning of year	3,339	38,430	13,352	—	55,121
Cash and cash equivalents at end of year	$ 11,212	$ 69,016	$ 26,741	$ —	$ 106,969

15. Subsequent Events

Bangor Historic Track

On January 6, 2004, the Company entered into an agreement with Shawn Scott and Capital Seven, LLC to purchase all of the shares of Bangor Historic Track, Inc. ("BHT"), the company that operates Bangor Raceway in Bangor, Maine. In conjunction with the purchase agreement, the Company also secured an

option to purchase the interests in Vernon Downs, which does business as Mid-State Raceway, a harness racing facility in Vernon, New York, controlled by an affiliate of Capital Seven, LLC. Initially, the purchase agreement provided that the purchase price includes up front cash, progress and milestone payments and a final payment, subject to adjustment based on the final passage of gaming legislation. The agreement also provided that the closing was subject to a number of conditions and contingencies, including gaming and other approvals. The citizens of Bangor approved a local referendum authorizing the operation of slot machines at Bangor Raceway in June 2003. On January 15, 2004, the Maine Harness Racing Commission ("MHRC") issued an order providing that they would issue a conditional license to BHT if, among other things, the Company accelerated its purchase of BHT. To do so, the Company amended its purchase agreement to provide for an accelerated closing without the payment of any additional funds and to provide for the payment of the balance of the purchase price over time if, as and when the various conditions and contingencies specified for such additional payments were satisfied. In addition, the Company also provided for a put mechanism allowing it to dispose of its ownership interest under certain circumstances. Upon exercise of the put, the shares would be transferred to a trustee who has been instructed to resell the shares for the benefit of the seller. In such event, the seller will be entitled to keep any deposits paid or accrued through the date of the put. On February 12, 2004, after the completion of the due diligence process, the Company decided not to exercise our option to purchase the interest in Vernon Downs.

At this stage, no assurance can be given that the Company will be able to complete the transaction contemplated by the purchase agreement. In addition, both the regulatory and legislative environment are currently subject to significant uncertainty. While the voter initiated legislation authorizing the operation of slot machines at commercial tracks became effective in February 2004, the MHRC has not yet commenced the process of adopting rules and regulations necessary to allow for the issuance of gaming related licenses. In addition, the Maine legislature is currently considering various amendments to the existing legislation that may adversely impact the timing and ability of BHT to conduct gaming operations. Finally, although the MHRC issued an order on March 3, 2004 conditionally granting to BHT a license, subject to certain conditions, to conduct racing operations at Bangor Raceway in 2004, certain special interest groups have commenced litigation challenging the grant of the racing license to BHT. While the Company intends to defend BHT vigorously, such challenges, if successful, may adversely impact the timing and ability of BHT to conduct racing or gaming operations at Bangor Raceway.

Rosemont Proposal

On January 22, 2004, the Company submitted a bid to finance and construct a casino in the greater Chicago area. The Company was one of seven companies seeking to purchase the bankrupt Emerald Casino, Inc. and one of three companies proposing to construct a casino in Rosemont, Illinois. The Company was not among the three finalists selected by the Illinois Gaming Board.

Hollywood Casino Shreveport

On February 3, 2004, the Company's indirect subsidiary, HCS I, Inc., the managing general partner of Hollywood Casino Shreveport ("HCS"), announced that its Board of Directors (the "Board") has initiated a process that it hopes will result in the sale or other disposition of the riverboat casino/hotel complex of HCS located in Shreveport, Louisiana. The announcement followed action by the Board authorizing HCS's financial advisor, Libra Securities LLC, to begin contacting potential acquirers. The Board also authorized the creation of an independent committee to oversee the sale process, consisting of the director who is not employed directly by Penn. The Board created the independent committee in the event that Penn seeks to participate as a bidder in the sale process. The Board took action after consultation with an ad hoc committee of holders of the Hollywood Casino Shreveport Notes. Such notes are carried on the balance sheet at $119.3 million, reflecting the fair value of the assets acquired at the date of acquisition. Although no formal agreement has been reached with the ad hoc committee regarding the sale process, HCS anticipates that it will consult with the ad hoc committee throughout the process. There can be no assurance that the process will result in the sale or other disposition of the riverboat casino/hotel complex or that, if it does, the sale proceeds will be adequate to pay the Hollywood Casino Shreveport Notes in full. HCS currently anticipates that any transaction would be effected through a federal bankruptcy proceeding. The Board also determined not to authorize HCS to make the February 1, 2004 interest payments, aggregating $12.3 million, due on the Hollywood Casino Shreveport Notes. As previously reported by HCS, 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 at December 31, 2003. The Hollywood Casino Shreveport Notes are non-recourse to the Company and its subsidiaries (other than HWCC-Louisiana, Inc., HWCC-Shreveport, Inc. HCS I, Inc, HCS II Inc., HCS-Golf Course, LLC, Hollywood Casino Shreveport and Shreveport Capital Corporation).

Legal Proceedings

Louisiana. In connection with the lease dispute involving the Casino Rouge property, in February 2004, the Company filed another motion for partial judgment on most of the remaining issues. A hearing date has not yet been set. Further litigation on the remaining issues is anticipated.

West Virginia. As of February 22, 2004, the Company had resolved several cases in West Virginia in which punitive damages had been pled, paid out the settlement amounts in the first quarter of 2004 (which amounts will be included in miscellaneous assets) and is seeking reimbursement for these settlement amounts in the West Virginia Action.

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Our management, under the supervision and with the participation of the principal executive officer and principal financial officer, have evaluated the effectiveness of our controls and procedures related to our reporting and disclosure obligations as of December 31, 2003, which is the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the principal executive officer and principal financial officer have concluded that our disclosure controls and procedures are sufficient to provide that (a) material information relating to us, including our consolidated subsidiaries, is made known to these officers by our and our consolidated subsidiaries other employees, particularly material information related to the period for which this periodic report is being

prepared; and (b) this information is recorded, processed, summarized, evaluated and reported, as applicable, within the time periods specified in the rules and forms promulgated by the Securities and Exchange Commission.

There were no changes that occurred during the fiscal quarter ended December 31, 2003 that have materially affected, or are reasonable likely to materially affect, our internal controls over financial reporting.

PART III

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 2004 Annual Meeting of Shareholders, or our 2004 Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after December 31, 2003 pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended. 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 2004 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 2004 Proxy Statement

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information called for in this item is hereby incorporated by reference to the 2004 Proxy Statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this item is incorporated herein by reference to the 2004 Proxy Statement.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(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 Certified Public Accountants

Consolidated Balance Sheets as of December 31, 2002 and 2003

Consolidated Statements of Income for the years ended December 31, 2001, 2002 and 2003

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2001, 2002 and 2003

Consolidated Statements of Cash Flows for the years ended December 31, 2001, 2002 and 2003

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.

(b) Reports on Form 8-K.

Report	Item(s) No.	Date of Report	Date Filed or Furnished
Form 8-K	9	September 30, 2003	Furnished October 3, 2003
Form 8-K	7 and 12	October 23, 2003	Furnished October 29, 2003
Form 8-K	5 and 7	November 24, 2003	Filed November 25, 2003

SIGNATURES

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

PENN NATIONAL GAMING, INC.

By: /s/ PETER M. CARLINO

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

Dated: March 12, 2004

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 12, 2004
/s/ KEVIN DESANCTIS Kevin DeSanctis	President and Chief Operating Officer	March 12, 2004
/s/ WILLIAM J. CLIFFORD William J. Clifford	Senior Vice President Finance and Chief Financial Officer (Principal Financial Officer)	March 12, 2004
/s/ ROBERT S. IPPOLITO Robert S. Ippolito	Vice President, Secretary and Treasurer (Principal Accounting Officer)	March 12, 2004
/s/ HAROLD CRAMER Harold Cramer	Director	March 12, 2004
/s/ DAVID A. HANDLER David A. Handler	Director	March 12, 2004
/s/ JOHN M. JACQUEMIN John M. Jacquemin	Director	March 12, 2004
/s/ ROBERT P. LEVY Robert P. Levy	Director	March 12, 2004
Barbara Z. Shattuck	Director	March , 2004

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 the Company's current report on Form 8-K, dated August 7, 2002).
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 Amended and Restated Bylaws of Penn National Gaming, Inc. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2003).

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 $8^7/_8$% 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, 2001).

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.

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 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).

4.16 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).

4.17 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).

4.18 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).

4.19 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).

4.20 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).

4.21 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).

4.22 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).

4.23 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).

4.24 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).

4.25 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).

4.26 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).

4.27 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).

4.28 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).

4.29 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).

4.30 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).

4.31 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).

4.32 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).
10.3#	Employment Agreement dated April 12, 1994 between Penn National Gaming, Inc. and Peter M. Carlino. (Incorporated by reference to the Company's registration statement on Form S-1, File #33-77758, dated May 26, 1994).
10.4#	Amendment to Employment Agreement dated June 1, 1999, between Penn National Gaming, Inc. and Peter M. Carlino. (Incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 1999).
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 February 2001 between Penn National Gaming, Inc. and Kevin DeSanctis. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2001).
10.8#	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).
10.9#	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).
10.10#	Employment Agreement dated June 10, 2003 between Penn National Gaming, Inc. and Leonard DeAngelo. (Incorporated by reference to the Company's Incorporated by reference to the Company's quarterly report on Form 10-Q for the quarter ended June 30, 2003).
10.11	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).
10.12	Lease dated March 31, 1995 between Wyomissing Professional Center III, LP and Penn National Gaming, Inc. for 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).
10.13	Agreement dated September 1, 1995 between Mountainview Thoroughbred Racing Association and Pennsylvania National Turf Club, Inc. and Sports Arena Employees' Union Local 137 (non-primary location). (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1995, File # 000-24206).
10.14	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	Agreement dated October 2, 1996 between Pennsylvania National Turf Club, Inc., Mountainview Racing Association and Sports Arena Employees' Union Local No. 137 (Primary Location). (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1997).
10.16	Live Racing Agreement dated March 23, 1999 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).
10.16(a)*	Amendment dated December 30, 2003 to Live Racing Agreement among Pennsylvania National Turf Club, Inc., Mountainview Thoroughbred Racing Association and Pennsylvania Horsemen's Benevolent and Protection Association, Inc.

10.17	Harness Horsemen agreement effective January 16, 2003, between The Downs Racing, Inc., and the Pennsylvania Harness Horsemen's Association, Inc. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2002).
10.17(a)*	Amendment dated February 15, 2004 to Harness Horsemen agreement between The Downs Racing, Inc., and the Pennsylvania Harness Horsemen's Association, Inc.

10.18	Agreement dated May 7, 1997, between PNGI Charles Town Gaming, LLC and Charles Town H.B.P.A., Inc. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2002).
10.18(a)	Thoroughbred Horsemen letter dated February 24, 2000, between PNGI Charles Town Gaming, LLC and the Charles Town Thoroughbred Horsemen. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 1999).
10.18(b)	Amendment dated December 20, 2002 to Agreement between PNGI Charles Town Gaming, LLC and Charles Town H.B.P.A., Inc. (Incorporated by reference to the Company's annual report on Form 10-K for the fiscal year ended December 31, 2002).
10.18(c)*	Amendment dated February 27, 2004 to Agreement between PNGI Charles Town Gaming, LLC and Charlestown 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.
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 Februray 6, 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).
14.1*	Penn National Gaming, Inc. Code of Business Conduct.
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

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 4.12

PENN NATIONAL GAMING, INC.,

each of the Guarantors named herein

and

U.S. Bank National Association,

as Trustee

$200,000,000

6 7/8% SENIOR SUBORDINATED NOTES DUE 2011

INDENTURE

Dated as of December 4, 2003

CROSS-REFERENCE TABLE*

Trust Indenture Act Section	Indenture Section
310(a)(1)	7.10
(a)(2)	7.10
(a)(3)	N.A.
(a)(4)	N.A.
(a)(5)	7.10
(b)	7.10
(c)	N.A.
311(a)	7.11
(b)	7.11
(c)	N.A.
312(a)	2.05
(b)	13.03
(c)	13.03
313(a)	7.06
(b)(1)	10.02
(b)(2)	7.07
(c)	7.06; 13.02
(d)	7.06
314(a)	4.03; 13.02
(c)(1)	13.04
(c)(2)	13.04
(c)(3)	N.A.
(e)	13.05
(f)	N.A.
315(a)	7.01
(b)	7.05; 13.02
(c)	7.01
(d)	7.01
(e)	6.11
316(a) (last sentence)	2.09
(a)(1)(A)	6.05
(a)(1)(B)	6.04
(a)(2)	N.A.
(b)	6.07
(c)	2.12
317(a)(1)	6.08
(a)(2)	6.09
(b)	2.04
318(a)	13.01
(b)	N.A.
(c)	13.01

N.A. means not applicable.

* This Cross-Reference Table is not part of the Indenture.

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INDENTURE dated as of December 4, 2003 between Penn National Gaming, Inc., a Pennsylvania corporation (the "*Company*"), each of the Guarantors named herein and U.S. Bank National Association, as trustee (the "*Trustee*").

The Company and the Trustee agree as follows for the benefit of each other and for the equal and ratable benefit of the Holders of the $6^{7}/_{8}$% Series A Senior Subordinated Notes due 2011 (the "*Series A Notes*") and the $6^{7}/_{8}$% Series B Senior Subordinated Notes due 2011 (the "*Series B Notes*" and, together with the Series A Notes, the "*Notes*") in the form of Initial Notes (as defined below), and, if and when issued, such Additional Notes (as defined below) that the Company may from time to time choose to issue pursuant to this Indenture, in each case issuable as provided in this Indenture. References herein to the "*Notes*" shall include the Initial Notes and the Additional Notes. All things necessary to make this Indenture a valid and legally binding agreement of the Company, in accordance with its terms, have been done, and the Company has done all things necessary to make the Notes, when executed by the Company, and authenticated and delivered by the Trustee hereunder and duly issued by the Company, valid and legally binding obligations of the Company.

ARTICLE 1

DEFINITIONS AND INCORPORATION BY REFERENCE

Section 1.01. *Definitions.*

"*Acquired Debt*" means, with respect to any specified Person, (1) Indebtedness of any other Person existing at the time such other Person is merged with or into or becomes a Subsidiary of such specified Person, whether or not such Indebtedness is incurred in connection with, or in contemplation of, such other Person merging with or into, or becoming a Subsidiary of, such specified Person; and (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

"*Additional Interest*" means additional interest payable to Holders of Notes following the occurrence of a Registration Default on the principal amount of Transfer Restricted Securities held by such Holders as described under the Registration Rights Agreement.

"*Additional Notes*" means, subject to the Company's compliance with Sections 2.13 and 4.09, $6^{7}/_{8}$% Senior Subordinated Notes due 2011 substantially in the form of *Exhibit A* and, if required, containing the Private Placement Legend, issued from time to time after the Issue Date under the terms of this Indenture (other than issuances pursuant to Section 2.06, 2.07, 2.10, 3.06, 4.14 or 9.05 of this Indenture and any Exchange Notes Issued in respect thereof).

"*Affiliate*" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For purposes of this definition, "control," as used with respect to any Person, means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of such Person, whether through the ownership of voting securities, by agreement or otherwise; *provided* that Beneficial Ownership of 10% or more of the Voting Stock of a Person will be deemed to be control. For purposes of this definition, the terms "controlling," "controlled by" and "under common control with" have correlative meanings.

"*Agent*" means any Registrar, Paying Agent or co-registrar.

"*Applicable Procedures*" means, with respect to any transfer or exchange of or for beneficial interests in any Global Note, the rules and procedures of the Depositary, Euroclear and Clearstream that apply to such transfer or exchange.

"*Asset Sale*" means (1) the sale, lease, conveyance or other disposition of any assets or rights; *provided* that the sale, conveyance or other disposition of all or substantially all of the assets of the Company and its Subsidiaries taken as a whole will be governed by the provisions of Section 4.14 and/or Section 5.01 hereof and not by the provisions of Section 4.10; and (2) the issuance of Equity Interests in any of the Company's Restricted Subsidiaries or the sale of Equity Interests in any of its

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Subsidiaries, other than an Unrestricted Subsidiary. Notwithstanding the preceding, the following items will not be deemed to be Asset Sales: (1) any single transaction or series of related transactions that involves assets having a fair market value of less than $2 million; (2) a transfer of assets between or among the Company and its Restricted Subsidiaries; (3) an issuance of Equity Interests by a Restricted Subsidiary to the Company or to another Restricted Subsidiary; (4) the sale or lease of equipment, inventory, accounts receivable or other assets in the ordinary course of business; (5) the sale or other disposition of cash or Cash Equivalents; and (6) a Restricted Payment or Permitted Investment that is permitted by Section 4.07 hereof.

"*Bankruptcy Law*" means Title 11, U.S. Code or any similar federal or state law for the relief of debtors.

"*Beneficial Owner*" has the meaning assigned to such term in Rule 13d-3 and Rule 13d-5 under the Exchange Act. The terms "*Beneficially Owns*" and "*Beneficially Owned*" have a corresponding meaning.

"*Board of Directors*" means (1) with respect to a corporation, the board of directors of the corporation; (2) with respect to a partnership, the Board of Directors of the general partner of the partnership; and (3) with respect to any other Person, the board or committee of such Person serving a similar function.

"*Broker-Dealer*" has the meaning set forth in the Registration Rights Agreement.

"*Business Day*" means any day other than a Legal Holiday.

"*Capital Lease Obligation*" means, at the time any determination is to be made, the amount of the liability in respect of a capital lease that would at that time be required to be capitalized on a balance sheet in accordance with GAAP.

"*Capital Stock*" means (1) in the case of a corporation, corporate stock; (2) in the case of an association or business entity, any and all shares, interests, participations, rights or other equivalents (however designated) of corporate stock; (3) in the case of a partnership or limited liability company, partnership or membership interests (whether general or limited); and (4) any other interest or participation that confers on a Person the right to receive a share of the profits and losses of, or distributions of assets of, the issuing Person.

"*Cash Equivalents*" means (1) United States dollars; (2) securities issued or directly and fully guaranteed or insured by the United States government or any agency or instrumentality of the United States government (*provided* that the full faith and credit of the United States is pledged in support of those securities) having maturities of not more than six months from the date of acquisition; (3) certificates of deposit and eurodollar time deposits with maturities of six months or less from the date of acquisition, bankers' acceptances with maturities not exceeding six months and overnight bank deposits, in each case, with any lender party to the Senior Credit Facilities or with any domestic commercial bank having capital and surplus in excess of $500 million and a Thomson Bank Watch Rating of "B" or better; (4) repurchase obligations with a term of not more than seven days for underlying securities of the types described in clauses (2) and (3) above entered into with any financial institution meeting the qualifications specified in clause (3) above; (5) commercial paper having the highest rating obtainable from Moody's Investors Service, Inc. or Standard & Poor's Rating Services and in each case maturing within six months after the date of acquisition; and (6) money market funds substantially all of the assets of which constitute Cash Equivalents of the kinds described in clauses (1) through (5) of this definition.

"*Change of Control*" means the occurrence of any of the following: (1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger or consolidation), in one or a series of related transactions, of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries taken as a whole to any "person" (as that term is used in Section 13(d) of

the Exchange Act) other than a Principal or a Related Party of a Principal; (2) the adoption by shareholders of a plan relating to the liquidation or dissolution of the Company; (3) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that any "person" (as defined above), other than the Principals and their Related Parties, becomes the Beneficial Owner, directly or indirectly, of more than 50% of the Voting Stock of the Company, measured by voting power rather than number of shares; (4) the consummation of any transaction (including, without limitation, any merger or consolidation) the result of which is that the Principals and their Related Parties (or any one of them) becomes the Beneficial Owner, directly or indirectly, of more than $66^2/3$% of the Voting Stock of the Company, measured by voting power rather than number of shares; or (5) the first day on which a majority of the members of the Board of Directors of the Company are not Continuing Directors.

"*Clearstream*" means Clearstream Banking, S.A.

"*Company*" means Penn National Gaming, Inc. and any and all successors thereto.

"*Company Order*" means a written request or order signed in the name of the Company by officers who sign an Officers' Certificate.

"*Consolidated Cash Flow*" means, with respect to any specified Person for any period, the Consolidated Net Income of such Person for such period *plus*: (1) an amount equal to any extraordinary loss plus any net loss realized by such Person or any of its Restricted Subsidiaries in connection with an Asset Sale, to the extent such losses were deducted in computing such Consolidated Net Income; *plus* (2) provision for taxes based on income or profits of such Person and its Restricted Subsidiaries for such period, to the extent that such provision for taxes was deducted in computing such Consolidated Net Income; *plus* (3) consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued and whether or not capitalized (including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations), to the extent that any such expense was deducted in computing such Consolidated Net Income; *plus* (4) depreciation, amortization (including amortization of goodwill and other intangibles but excluding amortization of prepaid cash expenses that were paid in a prior period) and other non-cash expenses (excluding any such non-cash expense to the extent that it represents an accrual of or reserve for cash expenses in any future period or amortization of a prepaid cash expense that was paid in a prior period) of such Person and its Restricted Subsidiaries for such period to the extent that such depreciation, amortization and other non-cash expenses were deducted in computing such Consolidated Net Income (or Net Income); *minus* (5) non-cash items increasing such Consolidated Net Income for such period, other than the accrual of revenue in the ordinary course of business, in each case, on a consolidated basis and determined in accordance with GAAP.

"*Consolidated Net Income*" means, with respect to any specified Person for any period, the aggregate of the Net Income of such Person and its Restricted Subsidiaries for such period, on a consolidated basis, determined in accordance with GAAP; *provided* that (1) the Net Income (but not loss) of any Person that is not a Restricted Subsidiary or that is accounted for by the equity method of accounting will be included only to the extent of the amount of dividends or distributions paid in cash to the specified Person or a Restricted Subsidiary of the Person; (2) the Net Income of any Restricted Subsidiary will be excluded to the extent that the declaration or payment of dividends or similar distributions by that Restricted Subsidiary of that Net Income is not at the date of determination permitted without any prior governmental approval (that has not been obtained) or, directly or indirectly, by operation of the terms of its charter or any agreement, instrument, judgment, decree,

order, statute, rule or governmental regulation applicable to that Restricted Subsidiary or its stockholders, other than limitations imposed by Gaming Laws generally applicable to all Persons operating a business similar to that of such Restricted Subsidiary; (3) the Net Income of any Person acquired in a pooling of interests transaction for any period prior to the date of such acquisition will be excluded; (4) the cumulative effect of a change in accounting principles will be excluded; and (5) the Net Income (and loss) of any Unrestricted Subsidiary will be excluded, whether or not distributed to the specified Person or one of its Subsidiaries.

For purposes of calculating Consolidated Net Income, any non-recurring charges or expenses of an acquired company or business incurred in connection with the purchase or acquisition of such acquired company or business by such Person will be added to the Net Income of such Person, to the extent any such charges or expenses were deducted in computing such Net Income of such Person.

"*Continuing Directors*" means, as of any date of determination, any member of the Board of Directors of the Company who: (1) was a member of such Board of Directors on the date of this Indenture; or (2) was nominated for election or elected to such Board of Directors with the approval of a majority of the Continuing Directors who were members of such Board at the time of such nomination or election.

"*Corporate Trust Office of the Trustee*" shall be at the address of the Trustee specified in Section 13.02 hereof or such other address as to which the Trustee may give notice to the Company.

"*Credit Facilities*" means one or more debt facilities or commercial paper facilities, in each case with banks or other institutional lenders providing for revolving credit loans, term loans, receivables financing (including through the sale of receivables to such lenders or to special purpose entities formed to borrow from such lenders against such receivables) or letters of credit, in each case, as amended, restated, modified, renewed, refunded, replaced, restructured or refinanced in whole or in part from time to time.

"*Custodian*" means the Trustee, as custodian with respect to the Notes in global form, or any successor entity thereto.

"*Default*" means any event that is, or with the passage of time or the giving of notice or both would be, an Event of Default.

"*Definitive Note*" means a certificated Note registered in the name of the Holder thereof and issued in accordance with Section 2.06 hereof, substantially in the form of *Exhibit A* hereto except that such Note shall not bear the Global Note Legend and shall not have the "Schedule of Exchanges of Interests in the Global Note" attached thereto.

"*Depositary*" means, with respect to the Notes issuable or issued in whole or in part in global form, the Person specified in Section 2.03 hereof as the Depositary with respect to the Notes, and any and all successors thereto appointed as depositary hereunder and having become such pursuant to the applicable provision of this Indenture.

"*Designated Senior Debt*" means (1) any Indebtedness outstanding under the Senior Credit Facilities; and (2) after payment in full of all Obligations under the Senior Credit Facilities, any other Senior Debt permitted under this Indenture the principal amount of which is $25 million or more and that has been designated by the Company as "Designated Senior Debt."

"*Disqualified Stock*" means any Capital Stock that, by its terms (or by the terms of any security into which it is convertible, or for which it is exchangeable, in each case at the option of the holder of the Capital Stock), or upon the happening of any event, matures or is mandatorily redeemable, pursuant to a sinking fund obligation or otherwise, or redeemable at the option of the holder of the Capital Stock, in whole or in part, on or prior to the date that is 91 days after the date on which the Notes mature. Notwithstanding the preceding sentence, any Capital Stock that would constitute

Disqualified Stock solely because the holders of the Capital Stock have the right to require the Company to repurchase such Capital Stock upon the occurrence of a change of control or an asset sale will not constitute Disqualified Stock if the terms of such Capital Stock provide that the Company may not repurchase or redeem any such Capital Stock pursuant to such provisions unless such repurchase or redemption complies with Section 4.07 hereof.

"*Domestic Subsidiary*" means any Subsidiary of a Person that was formed under the laws of the United States or any state of the United States or the District of Columbia or that guarantees or otherwise provides direct credit support for any Indebtedness of such Person.

"*DTC*" means The Depository Trust Company in New York, New York.

"*Equity Interests*" means Capital Stock and all warrants, options or other rights to acquire Capital Stock (but excluding any debt security that is convertible into, or exchangeable for, Capital Stock).

"*Equity Offering*" means an offering of the Equity Interests (other than Disqualified Stock) of the Company that results in net proceeds to the Company of at least $25 million.

"*Euroclear*" means Euroclear Bank S.A./N.V., as operator of the Euroclear system.

"*Event of Default*" means an event described under Article 6 hereof.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended.

"*Exchange Notes*" means the Notes issued in the Exchange Offer pursuant to Section 2.06(f) hereof.

"*Exchange Offer*" has the meaning set forth in the Registration Rights Agreement.

"*Exchange Offer Registration Statement*" has the meaning set forth in the Registration Rights Agreement.

"*Existing Indebtedness*" means the existing Guarantees of the Company with respect to the Indebtedness of Pennwood, the Indebtedness of the Company under its $11^{1}/_{8}$% senior subordinated notes due 2008 in the aggregate principal amount of $200,000,000 (and the guarantees related thereto) and under its $8^{7}/_{8}$% senior subordinated notes due 2010 in the aggregate principal amount of $175,000,000 (and the guarantees related thereto), Capital Lease Obligations outstanding on the date hereof and up to $500,000 in aggregate principal amount of other Indebtedness of the Company and its Subsidiaries (other than Indebtedness under the Senior Credit Facilities) in existence on the date hereof, until such amounts are repaid.

"*Fixed Charge Coverage Ratio*" means with respect to any specified Person and its Restricted Subsidiaries for any period, the ratio of the Consolidated Cash Flow of such Person and its Restricted Subsidiaries for such period to the Fixed Charges of such Person for such period. In the event that the specified Person or any of its Restricted Subsidiaries incurs, assumes, Guarantees, repays, repurchases or redeems any Indebtedness (other than ordinary working capital borrowings) or issues, repurchases or redeems preferred stock subsequent to the commencement of the period for which the Fixed Charge Coverage Ratio is being calculated and on or prior to the date on which the event for which the calculation of the Fixed Charge Coverage Ratio is made (the "*Calculation Date*"), then the Fixed Charge Coverage Ratio will be calculated giving pro forma effect to such incurrence, assumption, Guarantee, repayment, repurchase or redemption of Indebtedness, or such issuance, repurchase or redemption of preferred stock, and the use of the proceeds therefrom as if the same had occurred at the beginning of the applicable four-quarter reference period.

In addition, for purposes of calculating the Fixed Charge Coverage Ratio: (1) acquisitions that have been made by the specified Person or any of its Restricted Subsidiaries, including through mergers or consolidations and including any related financing transactions, during the four-quarter reference

period or subsequent to such reference period and on or prior to the Calculation Date will be given pro forma effect as if they had occurred on the first day of the four-quarter reference period and Consolidated Cash Flow for such reference period will be calculated on a pro forma basis in accordance with Regulation S-X under the Securities Act, but without giving effect to clause (3) of the proviso set forth in the definition of Consolidated Net Income; (2) the Consolidated Cash Flow attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded; and (3) the Fixed Charges attributable to discontinued operations, as determined in accordance with GAAP, and operations or businesses disposed of prior to the Calculation Date, will be excluded, but only to the extent that the obligations giving rise to such Fixed Charges will not be obligations of the specified Person or any of its Restricted Subsidiaries following the Calculation Date.

"*Fixed Charges*" means, with respect to any specified Person and its Restricted Subsidiaries for any period, the sum, without duplication, of (1) the consolidated interest expense of such Person and its Restricted Subsidiaries for such period, whether paid or accrued, including, without limitation, amortization of debt issuance costs and original issue discount, non-cash interest payments, the interest component of any deferred payment obligations, the interest component of all payments associated with Capital Lease Obligations, commissions, discounts and other fees and charges incurred in respect of letter of credit or bankers' acceptance financings, and net of the effect of all payments made or received pursuant to Hedging Obligations; *plus* (2) the consolidated interest of such Person

and its Restricted Subsidiaries that was capitalized during such period; *plus* (3) any interest expense on Indebtedness of another Person that is Guaranteed by such Person or one of its Restricted Subsidiaries or secured by a Lien on assets of such Person or one of its Restricted Subsidiaries, whether or not such Guarantee or Lien is called upon (*provided* that interest expense on the Pennwood Debt will not be counted pursuant to this clause (3) except to the extent that the Company or any of its Restricted Subsidiaries actually makes payments on such Pennwood Debt); *plus* (4) the product of (a) all dividends, whether paid or accrued and whether or not in cash, on any series of preferred stock of such Person or any of its Restricted Subsidiaries, other than dividends on Equity Interests payable solely in Equity Interests of the Company (other than Disqualified Stock) or to the Company or a Restricted Subsidiary of the Company, times (b) a fraction, the numerator of which is one and the denominator of which is one minus the then current combined federal, state and local statutory tax rate of such Person, expressed as a decimal, in each case, on a consolidated basis and in accordance with GAAP.

"*Foreign Subsidiary*" means any Subsidiary of the Company that (1) is not organized under the laws of the United States, any state thereof or the District of Columbia, and (2) conducts substantially all of its business operations outside the United States of America.

"*GAAP*" means generally accepted accounting principles set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other entity as have been approved by a significant segment of the accounting profession which were in effect on February 28, 2002.

"*Gaming Approval*" means any governmental approval relating to any gaming business (including pari-mutuel betting) or enterprise.

"*Gaming Authority*" means any governmental authority with regulatory oversight of, authority to regulate or jurisdiction over any gaming businesses or enterprises, including the Mississippi Gaming Commission, the Pennsylvania State Horse Racing Commission, the Pennsylvania State Harness Racing Commission, the West Virginia Racing Commission, the West Virginia Lottery Commission, the New Jersey Racing Commission, the New Jersey Casino Control Commission, the Louisiana Gaming Control Board, the Ontario Lottery and Gaming Corporation, the Ontario Alcohol and Gaming Commission, the Colorado Limited Gaming Control Commission and the Illinois Gaming Board with regulatory

oversight of, authority to regulate or jurisdiction over any racing or gaming operation (or proposed gaming operation) owned, managed or operated by the Company or any Guarantor.

"*Gaming Laws*" means all applicable provisions of all (1) constitutions, treaties, statutes or laws governing gaming operations (including without limitation card club casinos and pari-mutuel race tracks) and rules, regulations and ordinances of any Gaming Authority, (2) Gaming Approvals, and (3) orders, decisions, judgments, awards and decrees of any Gaming Authority.

"*Global Note Legend*" means the legend set forth in Section 2.06(g)(ii) which is required to be placed on all Global Notes issued under this Indenture.

"*Global Notes*" means, individually and collectively, each of the Restricted Global Notes and the Unrestricted Global Notes, substantially in the form of *Exhibit A* hereto issued in accordance with Section 2.01, 2.06(b)(iii), 2.06(b)(iv), 2.06(d)(ii) or 2.06(f) hereof.

"*Government Securities*" means direct obligations of, or obligations guaranteed by, the United States of America, and for the payment of which the United States pledges its full faith and credit.

"*Guarantee*" means a guarantee other than by endorsement of negotiable instruments for collection in the ordinary course of business, direct or indirect, in any manner, including, without limitation, by way of a pledge of assets or through letters of credit or reimbursement agreements in respect thereof, of all or any part of any Indebtedness.

"*Guarantors*" means each of (1) all Subsidiaries of the Company that are guarantors under the Credit Facilities on the date hereof; and (2) any other Subsidiary that executes a Subsidiary Guarantee in accordance with the provisions of this Indenture; and their respective successors and assigns.

"*Hedging Obligations*" means, with respect to any specified Person, the obligations of such Person under (1) interest rate swap agreements, currency swap agreements, interest rate cap agreements and interest rate collar agreements; and (2) other agreements or arrangements designed to protect such Person against fluctuations in interest rates or currency exchange rates.

"*Holder*" means a Person in whose name a Note is registered.

"*IAI Global Note*" means the Global Note substantially in the form of *Exhibit A* hereto bearing the Global Note Legend and the Private Placement Legend and deposited with or on behalf of and registered in the name of the Depositary or its nominee that shall be issued in a denomination equal to the outstanding principal amount of the Notes sold to Institutional Accredited Investors.

"*Indebtedness*" means, with respect to any specified Person, any indebtedness of such Person, whether or not contingent, (1) in respect of borrowed money; (2) evidenced by bonds, notes, debentures or similar instruments or letters of credit (or reimbursement agreements in respect thereof); (3) in respect of banker's acceptances; (4) representing Capital Lease Obligations; (5) representing the balance deferred and unpaid of the purchase price of any property, except any such balance that constitutes an accrued expense or trade payable; or (6) representing any Hedging Obligations, if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet of the specified Person prepared in accordance with GAAP. In addition, the term "Indebtedness" includes all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person) and, to the extent not otherwise included, the Guarantee by the specified Person of any Indebtedness of any other Person.

The amount of any Indebtedness outstanding as of any date will be (1) the accreted value of the Indebtedness, in the case of any Indebtedness issued with original issue discount; and (2) the principal amount of the Indebtedness, together with any interest on the Indebtedness that is more than 30 days past due, in the case of any other Indebtedness.

"*Indenture*" means this Indenture, as amended or supplemented from time to time.

"*Indirect Participant*" means a Person who holds a beneficial interest in a Global Note through a Participant.

"*Initial Notes*" means $200,000,000 aggregate principal amount of $6^7/_8$% senior subordinated notes due 2011 issued on the Issue Date, substantially in the form of *Exhibit A*.

"*Institutional Accredited Investor*" means an institution that is an "accredited investor" as defined in Rule 501(a)(1), (2), (3) or (7) under the Securities Act that is not also a QIB.

"*Interest Payment Date*" has the meaning set forth in paragraph 1 of *Exhibit A*.

"*Investments*" means, with respect to any Person, all direct or indirect investments by such Person in other Persons (including Affiliates) in the forms of loans (including Guarantees or other obligations), advances or capital contributions (excluding commission, travel and similar advances to officers and employees made in the ordinary course of business), purchases or other acquisitions for consideration of Indebtedness, Equity Interests or other securities, together with all items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. If the Company or any Restricted Subsidiary of the Company sells or otherwise disposes of any Equity Interests of any direct or indirect Restricted Subsidiary of the Company such that, after giving effect to any such sale or disposition, such Person is no longer a Restricted Subsidiary of the Company, the Company will be deemed to have made an Investment on the date of any such sale or disposition equal to the fair market value of the Equity Interests of such Restricted Subsidiary not sold or disposed of in an amount determined as *provided* in the final paragraph of Section 4.07 hereof. The acquisition by the Company or any Restricted Subsidiary of the Company of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Company or such Restricted Subsidiary in such third Person in an amount equal to the fair market value of the Investment held by the acquired Person in such third Person in an amount determined as provided in the final paragraph of Section 4.07 hereof.

"*Issue Date*" means December 4, 2003.

"*Legal Holiday*" means a Saturday, a Sunday or a day on which commercial banking institutions in The City of New York or at a place of payment are authorized by law, regulation or executive order to remain closed. If a payment date is a Legal Holiday at a place of payment, payment may be made at that place on the next succeeding day that is not a Legal Holiday, and no interest shall accrue on such payment for the intervening period.

"*Letter of Transmittal*" means the letter of transmittal to be prepared by the Company and sent to all Holders of the Notes for use by such Holders in connection with the Exchange Offer.

"*Lien*" means, with respect to any asset, any mortgage, lien, pledge, charge, security interest or encumbrance of any kind in respect of such asset, whether or not filed, recorded or otherwise perfected under applicable law, including any conditional sale or other title retention agreement, any lease in the nature thereof, any option or other agreement to sell or give a security interest in and any filing of or agreement to give any financing statement under the Uniform Commercial Code (or equivalent statutes) of any jurisdiction.

"*Net Income*" means, with respect to any specified Person, the net income (loss) of such Person, determined in accordance with GAAP and before any reduction in respect of preferred stock dividends, excluding, however, (1) any gain (but not loss), together with any related provision for taxes on such gain (but not loss), realized in connection with: (a) any Asset Sale; or (b) the disposition of any securities by such Person or any of its Restricted Subsidiaries or the extinguishment of any Indebtedness of such Person or any of its Restricted Subsidiaries; and (2) any extraordinary gain (but not loss), together with any related provision for taxes on such extraordinary gain (but not loss).

"*Net Proceeds*" means the aggregate cash proceeds received by the Company or any of its Restricted Subsidiaries in respect of any Asset Sale (including, without limitation, any cash received upon the sale or other disposition of any non-cash consideration received in any Asset Sale), net of the direct costs relating to such Asset Sale, including, without limitation, legal, accounting and investment banking fees, and sales commissions, and any relocation expenses incurred as a result of the Asset Sale, taxes paid or payable as a result of the Asset Sale, in each case, after taking into account any available tax credits or deductions and any tax sharing arrangements, and amounts required to be applied to the repayment of Indebtedness, other than Indebtedness pursuant to the Senior Credit Facilities, secured by a Lien on the asset or assets that were the subject of such Asset Sale and any reserve for adjustment in respect of the sale price of such asset or assets established in accordance with GAAP.

"*Non-Recourse Debt*" means Indebtedness (1) as to which neither the Company nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), (b) is directly or indirectly liable as a guarantor or otherwise, or (c) constitutes the lender; (2) no default with respect to which (including any rights that the holders of the Indebtedness may have to take enforcement action against an Unrestricted Subsidiary) would permit upon notice, lapse of time or both any holder of any other Indebtedness (other than the Notes) of the Company or any of its Restricted Subsidiaries to declare a default on such other Indebtedness or cause the payment of the Indebtedness to be accelerated or payable prior to its stated maturity; and (3) as to which the lenders have been notified in writing that they will not have any recourse to the stock or assets of the Company or any of its Restricted Subsidiaries.

"*Non-U.S. Person*" means a Person who is not a U.S. Person.

"*Notes*" has the meaning assigned to it in the preamble to this Indenture.

"*Obligations*" means any principal, interest, penalties, fees, indemnifications, reimbursements, damages and other liabilities and obligations payable under the documentation governing any Indebtedness, including, without limitation, interest after the commencement of any bankruptcy proceeding at the rate specified in the applicable instrument governing or evidencing Senior Debt.

"*Officer*" means, with respect to any Person, the Chairman of the Board, the Chief Executive Officer, the President, the Chief Operating Officer, the Chief Financial Officer, the Treasurer, any Assistant Treasurer, the Controller, the Secretary or any Vice-President of such Person.

"*Officers' Certificate*" means a certificate signed on behalf of the Company by two Officers of the Company, one of whom must be the principal executive officer, the principal financial officer, the treasurer or the principal accounting officer of the Company, that meets the requirements of Section 13.05 hereof.

"*144A Global Note*" means a Global Note substantially in the form of *Exhibit A* hereto bearing the Global Note Legend and the Private Placement Legend and deposited with or on behalf of, and registered in the name of, the Depositary or its nominee that will be issued in a denomination equal to the outstanding principal amount of the Notes sold in reliance on Rule 144A.

"*Opinion of Counsel*" means an opinion from legal counsel who is reasonably acceptable to the Trustee that meets the requirements of Section 13.05 hereof. The counsel may be an employee of or counsel to the Company or any Subsidiary of the Company.

"*Participant*" means, with respect to the Depositary, Euroclear or Clearstream, a Person who has an account with the Depositary, Euroclear or Clearstream, respectively (and, with respect to DTC, shall include Euroclear and Clearstream).

"*Pennwood*" collectively, means Pennwood Racing, Inc., a Delaware corporation, and its subsidiaries, including, without limitation, GS Park Services, L.P., FR Park Services, L.P., GS Park Racing, L.P. and FR Park Racing, L.P.

"*Pennwood Debt*" means the existing Indebtedness of Pennwood Racing, Inc. pursuant to that certain Term Loan and Security Agreement dated July 29, 1999, by and among FR Park Racing, L.P., GS Park Racing, L.P. and Commerce Bank, N.A., that is guaranteed by the Company.

"*Permitted Business*" means any business in which the Company and its Restricted Subsidiaries are engaged on the date of this Indenture or any business reasonably related, incidental or ancillary thereto.

"*Permitted Investments*" means: (1) any Investment in the Company or in a Restricted Subsidiary of the Company; (2) any Investment in Cash Equivalents; (3) any Investment by the Company or any Subsidiary of the Company in a Person if, as a result of such Investment, (a) such Person becomes a Restricted Subsidiary of the Company, or (b) such Person is merged, consolidated or amalgamated with or into, or transfers or conveys substantially all of its assets to, or is liquidated into, the Company or a Restricted Subsidiary of the Company; (4) any Investment made as a result of the receipt of non-cash consideration from an Asset Sale that was made pursuant to and in compliance with Section 4.10 hereof; (5) any Investment solely in exchange for the issuance of Equity Interests (other than Disqualified Stock) of the Company or made with the proceeds of a substantially concurrent sale of such Equity Interests made for such purpose; (6) any Investments received in compromise of obligations of such persons incurred in the ordinary course of trade creditors or customers that were incurred in the ordinary course of business, including pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of any trade creditor or customer; (7) Hedging Obligations; (8) the extension of credit to customers of the Company or its Restricted Subsidiaries consistent with gaming industry practice in the ordinary course of business; (9) loans and advances to officers, directors and employees for business-related travel expenses, moving or relocation expenses and other similar expenses, in each case, incurred in the ordinary course of business; (10) loans and advances to officers, directors and employees other than incurred pursuant to clause (9) of this definition in an aggregate amount not to exceed $250,000 extended during any one fiscal year or upon and after receipt of Supplemental Illinois Gaming Approval, $1 million outstanding at any time; (11) Guarantees that constitute Permitted Debt; (12) investments in Pennwood arising from any payment in respect of the Existing Indebtedness related to Pennwood; (13) Investments of any Person (other than Indebtedness of such Person) in existence at the time such Person becomes a Subsidiary of the Company; *provided* such Investment was not made in connection with or in anticipation of such Person becoming a Subsidiary of the Company; (14) other Investments in any Person having an aggregate fair market value (measured on the date each such Investment was made and without giving effect to subsequent changes in value), when taken together with all other Investments made pursuant to this clause (14) since the date of this Indenture that remain outstanding, not to exceed (i) $20 million prior to receipt of Supplemental Illinois Gaming Approval or (ii) $50 million upon and after receipt of Supplemental Illinois Gaming Approval; and (15) Indebtedness under the Notes, the Senior Credit Facilities, the Company's $11^{1}/_{8}$% senior subordinated notes due 2008, the Company's $8^{7}/_{8}$% senior subordinated notes due 2010 and in each case the guarantees related thereto.

"*Permitted Joint Venture*" means any joint venture arrangement (which may be structured as an unincorporated joint venture, corporation, partnership, association or limited liability company) in which the Company and its Subsidiaries own at least 20% and no more than 50% of the voting power thereof.

"*Permitted Junior Securities*" means (1) Equity Interests in the Company or any Guarantor; or (2) debt securities of the Company or any Guarantor that are subordinated to all Senior Debt and any debt securities issued in exchange for Senior Debt to substantially the same extent as, or to a greater extent than, the Notes and the Subsidiary Guarantees are subordinated to Senior Debt under this Indenture.

"*Permitted Liens*" means (1) Liens of the Company and any Guarantor securing Indebtedness and other Obligations under Credit Facilities that were securing Senior Debt that was permitted by the terms of this Indenture to be incurred; (2) Liens in favor of the Company or the Guarantors; (3) Liens on property of a Person existing at the time such Person is merged with or into or consolidated with the Company or any Subsidiary of the Company or otherwise becomes a Subsidiary of the Company; *provided* that such Liens were not granted in connection with, or in anticipation of, such merger or consolidation or acquisition and do not extend to any assets other than those of such Person merged into or consolidated with the Company or the Subsidiary; (4) Liens on property existing at the time of acquisition of the property by the Company or any Subsidiary of the Company; *provided* that such Liens were in existence prior to the contemplation of such acquisition; (5) Liens to secure the performance of statutory obligations, surety or appeal bonds, performance bonds or other obligations of a like nature incurred in the ordinary course of business; (6) Liens to secure Indebtedness (including Capital Lease Obligations) permitted by clause (iv) of the second paragraph of Section 4.09 hereof covering only the assets acquired with such Indebtedness; (7) Liens existing on the date of this Indenture; (8) Liens for taxes, assessments or governmental charges or claims that are not yet delinquent or that are being contested in good faith by appropriate proceedings promptly instituted and diligently concluded; *provided* that any reserve or other appropriate provision as is required in conformity with GAAP has been made therefor; (9) judgment Liens not giving rise to an Event of Default so long as such Lien is adequately bonded and any appropriate legal proceedings which may have been initiated for the review of such judgment shall not have been fully terminated or the period within such proceedings may be initiated shall not have expired; (10) Liens incurred or deposits made in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, including any Lien securing letters of credit issued in the ordinary course of business in connection therewith; (11) Liens incurred in the ordinary course of business of the Company or any Subsidiary of the Company with respect to obligations that do not exceed $5 million at any one time outstanding; and

(12) Liens on assets of Permitted Joint Ventures or Unrestricted Subsidiaries that secure Non-Recourse Debt of such Permitted Joint Venture or Unrestricted Subsidiary.

"*Permitted Refinancing Indebtedness*" means any Indebtedness of the Company or any of its Restricted Subsidiaries issued in exchange for, or the net proceeds of which are used to extend, refinance, renew, replace, defease or refund other Indebtedness of the Company or any of its Restricted Subsidiaries (other than intercompany Indebtedness); *provided* that (1) the principal amount (or accreted value, if applicable) of such Permitted Refinancing Indebtedness does not exceed the principal amount (or accreted value, if applicable) of the Indebtedness extended, refinanced, renewed, replaced, defeased or refunded (plus all accrued interest on the Indebtedness and the amount of all expenses and premiums incurred in connection therewith); (2) such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and has a Weighted Average Life to Maturity equal to or greater than the Weighted Average Life to Maturity of, the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; (3) if the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded is subordinated in right of payment to the Notes, such Permitted Refinancing Indebtedness has a final maturity date later than the final maturity date of, and is subordinated in right of payment to, the Notes on terms at least as favorable to the Holders of Notes as those contained in the documentation governing the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded; and (4) such Indebtedness is incurred either by the Company or by the Restricted Subsidiary who is the obligor on the Indebtedness being extended, refinanced, renewed, replaced, defeased or refunded.

"*Person*" means any individual, corporation, partnership, joint venture, association, joint-stock company, trust, unincorporated organization, limited liability company or government or other entity.

"*Principal Property*" means any and all right, title and interest in the property, assets, accounts, and operations of Pocono Downs in Wilkes-Barre, Pennsylvania, the Charles Town Entertainment Complex in Charles Town, West Virginia, Casino Magic Bay St. Louis in Bay St. Louis, Mississippi, Boomtown Biloxi in Biloxi, Mississippi, Penn National Race Course in Harrisburg, Pennsylvania, and Casino Rouge in Baton Rouge, Louisiana, Bullwhackers Casino in Colorado, Hollywood Casino Aurora in Aurora, Illinois and Hollywood Casino Tunica in Tunica, Mississippi and the Development and Operating Agreement among the Ontario Lottery and Gaming Corporation, the Chippewas of Rama First Nation and certain of their affiliates, and CRC Holdings Inc. and certain of its affiliates, dated March 18, 1996, as amended on April 15, 1996 and June 12, 2000.

"*Principals*" means Peter D. Carlino, Peter M. Carlino, Richard T. Carlino, Harold Cramer and The Carlino Family Trust.

"*Private Placement Legend*" means the legend set forth in Section 2.06(g)(i) to be placed on all Notes issued under this Indenture except where otherwise permitted by the provisions of this Indenture.

"*Purchase Money Indebtedness*" means Indebtedness of the Company or any of its Restricted Subsidiaries incurred for the purpose of financing all or any part of the purchase price or cost of installation, construction or improvement of any property.

"*QIB*" means a "qualified institutional buyer" as defined in Rule 144A.

"*Registration Default*" means Registration Default as defined in the Registration Rights Agreement.

"*Registration Rights Agreement*" means, with respect to the Initial Notes, the registration rights agreement dated as of the date of this Indenture between the Company, the Guarantors and Bear, Stearns & Co. Inc. and Lehman Brothers Inc. and with respect to any Additional Notes, one or more registration rights agreements among the Company, the Guarantors and the other parties thereto.

"*Regulation S*" means Regulation S promulgated under the Securities Act.

"*Regulation S Global Note*" means a Global Note bearing the Private Placement Legend and deposited with or on behalf of the Depositary and registered in the name of the Depositary or its nominee, issued in a denomination equal to the outstanding principal amount of the Notes initially sold in reliance on Rule 903 of Regulation S.

"*Related Party*" means (1) any controlling stockholder, 80% (or more) owned Subsidiary, or immediate family member (in the case of an individual) of any Principal; or (2) any trust, corporation, partnership or other entity, the beneficiaries, stockholders, partners, owners or Persons beneficially holding an 80% or more controlling interest of which consist of any one or more Principals and/or such other Persons referred to in the immediately preceding clause (1).

"*Representative*" means the indenture trustee or other trustee, agent or representative for any Senior Debt.

"*Responsible Officer,*" when used with respect to the Trustee, means any officer within the Corporate Trust Office of the Trustee (or any successor group of the Trustee) or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"*Restricted Definitive Note*" means a Definitive Note bearing the Private Placement Legend.

"*Restricted Global Note*" means a Global Note bearing the Private Placement Legend.

"*Restricted Investment*" means an Investment other than a Permitted Investment.

"*Restricted Subsidiary*" of a Person means any Subsidiary of such Person that is not an Unrestricted Subsidiary.

"*Rule 144*" means Rule 144 promulgated under the Securities Act.

"*Rule 144A*" means Rule 144A promulgated under the Securities Act.

"*Rule 903*" means Rule 903 promulgated under the Securities Act.

"*Rule 904*" means Rule 904 promulgated the Securities Act.

"*SEC*" means the Securities and Exchange Commission.

"*Securities Act*" means the Securities Act of 1933, as amended.

"*Senior Credit Facilities*" means the Credit Agreement dated as of March 3, 2003 among the Company, as borrower, the guarantors party thereto, the several lenders from time to time party thereto and Bear, Stearns & Co., Inc. and Merrill Lynch, Pierce, Fenner & Smith Incorporated as Joint Lead Arrangers and Joint Bookrunners, Merrill Lynch, Pierce, Fenner & Smith Incorporated as Syndication Agent, Bear Stearns Corporate Lending Inc. as Swingline Lender, Administrative Agent and Collateral Agent, and Societe Generale and Credit Lyonnaise New York Branch as Joint Documentation Agents and the lenders from time to time party thereto, including any related notes, guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case as amended, modified, renewed, refunded, restructured, replaced or refinanced from time to time including increases in principal amount (whether the same are provided by the original agents and lenders under such Senior Credit Facilities or other agents or other lenders).

"*Senior Debt*" means, with respect to the Company or any Guarantor, as applicable (1) any Indebtedness of the Company or such Guarantor, as the case may be, under the Credit Facilities or otherwise permitted to be incurred under the terms of this Indenture, unless the instrument under which such Indebtedness is incurred expressly provides that it shall not be senior in right of payment to any Indebtedness of the Company or such Guarantor, as the case may be; and (2) all Obligations with respect to the items listed in the preceding clause (1). Notwithstanding anything to the contrary in the preceding, Senior Debt will not include: (1) any liability for federal, state, local or other taxes owed or owing by the Company; (2) any Indebtedness of the Company to any of its Subsidiaries or other Affiliates; (3) any trade payables; (4) the Company's $11^{1}/_{8}$% senior subordinated notes due 2008 and the related guarantees; (5) the Company's $8^{7}/_{8}$% senior subordinated notes due 2010 and the related guarantees; or (6) the portion of any Indebtedness that is incurred in violation of this Indenture.

"*Senior Guarantees*" means the Guarantees by the Guarantors of Obligations under the Senior Credit Facilities.

"*Shelf Registration Statement*" means the Shelf Registration Statement as defined in the Registration Rights Agreement.

"*Shreveport Entities*" means collectively, HWCC-Shreveport Inc., a Louisiana corporation, HCS I, Inc., a Louisiana corporation, HCS II Inc., a Louisiana corporation, Hollywood Casino Shreveport, a Louisiana partnership, Shreveport Capital Corporation, a Louisiana corporation, HCS-Golf Course LLC, a Delaware limited liability company and Shreveport Golf Company, a Delaware limited liability company.

"*Significant Subsidiary*" means any Subsidiary that would be a "significant subsidiary" as defined in Article I, Rule 1-02 of Regulation S-X, promulgated pursuant to the Securities Act, as such Regulation S-X is in effect on the date hereof.

"*Stated Maturity*" means, with respect to any installment of interest or principal on any series of Indebtedness, the date on which the payment of interest or principal was scheduled to be paid in the

original documentation governing such Indebtedness, and will not include any contingent obligations to repay, redeem or repurchase any such interest or principal prior to the date originally scheduled for the payment thereof.

"*Subsidiary*" means, with respect to any specified Person, (1) any corporation, association or other business entity of which more than 50% of the total voting power of shares of Capital Stock entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees of the corporation, association or other business entity is at the time owned or controlled, directly or indirectly, by that Person or one or more of the other Subsidiaries of that Person (or a combination thereof); and (2) any partnership (a) the sole general partner or the managing general partner of which is such Person or a Subsidiary of such Person or (b) the only general partners of which are that Person or one or more Subsidiaries of that Person (or any combination thereof).

"*Subsidiary Guarantees*" means the Guarantee by each Guarantor of the Company's payment obligations under this Indenture and on the Notes, executed pursuant to the provisions of this Indenture.

"*Supplemental Illinois Gaming Approval*" means the supplemental Gaming Approval from the Illinois Gaming Board that will permit certain provisions of this Indenture that are expressly conditioned upon final Illinois Gaming Approval to become automatically effective.

"*TIA*" means the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbbb) as in effect on the date on which this Indenture is qualified under the TIA.

"*Transfer Restricted Securities*" means Transfer Restricted Securities as defined in the Registration Rights Agreement.

"*Trustee*" means the party named as such above until a successor replaces it in accordance with the applicable provisions of this Indenture and thereafter means the successor serving hereunder.

"*Unrestricted Definitive Note*" means one or more Definitive Notes that do not bear and are not required to bear the Private Placement Legend.

"*Unrestricted Global Note*" means a permanent Global Note substantially in the form of *Exhibit A* attached hereto that bears the Global Note Legend and that has the "Schedule of Exchanges of Interests in the Global Note" attached thereto, and that is deposited with or on behalf of and registered in the name of the Depositary, representing a series of Notes that do not bear the Private Placement Legend.

"*Unrestricted Subsidiary*" means any Subsidiary of the Company (other than a Subsidiary that is an owner of a Principal Property) that is designated by the Board of Directors as an Unrestricted Subsidiary pursuant to a Board Resolution, but only to the extent that such Subsidiary (1) has, or will have after giving

effect to such designation, no Indebtedness other than Non-Recourse Debt; (2) is not party to any agreement, contract, arrangement or understanding with the Company or any Restricted Subsidiary of the Company unless the terms of any such agreement, contract, arrangement or understanding are no less favorable to the Company or such Restricted Subsidiary than those that might be obtained at the time from Persons who are not Affiliates of the Company; (3) is a Person with respect to which neither the Company nor any of its Restricted Subsidiaries has any direct or indirect obligation (a) to subscribe for additional Equity Interests or (b) to maintain or preserve such Person's financial condition or to cause such Person to achieve any specified levels of operating results; (4) has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Company or any of its Restricted Subsidiaries; and (5) has at least one director on its Board of Directors that is not a director or executive officer of the Company or any of its Restricted Subsidiaries and has at least one executive officer that is not a director or executive officer of the Company or any

of its Restricted Subsidiaries; *provided* that the Shreveport Entities shall initially be designated as Unrestricted Subsidiaries.

Any designation of a Subsidiary of the Company (other than any of the Shreveport Entities) as an Unrestricted Subsidiary will be evidenced to the Trustee by filing with the Trustee a certified copy of the Board Resolution giving effect to such designation and an Officers' Certificate certifying that such designation complied with the preceding conditions and was permitted by Section 4.07 hereof. If, at any time, any Unrestricted Subsidiary would fail to meet the preceding requirements as an Unrestricted Subsidiary, it will thereafter cease to be an Unrestricted Subsidiary for purposes of this Indenture and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Company as of such date and, if such Indebtedness is not permitted to be incurred as of such date under Section 4.09 hereof, the Company will be in default of such Section. The Board of Directors of the Company may at any time designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided* that such designation will be deemed to be an incurrence of Indebtedness by a Restricted Subsidiary of the Company of any outstanding Indebtedness of such Unrestricted Subsidiary and such designation will only be permitted if (1) such Indebtedness is permitted under Section 4.09 hereof calculated on a pro forma basis as if such designation had occurred at the beginning of the four-quarter reference period; and (2) no Default or Event of Default would be in existence following such designation.

"*U.S. Person*" means a U.S. person as defined in Rule 902(o) under the Securities Act.

"*Voting Stock*" of any Person as of any date means the Capital Stock of such Person that is at the time entitled to vote in the election of the Board of Directors of such Person.

"*Weighted Average Life to Maturity*" means, when applied to any Indebtedness at any date, the number of years obtained by dividing (1) the sum of the products obtained by multiplying (a) the amount of each then remaining installment, sinking fund, serial maturity or other required payments of principal, including payment at final maturity, in respect of the Indebtedness, by (b) the number of years (calculated to the nearest one-twelfth) that will elapse between such date and the making of such payment; by (2) the then outstanding principal amount of such Indebtedness.

"*Wholly-Owned Domestic Subsidiary*" of any specified Person means a Domestic Subsidiary of such Person all of the outstanding Capital Stock and other ownership interests of which (other than directors' qualifying shares) will at the time be owned by such Person or by one or more Wholly-Owned Domestic Subsidiaries of such Person.

Section 1.02. *Other Definitions.*

Term	Defined in Section
"Affiliate Transaction"	4.11
"Asset Sale Offer"	3.09
"Authentication Order"	2.02
"Change of Control Offer"	4.14
"Change of Control Payment"	4.14
"Change of Control Payment Date"	4.14
"Covenant Defeasance"	8.03
"Excess Proceeds"	4.10
"incur"	4.09
"Legal Defeasance"	8.02
"Offer Amount"	3.09
"Offer Period"	3.09
"Paying Agent"	2.03
"Permitted Debt"	4.09

"Purchase Date"	3.09
"Registrar"	2.03
"Restricted Payments"	4.07

Section 1.03. *Incorporation by Reference of Trust Indenture Act.*

Whenever this Indenture refers to a provision of the TIA, the provision is incorporated by reference in and made a part of this Indenture.

The following TIA terms used in this Indenture have the following meanings:

"*indenture securities*" means the Notes;

"*indenture security Holder*" means a Holder of a Note;

"*indenture to be qualified*" means this Indenture;

"*indenture trustee*" or "*institutional trustee*" means the Trustee; and

"*obligor*" on the Notes means the Company and the Guarantors, respectively, and any successor obligor upon the Notes.

All other terms used in this Indenture that are defined by the TIA, defined by TIA reference to another statute or defined by SEC rule under the TIA have the meanings so assigned to them.

Section 1.04. *Rules of Construction.*

Unless the context otherwise requires:

(a) a term has the meaning assigned to it;

(b) an accounting term not otherwise defined has the meaning assigned to it in accordance with GAAP;

(c) "or" is not exclusive;

(d) words in the singular include the plural, and in the plural include the singular;

(e) provisions apply to successive events and transactions; and

(f) references to sections of or rules under the Securities Act shall be deemed to include substitute, replacement or successor sections or rules adopted by the SEC from time to time.

ARTICLE 2

THE NOTES

Section 2.01. *Form and Dating.*

(a) *General.* The Notes and the Trustee's certificate of authentication shall be substantially in the form of *Exhibit A* hereto. The Notes may have notations, legends or endorsements required by law, stock exchange rule or usage. Each Note shall be dated the date of its authentication. The Notes shall be in denominations of $1,000 and integral multiples thereof.

The terms and provisions contained in the Notes shall constitute, and are hereby expressly made, a part of this Indenture and the Company, the Guarantors and the Trustee, by their execution and delivery of this Indenture, expressly agree to such terms and provisions and to be bound thereby. However, to the extent any provision of any Note conflicts with the express provisions of this Indenture, the provisions of this Indenture shall govern and be controlling.

(b) *Global Notes.* Notes issued in global form shall be substantially in the form of *Exhibit A* attached hereto (including the Global Note Legend thereon and the "Schedule of Exchanges of Interests in the Global Note" attached thereto). Notes issued in definitive form shall be substantially in the form of *Exhibit A* attached hereto (but without the Global Note Legend thereon and without the "Schedule of Exchanges of Interests in the Global Note" attached thereto). Each Global Note shall represent such of the outstanding Notes as shall be specified therein and each shall provide that it shall represent the aggregate principal amount of outstanding Notes from time to time endorsed thereon and that the aggregate principal amount of outstanding Notes represented thereby may from time to time be reduced or increased, as appropriate, to reflect exchanges and redemptions. Any endorsement of a Global Note to reflect the amount of any increase or decrease in the aggregate principal amount of outstanding Notes represented thereby shall be made by the Trustee or the Custodian, at the direction of the Trustee, in accordance with instructions given by the Holder thereof as required by Section 2.06 hereof.

(c) *Euroclear and Clearstream Procedures Applicable.* The provisions of the "Operating Procedures of the Euroclear System" and "Terms and Conditions Governing Use of Euroclear" and the "General Terms and Conditions of Clearstream Banking" and "Customer Handbook" of Clearstream shall be applicable to transfers of beneficial interests in the Regulation S Global Notes that are held by Participants through Euroclear or Clearstream.

Section 2.02. *Execution and Authentication.*

The Notes shall be executed by an Officer or an authorized signatory as identified in an Officers' Certificate (pursuant to a power of attorney or other similar instrument). The signature of any such Officer (or authorized signatory) on the Notes shall be by manual or facsimile signature in the name and on behalf of the Company.

If an Officer whose signature is on a Note no longer holds that office at the time the Trustee or authenticating agent authenticates the Note, the Note shall be valid nevertheless.

A Note shall not be valid until the Trustee or authenticating agent manually signs the certificate of authentication on the Note. The signature shall be conclusive evidence that the Note has been authenticated under this Indenture.

The Trustee or an authenticating agent shall, upon receipt of a Company Order, authenticate Initial Notes for original issue in an aggregate principal amount of $200,000,000. The aggregate principal amount of the Initial Notes may not exceed $200,000,000 except as provided in Section 2.07 hereof.

The Trustee or an authorized agent, shall upon receipt of a Company Order and an Officers' Certificate and Opinion of Counsel pursuant to Section 13.04 authenticate Additional Notes for original issue in an aggregate principal amount set forth in the Company Order.

The Trustee may appoint an authenticating agent to authenticate Notes. An authenticating agent may authenticate Notes whenever the Trustee may do so. Each reference in this Indenture to authentication by the Trustee includes authentication by such authentication agent. An authenticating agent has the same rights as an Agent to deal with the Company or an Affiliate of the Company.

The Notes shall be issuable only in registered form without coupons and only in minimum denominations of $1,000 in principal amount and any integral multiples of $1,000 in excess thereof.

Section 2.03. *Registrar and Paying Agent.*

The Company shall maintain an office or agency where Notes may be presented for registration of transfer or for exchange ("*Registrar*") and an office or agency where Notes may be presented for payment ("*Paying Agent*"). The Registrar shall keep a register of the Notes and of their transfer and

exchange. The Company may appoint one or more co-registrars and one or more additional paying agents. The term "Registrar" includes any co-registrar and the term "Paying Agent" includes any additional paying agent. The Company may change any Paying Agent or Registrar without notice to any Holder. The Company shall notify the Trustee in writing of the name and address of any Agent not a party to this Indenture. If the Company fails to appoint or maintain another entity as Registrar or Paying Agent, the Trustee shall act as such. The Company or any of its Subsidiaries may act as Paying Agent or Registrar.

The Company initially appoints DTC to act as Depositary with respect to the Global Notes.

The Company initially appoints the Trustee to act as the Registrar and Paying Agent and to act as Custodian with respect to the Global Notes.

Section 2.04. *Paying Agent to Hold Money in Trust.*

The Company shall require each Paying Agent other than the Trustee to agree in writing that the Paying Agent will hold in trust for the benefit of Holders or the Trustee all money held by the Paying Agent for the payment of principal, premium or Additional Interest, if any, or interest on the Notes, and will notify the Trustee of any default by the Company in making any such payment. While any such default continues, the Trustee may require a Paying Agent to pay all money held by it to the Trustee. The Company at any time may require a Paying Agent to pay all money held by it to the Trustee. Upon payment over to the Trustee, the Paying Agent (if other than the Company or a Subsidiary) shall have no further liability for the money. If the Company or a Subsidiary acts as Paying Agent, it shall segregate and hold in a separate trust fund for the benefit of the Holders all money held by it as Paying Agent. Upon any bankruptcy or reorganization proceedings relating to the Company, the Trustee shall serve as Paying Agent for the Notes.

Section 2.05. *Holder Lists.*

The Trustee shall preserve in as current a form as is reasonably practicable the most recent list available to it of the names and addresses of all Holders and shall otherwise comply with TIA § 312(a). If the Trustee is not the Registrar, the Company shall furnish to the Trustee at least seven Business Days before each interest payment date and at such other times as the Trustee may request in writing, a list in such form and as of such date as the Trustee may reasonably require of the names and addresses of the Holders of Notes and the Company shall otherwise comply with TIA § 312(a).

Section 2.06. *Transfer and Exchange.*

(a) *Transfer and Exchange of Global Notes.* A Global Note may not be transferred as a whole except by the Depositary to a nominee of the Depositary, by a nominee of the Depositary to the Depositary or to another nominee of the Depositary, or by the Depositary or any such nominee to a successor Depositary or a nominee of such successor Depositary. All Global Notes will be exchanged by the Company for Definitive Notes if:

(i) the Company delivers to the Trustee notice from the Depositary that it is unwilling or unable to continue to act as Depositary or that it is no longer a clearing agency registered under the Exchange Act and, in either case, a successor Depositary is not appointed by the Company within 120 days after the date of such notice from the Depositary; or

(ii) the Company in its sole discretion determines that the Global Notes (in whole but not in part) should be exchanged for Definitive Notes and delivers a written notice to such effect to the Trustee.

(iii) Upon the occurrence of either of the preceding events in (i) or (ii) above, Definitive Notes shall be issued in such names as the Depositary shall instruct the Trustee. Global Notes also may be exchanged or replaced, in whole or in part, as provided in Sections 2.07 and 2.10

hereof. Every Note authenticated and delivered in exchange for, or in lieu of, a Global Note or any portion thereof, pursuant to this Section 2.06 or Section 2.07 or 2.10 hereof, shall be authenticated and delivered in the form of, and shall be, a Global Note. A Global Note may not be exchanged for another Note other than as provided in this Section 2.06(a), however, beneficial interests in a Global Note may be transferred and exchanged as provided in Section 2.06(b), (c) or (f) hereof.

(b) *Transfer and Exchange of Beneficial Interests in the Global Notes.* The transfer and exchange of beneficial interests in the Global Notes shall be effected through the Depositary, in accordance with the provisions of this Indenture and the Applicable Procedures. Beneficial interests in the Restricted Global Notes shall be subject to restrictions on transfer comparable to those set forth herein to the extent required by the Securities Act. Transfers of beneficial interests in the Global Notes also shall require compliance with either subparagraph (i) or (ii) below, as applicable, as well as one or more of the other following subparagraphs, as applicable:

(i) *Transfer of Beneficial Interests in the Same Global Note.* Beneficial interests in any Restricted Global Note may be transferred to Persons who take delivery thereof in the form of a beneficial interest in the same Restricted Global Note in accordance with the transfer restrictions set forth in the Private Placement Legend; *provided, however*, that prior to the expiration of the Restricted Period, transfers of beneficial interests in the Regulation S Global Note may not be made to a U.S. Person or for the account or benefit of a U.S. Person (other than an Initial Purchaser). Beneficial interests in any Unrestricted Global Note may be transferred to Persons who take delivery thereof in the form of a beneficial interest in an Unrestricted Global Note. No written orders or instructions shall be required to be delivered to the Registrar to effect the transfers described in this Section 2.06(b)(i).

(ii) *All Other Transfers and Exchanges of Beneficial Interests in Global Notes.* In connection with all transfers and exchanges of beneficial interests that are not subject to Section 2.06(b)(i) above, the transferor of such beneficial interest must deliver to the Registrar either:

(A) (1) a written order from a Participant or an Indirect Participant given to the Depositary in accordance with the Applicable Procedures directing the Depositary to credit or cause to be credited a beneficial interest in another Global Note in an amount equal to the beneficial interest to be transferred or exchanged and (2) instructions given in accordance with the Applicable Procedures containing information regarding the Participant account to be credited with such increase; or

(B) (1) a written order from a Participant or an Indirect Participant given to the Depositary in accordance with the Applicable Procedures directing the Depositary to cause to be issued a Definitive Note in an amount equal to the beneficial interest to be transferred or exchanged and (2) instructions given by the Depositary to the Registrar containing information regarding the Person in whose name such Definitive Note shall be registered to effect the transfer or exchange referred to in (1) above. Upon consummation of an Exchange Offer by the Company in accordance with Section 2.06(f) hereof, the requirements of this Section 2.06(b)(ii) shall be deemed to have been satisfied upon receipt by the Registrar of the instructions contained in the Letter of Transmittal delivered by the Holder of such beneficial interests in the Restricted Global Notes. Upon satisfaction of all of the requirements for transfer or exchange of beneficial interests in Global Notes contained in this Indenture and the Notes or otherwise applicable under the Securities Act, the Trustee shall adjust the principal amount of the relevant Global Note(s) pursuant to Section 2.06(h) hereof.

(iii) *Transfer of Beneficial Interests to Another Restricted Global Note.* A beneficial interest in any Restricted Global Note may be transferred to a Person who takes delivery thereof in the form of a beneficial interest in another Restricted Global Note if the transfer complies with the requirements of Section 2.06(b)(ii) above and the Registrar receives the following:

(A) if the transferee will take delivery in the form of a beneficial interest in the 144A Global Note, then the transferor must deliver a certificate in the form of *Exhibit B* hereto, including the certifications in item (1) thereof;

(B) if the transferee will take delivery in the form of a beneficial interest in the Regulation S Global Note, then the transferor must deliver a certificate in the form of *Exhibit B* hereto, including the certifications in item (2) thereof; and

(C) if the transferee will take delivery in the form of a beneficial interest in the IAI Global Note, then the transferor must deliver a certificate in the form of *Exhibit B* hereto, including the certifications and certificates and Opinion of Counsel required by item (3) thereof, if applicable.

(iv) *Transfer and Exchange of Beneficial Interests in a Restricted Global Note for Beneficial Interests in the Unrestricted Global Note.* A beneficial interest in any Restricted Global Note may be exchanged by any holder thereof for a beneficial interest in an Unrestricted Global Note or transferred to a Person who takes delivery thereof in the form of a beneficial interest in an Unrestricted Global Note if the exchange or transfer complies with the requirements of Section 2.06(b)(ii) above and:

(A) such exchange or transfer is effected pursuant to the Exchange Offer in accordance with the Registration Rights Agreement and the holder of the beneficial interest to be transferred, in the case of an exchange, or the transferee, in the case of a transfer, certifies in the applicable Letter of Transmittal that it is not (1) a Broker-Dealer, (2) a Person participating in the distribution of the Exchange Notes or (3) a Person who is an affiliate (as defined in Rule 144) of the Company;

(B) such transfer is effected pursuant to the Shelf Registration Statement in accordance with the Registration Rights Agreement;

(C) such transfer is effected by a Broker-Dealer pursuant to the Exchange Offer Registration Statement in accordance with the Registration Rights Agreement; or

(D) the Registrar receives the following:

(1) if the holder of such beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a beneficial interest in an Unrestricted Global Note, a certificate from such holder in the form of *Exhibit C* hereto, including the certifications in item (1)(a) thereof; or

(2) if the holder of such beneficial interest in a Restricted Global Note proposes to transfer such beneficial interest to a Person who shall take delivery thereof in the form of a beneficial interest in an Unrestricted Global Note, a certificate from such holder in the form of *Exhibit B* hereto, including the certifications in item (4) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests or if the Applicable Procedures so require, an Opinion of Counsel in form reasonably acceptable to the Registrar to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained

herein and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

If any such transfer is effected pursuant to subparagraph (B) or (D) above at a time when an Unrestricted Global Note has not yet been issued, the Company shall issue and, upon receipt of an Authentication Order in accordance with Section 2.02 hereof, the Trustee shall authenticate one or more Unrestricted Global Notes in an aggregate principal amount equal to the aggregate principal amount of beneficial interests transferred pursuant to subparagraph (B) or (D) above. Beneficial interests in an Unrestricted Global Note cannot be exchanged for, or transferred to Persons who take delivery thereof in the form of, a beneficial interest in a Restricted Global Note.

(c) *Transfer or Exchange of Beneficial Interests for Definitive Notes.*

(i) *Beneficial Interests in Restricted Global Notes to Restricted Definitive Notes.* If any holder of a beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a Restricted Definitive Note or to transfer such beneficial interest to a Person who takes delivery thereof in the form of a Restricted Definitive Note, then, upon receipt by the Registrar of the following documentation:

(A) if the holder of such beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a Restricted Definitive Note, a certificate from such holder in the form of *Exhibit C* hereto, including the certifications in item (2)(a) thereof;

(B) if such beneficial interest is being transferred to a QIB in accordance with Rule 144A under the Securities Act, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications in item (1) thereof;

(C) if such beneficial interest is being transferred to a Non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 under the Securities Act, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications in item (2) thereof;

(D) if such beneficial interest is being transferred pursuant to an exemption from the registration requirements of the Securities Act in accordance with Rule 144 under the Securities Act, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications in item (3)(a) thereof;

(E) if such beneficial interest is being transferred to an Institutional Accredited Investor in reliance on an exemption from the registration requirements of the Securities Act other than those listed in subparagraphs (B) through (D) above, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications, certificates and Opinion of Counsel required by item (3) thereof, if applicable;

(F) if such beneficial interest is being transferred to the Company or any of its Subsidiaries, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications in item (3)(b) thereof; or

(G) if such beneficial interest is being transferred pursuant to an effective registration statement under the Securities Act, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications in item (3)(c) thereof,

the Trustee shall cause the aggregate principal amount of the applicable Global Note to be reduced accordingly pursuant to Section 2.06(h) hereof, and the Company shall execute and the Trustee shall authenticate and deliver to the Person designated in the instructions a Definitive Note in the appropriate principal amount. Any Definitive Note issued in exchange for a beneficial interest in a Restricted Global Note pursuant to this Section 2.06(c) shall be registered in such name or names and in such authorized denomination or denominations as the holder of such

beneficial interest shall instruct the Registrar through instructions from the Depositary and the Participant or Indirect Participant. The Trustee shall deliver such Definitive Notes to the Persons in whose names such Notes are so registered. Any Definitive Note issued in exchange for a beneficial interest in a Restricted Global Note pursuant to this Section 2.06(c)(i) shall bear the Private Placement Legend and shall be subject to all restrictions on transfer contained therein.

(ii) *Beneficial Interests in Restricted Global Notes to Unrestricted Definitive Notes.* A holder of a beneficial interest in a Restricted Global Note may exchange such beneficial interest for an Unrestricted Definitive Note or may transfer such beneficial interest to a Person who takes delivery thereof in the form of an Unrestricted Definitive Note only if:

(A) such exchange or transfer is effected pursuant to the Exchange Offer in accordance with the Registration Rights Agreement and the holder of such beneficial interest, in the case of an exchange, or the transferee, in the case of a transfer, certifies in the applicable Letter of Transmittal that it is not (1) a Broker-Dealer, (2) a Person participating in the distribution of the Exchange Notes or (3) a Person who is an affiliate (as defined in Rule 144) of the Company;

(B) such transfer is effected pursuant to the Shelf Registration Statement in accordance with the Registration Rights Agreement;

(C) such transfer is effected by a Broker-Dealer pursuant to the Exchange Offer Registration Statement in accordance with the Registration Rights Agreement; or

(D) the Registrar receives the following:

(1) if the holder of such beneficial interest in a Restricted Global Note proposes to exchange such beneficial interest for a Definitive Note that does not bear the Private Placement Legend, a certificate from such holder in the form of *Exhibit C* hereto, including the certifications in item (1)(b) thereof; or

(2) if the holder of such beneficial interest in a Restricted Global Note proposes to transfer such beneficial interest to a Person who shall take delivery thereof in the form of a Definitive Note that does not bear the Private Placement Legend, a certificate from such holder in the form of *Exhibit B* hereto, including the certifications in item (4) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests or if the Applicable Procedures so require, an Opinion of Counsel in form reasonably acceptable to the Registrar to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained herein and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

(iii) *Beneficial Interests in Unrestricted Global Notes to Unrestricted Definitive Notes.* If any holder of a beneficial interest in an Unrestricted Global Note proposes to exchange such beneficial interest for a Definitive Note or to transfer such beneficial interest to a Person who takes delivery thereof in the form of a Definitive Note, then, upon satisfaction of the conditions set forth in Section 2.06(b)(ii) hereof, the Trustee shall cause the aggregate principal amount of the applicable Global Note to be reduced accordingly pursuant to Section 2.06(h) hereof, and the Company shall execute and the Trustee shall authenticate and deliver to the Person designated in the instructions a Definitive Note in the appropriate principal amount. Any Definitive Note issued in exchange for a beneficial interest pursuant to this Section 2.06(c)(iii) shall be registered in such name or names and in such authorized denomination or denominations as the holder of such beneficial interest shall instruct the Registrar through instructions from the Depositary and the Participant or Indirect Participant. The Trustee shall deliver such Definitive Notes to the Persons in whose names such

Notes are so registered. Any Definitive Note issued in exchange for a beneficial interest pursuant to this Section 2.06(c)(iii) shall not bear the Private Placement Legend.

(d) *Transfer and Exchange of Definitive Notes for Beneficial Interests.*

(i) *Restricted Definitive Notes to Beneficial Interests in Restricted Global Notes.* If any Holder of a Restricted Definitive Note proposes to exchange such Note for a beneficial interest in a Restricted Global Note or to transfer such Restricted Definitive Notes to a Person who takes delivery thereof in the form of a beneficial interest in a Restricted Global Note, then, upon receipt by the Registrar of the following documentation:

(A) if the Holder of such Restricted Definitive Note proposes to exchange such Note for a beneficial interest in a Restricted Global Note, a certificate from such Holder in the form of *Exhibit C* hereto, including the certifications in item (2)(b) thereof;

(B) if such Restricted Definitive Note is being transferred to a QIB in accordance with Rule 144A under the Securities Act, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications in item (1) thereof;

(C) if such Restricted Definitive Note is being transferred to a Non-U.S. Person in an offshore transaction in accordance with Rule 903 or Rule 904 under the Securities Act, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications in item (2) thereof;

(D) if such Restricted Definitive Note is being transferred pursuant to an exemption from the registration requirements of the Securities Act in accordance with Rule 144 under the Securities Act, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications in item (3)(a) thereof;

(E) if such Restricted Definitive Note is being transferred to an Institutional Accredited Investor in reliance on an exemption from the registration requirements of the Securities Act other than those listed in subparagraphs (B) through (D) above, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications, certificates and Opinion of Counsel required by item (3) thereof, if applicable;

(F) if such Restricted Definitive Note is being transferred to the Company or any of its Subsidiaries, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications in item (3)(b) thereof; or

(G) if such Restricted Definitive Note is being transferred pursuant to an effective registration statement under the Securities Act, a certificate to the effect set forth in *Exhibit B* hereto, including the certifications in item (3)(c) thereof,

the Trustee shall cancel the Restricted Definitive Note, increase or cause to be increased the aggregate principal amount of, in the case of clause (A) above, the appropriate Restricted Global Note, in the case of clause (B) above, the 144A Global Note, in the case of clause (C) above, the Regulation S Global Note, and in all other cases, the IAI Global Note.

(ii) *Restricted Definitive Notes to Beneficial Interests in Unrestricted Global Notes.* A Holder of a Restricted Definitive Note may exchange such Note for a beneficial interest in an Unrestricted Global Note or transfer such Restricted Definitive Note to a Person who takes delivery thereof in the form of a beneficial interest in an Unrestricted Global Note only if:

(A) such exchange or transfer is effected pursuant to the Exchange Offer in accordance with the Registration Rights Agreement and the Holder, in the case of an exchange, or the transferee, in the case of a transfer, certifies in the applicable Letter of Transmittal that it is

not (1) a Broker-Dealer, (2) a Person participating in the distribution of the Exchange Notes or (3) a Person who is an affiliate (as defined in Rule 144) of the Company;

(B) such transfer is effected pursuant to the Shelf Registration Statement in accordance with the Registration Rights Agreement;

(C) such transfer is effected by a Broker-Dealer pursuant to the Exchange Offer Registration Statement in accordance with the Registration Rights Agreement; or

(D) the Registrar receives the following:

(1) if the Holder of such Definitive Notes proposes to exchange such Notes for a beneficial interest in the Unrestricted Global Note, a certificate from such Holder in the form of *Exhibit C* hereto, including the certifications in item (1)(c) thereof; or

(2) if the Holder of such Definitive Notes proposes to transfer such Notes to a Person who shall take delivery thereof in the form of a beneficial interest in the Unrestricted Global Note, a certificate from such Holder in the form of *Exhibit B* hereto, including the certifications in item (4) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests or if the Applicable Procedures so require, an Opinion of Counsel in form reasonably acceptable to the Registrar to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained herein and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

Upon satisfaction of the conditions of any of the subparagraphs in this Section 2.06(d)(ii), the Trustee shall cancel the Definitive Notes and increase or cause to be increased the aggregate principal amount of the Unrestricted Global Note.

(iii) *Unrestricted Definitive Notes to Beneficial Interests in Unrestricted Global Notes.* A Holder of an Unrestricted Definitive Note may exchange such Note for a beneficial interest in an Unrestricted Global Note or transfer such Definitive Notes to a Person who takes delivery thereof in the form of a beneficial interest in an Unrestricted Global Note at any time. Upon receipt of a request for such an exchange or transfer, the Trustee shall cancel the applicable Unrestricted Definitive Note and increase or cause to be increased the aggregate principal amount of one of the Unrestricted Global Notes.

If any such exchange or transfer from a Definitive Note to a beneficial interest is effected pursuant to subparagraph (ii)(B), (ii)(D) or (iii) above at a time when an Unrestricted Global Note has not yet been issued, the Company shall issue and, upon receipt of an Authentication Order in accordance with Section 2.02 hereof, the Trustee shall authenticate one or more Unrestricted Global Notes in an aggregate principal amount equal to the principal amount of Definitive Notes so transferred.

(e) *Transfer and Exchange of Definitive Notes for Definitive Notes.* Upon request by a Holder of Definitive Notes and such Holder's compliance with the provisions of this Section 2.06(e), the Registrar shall register the transfer or exchange of Definitive Notes. Prior to such registration of transfer or exchange, the requesting Holder shall present or surrender to the Registrar the Definitive Notes duly endorsed or accompanied by a written instruction of transfer in form satisfactory to the Registrar duly executed by such Holder or by its attorney, duly authorized in writing. In addition, the requesting

Holder shall provide any additional certifications, documents and information, as applicable, required pursuant to the following provisions of this Section 2.06(e):

(i) *Restricted Definitive Notes to Restricted Definitive Notes.* Any Restricted Definitive Note may be transferred to and registered in the name of Persons who take delivery thereof in the form of a Restricted Definitive Note if the Registrar receives the following:

(A) (if the transfer will be made pursuant to Rule 144A under the Securities Act, then the transferor must deliver a certificate in the form of *Exhibit B* hereto, including the certifications in item (1) thereof;

(B) if the transfer will be made pursuant to Rule 903 or Rule 904, then the transferor must deliver a certificate in the form of *Exhibit B* hereto, including the certifications in item (2) thereof; and

(C) if the transfer will be made pursuant to any other exemption from the registration requirements of the Securities Act, then the transferor must deliver a certificate in the form of *Exhibit B* hereto, including the certifications, certificates and Opinion of Counsel required by item (3) thereof, if applicable.

(ii) *Restricted Definitive Notes to Unrestricted Definitive Notes.* Any Restricted Definitive Note may be exchanged by the Holder thereof for an Unrestricted Definitive Note or transferred to a Person or Persons who take delivery thereof in the form of an Unrestricted Definitive Note if:

(A) such exchange or transfer is effected pursuant to the Exchange Offer in accordance with the Registration Rights Agreement and the Holder, in the case of an exchange, or the transferee, in the case of a transfer, certifies in the applicable Letter of Transmittal that it is not (1) a Broker-Dealer, (2) a Person participating in the distribution of the Exchange Notes or (3) a Person who is an affiliate (as defined in Rule 144) of the Company;

(B) any such transfer is effected pursuant to the Shelf Registration Statement in accordance with the Registration Rights Agreement;

(C) any such transfer is effected by a Broker-Dealer pursuant to the Exchange Offer Registration Statement in accordance with the Registration Rights Agreement; or

(D) the Registrar receives the following:

(1) if the Holder of such Restricted Definitive Notes proposes to exchange such Notes for an Unrestricted Definitive Note, a certificate from such Holder in the form of *Exhibit C* hereto, including the certifications in item (1)(d) thereof; or

(2) if the Holder of such Restricted Definitive Notes proposes to transfer such Notes to a Person who shall take delivery thereof in the form of an Unrestricted Definitive Note, a certificate from such Holder in the form of *Exhibit B* hereto, including the certifications in item (4) thereof;

and, in each such case set forth in this subparagraph (D), if the Registrar so requests, an Opinion of Counsel in form reasonably acceptable to the Company to the effect that such exchange or transfer is in compliance with the Securities Act and that the restrictions on transfer contained herein and in the Private Placement Legend are no longer required in order to maintain compliance with the Securities Act.

(iii) *Unrestricted Definitive Notes to Unrestricted Definitive Notes.* A Holder of Unrestricted Definitive Notes may transfer such Notes to a Person who takes delivery thereof in the form of an Unrestricted Definitive Note. Upon receipt of a request to register such a transfer, the Registrar

shall register the Unrestricted Definitive Notes pursuant to the instructions from the Holder thereof.

(f) *Exchange Offer.* Upon the occurrence of the Exchange Offer in accordance with the Registration Rights Agreement, the Company shall issue and, upon receipt of an Authentication Order in accordance with Section 2.02, the Trustee shall authenticate

(i) one or more Unrestricted Global Notes in an aggregate principal amount equal to the principal amount of the beneficial interests in the Restricted Global Notes tendered for acceptance by Persons that certify in the applicable Letters of Transmittal that (x) they are not broker-dealers, (y) they are not participating in a distribution of the Exchange Notes and (z) they are not affiliates (as defined in Rule 144) of the Company, and accepted for exchange in the Exchange Offer; and

(ii) Unrestricted Definitive Notes in an aggregate principal amount equal to the principal amount of the Restricted Definitive Notes accepted for exchange in the Exchange Offer.

Concurrently with the issuance of such Notes, the Trustee shall cause the aggregate principal amount of the applicable Restricted Global Notes to be reduced accordingly, and the Company shall execute and the Trustee shall authenticate and deliver to the Persons designated by the Holders of Definitive Notes so accepted Definitive Notes in the appropriate principal amount.

(g) *Legends.* The following legends shall appear on the face of all Global Notes and Definitive Notes issued under this Indenture unless specifically stated otherwise in the applicable provisions of this Indenture.

(i) *Private Placement Legend.* Except as permitted by subparagraph (B) below, each Global Note and each Definitive Note (and all Notes issued in exchange therefor or substitution thereof) shall bear the legend in substantially the following form:

"THE NOTES EVIDENCED HEREBY HAVE NOT BEEN REGISTERED UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE "SECURITIES ACT") AND MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED EXCEPT (A) (1) TO A PERSON WHO THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QUALIFIED INSTITUTIONAL BUYER IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (2) IN AN OFFSHORE TRANSACTION COMPLYING WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) TO AN INSTITUTIONAL ACCREDITED INVESTOR IN A TRANSACTION EXEMPT FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT, (4) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (5) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (B) IN ACCORDANCE WITH ALL APPLICABLE SECURITIES LAWS OF THE STATES OF THE UNITED STATES. BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A QUALIFIED INSTITUTIONAL BUYER OR (B) IT IS NOT A U.S. PERSON AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 UNDER THE SECURITIES ACT AND (2) AGREES THAT IT WILL GIVE TO EACH PERSON TO WHOM THIS SECURITY IS TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND. IN CONNECTION WITH ANY TRANSFER OF THIS SECURITY WITHIN TWO YEARS AFTER THE ORIGINAL ISSUANCE OF THIS SECURITY,

IF THE PROPOSED TRANSFEREE IS AN ACCREDITED INVESTOR, THE HOLDER MUST, PRIOR TO SUCH TRANSFER, FURNISH TO THE COMPANY SUCH CERTIFICATIONS, LEGAL OPINIONS OR OTHER INFORMATION AS IT MAY REASONABLY REQUIRE TO CONFIRM THAT SUCH TRANSFER IS BEING MADE PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT."

(B) Notwithstanding the foregoing, any Global Note or Definitive Note issued pursuant to subparagraph (b)(iv), (c)(ii), (c)(iii), (d)(ii), (d)(iii), (e)(ii), (e)(iii) or (f) of this Section 2.06 (and all Notes issued in exchange therefor or substitution thereof) shall not bear the Private Placement Legend.

(ii) *Global Note Legend.* Each Global Note shall bear a legend in substantially the following form:

"THIS GLOBAL NOTE IS HELD BY THE DEPOSITARY (AS DEFINED IN THE INDENTURE GOVERNING THIS NOTE) OR ITS NOMINEE IN CUSTODY FOR THE BENEFIT OF THE BENEFICIAL OWNERS HEREOF, AND IS NOT TRANSFERABLE TO ANY PERSON UNDER ANY CIRCUMSTANCES EXCEPT THAT (I) THE TRUSTEE MAY MAKE SUCH NOTATIONS HEREON AS MAY BE REQUIRED PURSUANT TO SECTION 2.07 OF THE INDENTURE, (II) THIS GLOBAL NOTE MAY BE EXCHANGED IN WHOLE BUT NOT IN PART PURSUANT TO SECTION 2.06(a) OF THE INDENTURE, (III) THIS GLOBAL NOTE MAY BE DELIVERED TO THE TRUSTEE FOR CANCELLATION PURSUANT TO SECTION 2.11 OF THE INDENTURE AND (IV) THIS GLOBAL NOTE MAY BE TRANSFERRED TO A SUCCESSOR DEPOSITARY WITH THE PRIOR WRITTEN CONSENT OF PENN NATIONAL GAMING, INC."

(h) *Cancellation and/or Adjustment of Global Notes.* At such time as all beneficial interests in a particular Global Note have been exchanged for Definitive Notes or a particular Global Note has been redeemed, repurchased or canceled in whole and not in part, each such Global Note shall be returned to or retained and canceled by the Trustee in accordance with Section 2.11 hereof. At any time prior to such cancellation, if any beneficial interest in a Global Note is exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Note or for Definitive Notes, the principal amount of Notes represented by such Global Note shall be reduced accordingly and an endorsement shall be made on such Global Note by the Trustee or by the Depositary at the direction of the Trustee to reflect such reduction; and if the beneficial interest is being exchanged for or transferred to a Person who will take delivery thereof in the form of a beneficial interest in another Global Note, such other Global Note shall be increased accordingly and an endorsement shall be made on such Global Note by the Trustee or by the Depositary at the direction of the Trustee to reflect such increase.

(i) *General Provisions Relating to Transfers and Exchanges.*

(i) To permit registrations of transfers and exchanges, the Company shall execute and the Trustee shall authenticate Global Notes and Definitive Notes upon receipt of a Company Order or at the Registrar's request.

(ii) No service charge shall be made to a holder of a beneficial interest in a Global Note or to a Holder of a Definitive Note for any registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any transfer tax or similar governmental charge payable in connection therewith (other than any such transfer taxes or similar governmental charge

payable upon exchange or transfer pursuant to Sections 2.10, 3.06, 3.09, 4.10, 4.14 and 9.05 hereof).

(iii) The Registrar shall not be required to register the transfer of or exchange any Note selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part.

(iv) All Global Notes and Definitive Notes issued upon any registration of transfer or exchange of Global Notes or Definitive Notes shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Global Notes or Definitive Notes surrendered upon such registration of transfer or exchange.

(v) The Company shall not be required (A) to issue, to register the transfer of or to exchange any Notes during a period beginning at the opening of business 15 days before the day of any selection of Notes for redemption under Section 3.02 hereof and ending at the close of business on the day of selection, (B) to register the transfer of or to exchange any Note so selected for redemption in whole or in part, except the unredeemed portion of any Note being redeemed in part or (C) to register the transfer of or to exchange a Note between a record date and the next succeeding Interest Payment Date.

(vi) Prior to due presentment for the registration of a transfer of any Note, the Trustee, any Agent and the Company may deem and treat the Person in whose name any Note is registered as the absolute owner of such Note for the purpose of receiving payment of principal of and interest on such Notes and for all other purposes, and none of the Trustee, any Agent or the Company shall be affected by notice to the contrary.

(vii) The Trustee shall authenticate Global Notes and Definitive Notes in accordance with the provisions of Section 2.02 hereof.

(viii) All certifications, certificates and Opinions of Counsel required to be submitted to the Registrar pursuant to this Section 2.06 to effect a registration of transfer or exchange may be submitted by facsimile.

Section 2.07. *Replacement Notes.*

If any mutilated Note is surrendered to the Trustee or the Company and the Trustee receives evidence to its satisfaction of the destruction, loss or theft of any Note, the Company shall issue and the Trustee, upon receipt of an Authentication Order, shall authenticate a replacement Note if the Trustee's requirements are met. If required by the Trustee or the Company, an indemnity bond must be supplied by the Holder that is sufficient in the judgment of the Trustee and the Company to protect the Company, the Trustee, any Agent and any authenticating agent from any loss that any of them may suffer if a Note is replaced. The Company may charge for its expenses in replacing a Note.

Every replacement Note is an additional obligation of the Company and shall be entitled to all of the benefits of this Indenture equally and proportionately with all other Notes duly issued hereunder.

Section 2.08. *Outstanding Notes.*

The Notes outstanding at any time are all the Notes authenticated by the Trustee except for those canceled by it, those delivered to it for cancellation, those reductions in the interest in a Global Note effected by the Trustee in accordance with the provisions hereof, and those described in this Section as not outstanding. Except as set forth in Section 2.09 hereof, a Note does not cease to be outstanding because the Company or an Affiliate of the Company holds the Note; however, Notes held by the Company or a Subsidiary of the Company shall not be deemed to be outstanding for purposes of Section 3.07(a) hereof.

If a Note is replaced pursuant to Section 2.07 hereof, it ceases to be outstanding unless the Trustee receives proof satisfactory to it that the replaced Note is held by a bona fide purchaser.

If the principal amount of any Note is considered paid under Section 4.01 hereof, it ceases to be outstanding and interest on it ceases to accrue.

If the Paying Agent (other than the Company, a Subsidiary or an Affiliate of any thereof) holds, on a redemption date or maturity date, money sufficient to pay Notes payable on that date, then on and after that date such Notes shall be deemed to be no longer outstanding and shall cease to accrue interest.

Section 2.09. *Treasury Notes.*

In determining whether the Holders of the required principal amount of Notes have concurred in any direction, waiver or consent, Notes owned by the Company, or by any Person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company, shall be considered as though not outstanding, except that for the purposes of determining whether the Trustee shall be protected in relying on any such direction, waiver or consent, only Notes that a Responsible Officer of the Trustee knows are so owned shall be so disregarded.

Section 2.10. *Temporary Notes.*

Until certificates representing Notes are ready for delivery, the Company may prepare and the Trustee, upon receipt of an Authentication Order, shall authenticate temporary Notes. Temporary Notes shall be substantially in the form of certificated Notes but may have variations that the Company considers

appropriate for temporary Notes and as shall be reasonably acceptable to the Trustee. Without unreasonable delay, the Company shall prepare and the Trustee shall authenticate definitive Notes in exchange for temporary Notes.

Holders of temporary Notes shall be entitled to all of the benefits of this Indenture.

Section 2.11. *Cancellation.*

The Company at any time may deliver Notes to the Trustee for cancellation. The Registrar and Paying Agent shall forward to the Trustee any Notes surrendered to them for registration of transfer, exchange or payment. The Trustee and no one else shall cancel all Notes surrendered for registration of transfer, exchange, payment, replacement or cancellation and shall destroy acnceled Notes (subject to the record retention requirement of the Exchange Act). Certification of the destruction of all canceled Notes shall be delivered to the Company. The Company may not issue new Notes to replace Notes that it has paid or that have been delivered to the Trustee for cancellation.

Section 2.12. *Defaulted Interest.*

If the Company defaults in a payment of interest on the Notes, it shall pay the defaulted interest in any lawful manner plus, to the extent lawful, interest payable on the defaulted interest, to the Persons who are Holders on a subsequent special record date, in each case at the rate provided in the Notes and in Section 4.01 hereof. The Company shall notify the Trustee in writing of the amount of defaulted interest proposed to be paid on each Note and the date of the proposed payment. The Company shall fix or cause to be fixed each such special record date and payment date; *provided* that no such special record date shall be less than 10 days prior to the related payment date for such defaulted interest. At least 15 days before the special record date, the Company (or, upon the written request of the Company, the Trustee in the name and at the expense of the Company) shall mail or cause to be mailed to Holders a notice that states the special record date, the related payment date and the amount of such interest to be paid.

Section 2.13. *Issuance of Additional Notes.*

The Company shall be entitled to issue Additional Notes under this Indenture that shall have identical terms as the Initial Notes, other than with respect to the date of issuance, issue price, and amount of interest payable on the first Interest Payment Date applicable thereto; *provided* that such issuance is not prohibited by Section 4.09. The Initial Notes and any Additional Notes and all Exchange Notes shall be treated as a single class for all purposes under this Indenture.

With respect to any Additional Notes, the Company shall set forth in a resolution of its Board of Directors and in a Company Order, a copy of each of which shall be delivered to the Trustee, the following information:

(1) the aggregate principal amount of such Additional Notes to be authenticated and delivered pursuant to this Indenture; and

(2) the issue price, the issue date, the CUSIP number of such Additional Notes, the first Interest Payment Date and the amount of interest payable on such first Interest Payment Date applicable thereto and the date from which interest shall accrue; *provided*, *however*, that no Additional Notes may be issued at a price that would cause such Additional Notes to have "original issue discount" within the meaning of Section 1273 of the Internal Revenue Code of 1986, as amended.

Section 2.14. *Designation.*

Any Additional Notes issued under this Indenture will rank *pari passu* in right of payment with the Initial Notes.

Section 2.15. *CUSIP Numbers.*

The Company in issuing the Notes may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; *provided* that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Notes or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Notes, and any such redemption shall not be affected by any defect in or omission of such numbers. The Company will promptly notify the Trustee of any change in the "CUSIP" numbers.

ARTICLE 3

REDEMPTION AND PREPAYMENT

Section 3.01. *Notices to Trustee.*

If the Company elects to redeem Notes pursuant to the optional redemption provisions of Section 3.07 hereof, it shall furnish to the Trustee, at least 30 days but not more than 60 days before a redemption date, an Officers' Certificate setting forth (i) the clause of this Indenture pursuant to which the redemption shall occur, (ii) the redemption date, (iii) the principal amount of Notes to be redeemed and (iv) the redemption price.

Section 3.02. *Selection of Notes to Be Redeemed.*

If less than all of the Notes are to be redeemed or purchased in an offer to purchase at any time, the Trustee will select Notes to be redeemed or purchased among the Holders of the Notes in compliance with the requirements of the principal national securities exchange, if any, on which the Notes are listed or, if the Notes are not so listed, on a *pro rata* basis, by lot or in accordance with any other method the Trustee considers fair and appropriate. In the event of partial redemption by lot, the particular Notes to be redeemed shall be selected, unless otherwise provided herein, not less than 30

nor more than 60 days prior to the redemption date by the Trustee from the outstanding Notes not previously called for redemption.

The Trustee shall promptly notify the Company in writing of the Notes selected for redemption and, in the case of any Note selected for partial redemption, the principal amount thereof to be redeemed. Notes and portions of Notes selected shall be in amounts of $1,000 or whole multiples of $1,000; except that if all of the Notes of a Holder are to be redeemed, the entire outstanding amount of Notes held by such Holder, even if not a multiple of $1,000, shall be redeemed. Except as provided in the preceding sentence, provisions of this Indenture that apply to Notes called for redemption also apply to portions of Notes called for redemption.

Section 3.03. *Notice of Redemption.*

Subject to the provisions of Section 3.09 hereof, at least 30 days but not more than 60 days before a redemption date, the Company shall mail or cause to be mailed, by first class mail, a notice of redemption to each Holder whose Notes are to be redeemed at its registered address, except that redemption notices may be mailed more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of this Indenture.

The notice shall identify the Notes to be redeemed and shall state:

(a) the redemption date;

(b) the redemption price;

(c) if any Note is being redeemed in part, the portion of the principal amount of such Note to be redeemed and that, after the redemption date upon surrender of such Note, a new Note or Notes in principal amount equal to the unredeemed portion shall be issued upon cancellation of the original Note;

(d) the name and address of the Paying Agent;

(e) that Notes called for redemption must be surrendered to the Paying Agent to collect the redemption price;

(f) that, unless the Company defaults in making such redemption payment, interest on Notes called for redemption ceases to accrue on and after the redemption date;

(g) the paragraph of the Notes and/or Section of this Indenture pursuant to which the Notes called for redemption are being redeemed; and

(h) that no representation is made as to the correctness or accuracy of the CUSIP number, if any, listed in such notice or printed on the Notes.

At the Company's request, the Trustee shall give the notice of redemption in the Company's name and at its expense; *provided*, *however*, that the Company shall have delivered to the Trustee, at least 45 days prior to the redemption date, an Officers' Certificate requesting that the Trustee give such notice and setting forth the information to be stated in such notice as provided in the preceding paragraph.

Section 3.04. *Effect of Notice of Redemption.*

Once notice of redemption is mailed in accordance with Section 3.03 hereof, Notes called for redemption become irrevocably due and payable on the redemption date at the redemption price. A notice of redemption may not be conditional.

Section 3.05. *Deposit of Redemption or Purchase Price.*

One Business Day prior to the redemption or purchase date, the Company shall deposit with the Trustee or with the Paying Agent money sufficient to pay the redemption or purchase price of and accrued interest on all Notes to be redeemed or purchased on that date. The Trustee or the Paying Agent shall promptly return to the Company any money deposited with the Trustee or the Paying Agent by the Company in excess of the amounts necessary to pay the redemption or purchase price of, and accrued interest on, all Notes to be redeemed or purchased.

If the Company complies with the provisions of the preceding paragraph, on and after the redemption or purchase date, interest shall cease to accrue on the Notes or the portions of Notes called for redemption or purchase. If a Note is redeemed or purchased on or after an interest record date but on or prior to the related interest payment date, then any accrued and unpaid interest shall be paid to the Person in whose name such Note was registered at the close of business on such record date. If any Note called for redemption or purchase shall not be so paid upon surrender for redemption or purchase because of the failure of the Company to comply with the preceding paragraph, interest shall be paid on the unpaid principal, from the redemption or purchase date until such principal is paid, and to the extent lawful on any interest not paid on such unpaid principal, in each case at the rate provided in the Notes and in Section 4.01 hereof.

Section 3.06. *Notes Redeemed or Purchased in Part.*

Upon surrender of a Note that is redeemed or purchased in part, the Company shall issue and, upon the Company's written request, the Trustee shall authenticate for the Holder at the expense of the Company a new Note equal in principal amount to the unredeemed or unpurchased portion of the Note surrendered.

Section 3.07. *Optional Redemption.*

(a) At any time prior to December 1, 2006, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of Notes issued under this Indenture at a redemption price of 106.875% of the principal amount, plus accrued and unpaid interest and Additional Interest, if any, to the redemption date, with the net cash proceeds of one or more Equity Offerings; *provided* that at least 65% of the aggregate principal amount of Notes issued under

this Indenture remains outstanding immediately after the occurrence of such redemption (excluding Notes held by the Company and its Subsidiaries) and the redemption occurs within 90 days of the date of the closing of such Equity Offering.

(b) Except as described in Section 3.07(a), the Notes shall not be redeemable at the Company's option prior to December 1, 2007. On and after December 1, 2007, the Company may redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Additional Interest, if any, on the Notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on December 1 of the years indicated below:

Year	Percentage
2007	103.438%
2008	101.719%
2009 and thereafter	100.000%

In addition to the foregoing, if any Gaming Authority requires that a holder or Beneficial Owner of Notes must be licensed, qualified or found suitable under any applicable Gaming Laws and such holder or Beneficial Owner fails to apply for a license, qualification or a finding of suitability within 30 days (or such shorter period as may be required by the applicable Gaming Authority) after being requested to do so by the Gaming Authority, or is denied such license or qualification or not found

suitable, the Company shall have the right, at its option, (i) to require any such holder or Beneficial Owner to dispose of its Notes within 30 days (or such earlier date as may be required by the applicable Gaming Authority) of receipt of such notice or finding by such Gaming Authority, or (ii) to call for the redemption of the Notes of such holder or Beneficial Owner at a redemption price equal to the least of (A) the principal amount thereof, together with accrued interest and Additional Interest, if any, to the earlier of the date of redemption or the date of the denial of license or qualification or of the finding of unsuitability by such Gaming Authority, (B) the price at which such holder or Beneficial Owner acquired the Notes, together with accrued interest and Additional Interest, if any, to the earlier of the date of redemption or the date of the denial of license or qualification or of the finding of unsuitability by such Gaming Authority, or (C) such other lesser amount as may be required by any Gaming Authority.

The Company shall notify the Trustee in writing of any such redemption as soon as practicable. The Holder or Beneficial Owner applying for license, qualification or a finding of suitability must pay all costs of the licensure or investigation for such qualification or finding of suitability.

(c) Any redemption pursuant to this Section 3.07 shall be made pursuant to the provisions of Sections 3.01 through 3.06 hereof.

Section 3.08. *Mandatory Redemption.*

The Company shall not be required to make mandatory redemption or sinking fund payments with respect to the Notes.

Section 3.09. *Offer to Purchase by Application of Excess Proceeds.*

In the event that, pursuant to Section 4.10 hereof, the Company shall be required to commence an offer to all Holders to purchase Notes (an "*Asset Sale Offer*"), it shall follow the procedures specified below.

The Asset Sale Offer shall be made to all Holders and all holders of other Indebtedness that is *pari passu* with the Notes containing provisions similar to those set forth in this Indenture with respect to offers to purchase or redeem with proceeds of sales of assets. The Asset Sale Offer shall remain open for a period of 20 Business Days following its commencement and no longer, except to the extent that a longer period is required by applicable law (the "*Offer Period*"). No later than five Business Days after the termination of the Offer Period (the "*Purchase Date*"), the Company shall purchase the principal amount of Notes required to be purchased pursuant to Section 4.10 hereof (the "*Offer Amount*") or, if less than the Offer Amount has been tendered, all Notes tendered in response to the Asset Sale Offer. Payment for any Notes so purchased shall be made in the same manner as interest payments are made.

If the Purchase Date is on or after an interest record date and on or before the related interest payment date, any accrued and unpaid interest shall be paid to the Person in whose name a Note is registered at the close of business on such record date, and no additional interest shall be payable to Holders who tender Notes pursuant to the Asset Sale Offer.

Upon the commencement of an Asset Sale Offer, the Company shall send, by first class mail, a notice to the Trustee and each of the Holders, with a copy to the Trustee. The notice shall contain all instructions and materials necessary to enable such Holders to tender Notes pursuant to the Asset Sale Offer. The Asset Sale Offer shall be made to all Holders. The notice, which shall govern the terms of the Asset Sale Offer, shall state:

(a) that the Asset Sale Offer is being made pursuant to this Section 3.09 and Section 4.10 hereof and the length of time the Asset Sale Offer shall remain open;

(b) the Offer Amount, the purchase price and the Purchase Date;

(c) that any Note not tendered or accepted for payment shall continue to accrete or accrue interest;

(d) that, unless the Company defaults in making such payment, any Note accepted for payment pursuant to the Asset Sale Offer shall cease to accrete or accrue interest after the Purchase Date;

(e) that Holders electing to have a Note purchased pursuant to an Asset Sale Offer may elect to have Notes purchased in integral multiples of $1,000 only;

(f) that Holders electing to have a Note purchased pursuant to any Asset Sale Offer shall be required to surrender the Note, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Note completed, or transfer by book-entry transfer, to the Company, a depositary, if appointed by the Company, or a Paying Agent at the address specified in the notice at least three days before the Purchase Date;

(g) that Holders shall be entitled to withdraw their election if the Company, the depositary or the Paying Agent, as the case may be, receives, not later than the expiration of the Offer Period, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of the Note the Holder delivered for purchase and a statement that such Holder is withdrawing his election to have such Note purchased;

(h) that, if the aggregate principal amount of Notes and other *pari passu* Indebtedness surrendered by Holders exceeds the Offer Amount, the Company shall select the Notes and other *pari passu* Indebtedness to be purchased on a *pro rata* basis based on the principal amount of Notes and other *pari passu* Indebtedness surrendered (with such adjustments as may be deemed appropriate by the Company so that only Notes in denominations of $1,000, or integral multiples thereof, shall be purchased); and

(i) that Holders whose Notes were purchased only in part shall be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered (or transferred by book-entry transfer).

On or before the Purchase Date, the Company shall, to the extent lawful, accept for payment, on a *pro rata* basis to the extent necessary, the Offer Amount of Notes or portions thereof tendered pursuant to the Asset Sale Offer, or if less than the Offer Amount has been tendered, all Notes tendered, and shall deliver to the Trustee an Officers' Certificate stating that such Notes or portions thereof were accepted for payment by the Company in accordance with the terms of this Section 3.09. The Company, the Depositary or the Paying Agent, as the case may be, shall promptly (but in any case not later than five days after the Purchase Date) mail or deliver to each tendering Holder an amount equal to the purchase price of the Notes tendered by such Holder and accepted by the Company for purchase, and the Company shall promptly issue a new Note, and the Trustee, upon written request from the Company shall authenticate and mail or deliver such new Note to such Holder, in a principal amount equal to any unpurchased portion of the Note surrendered. Any Note not so accepted shall be promptly mailed or delivered by the Company to the Holder thereof. The Company shall publicly announce the results of the Asset Sale Offer on the Purchase Date.

Other than as specifically provided in this Section 3.09, any purchase pursuant to this Section 3.09 shall be made pursuant to the provisions of Sections 3.01 through 3.06 hereof.

ARTICLE 4

COVENANTS

Section 4.01. *Payment of Notes.*

The Company shall pay or cause to be paid the principal of, premium, if any, and interest on the Notes on the dates and in the manner provided in the Notes. Principal, premium or Additional Interest, if any, and interest shall be considered paid on the date due if the Paying Agent, if other than the Company or a Subsidiary thereof, holds as of 10:00 a.m. Eastern Time on the due date money deposited by the Company in immediately available funds and designated for and sufficient to pay all principal, premium or Additional Interest, if any, and interest then due. The Company shall pay all Additional Interest, if any, in the same manner on the dates and in the amounts set forth in the Registration Rights Agreement.

The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal at the rate equal to 1% per annum in excess of the then applicable interest rate on the Notes to the extent lawful; it shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest and Additional Interest (without regard to any applicable grace period) at the same rate to the extent lawful.

Section 4.02. *Maintenance of Office or Agency.*

The Company shall maintain in the Borough of Manhattan, the City of New York, an office or agency (which may be an office of the Trustee or an affiliate of the Trustee, Registrar or co-registrar) where Notes may be surrendered for registration of transfer or for exchange and where notices and demands to or upon the Company in respect of the Notes and this Indenture may be served. The Company shall give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee.

The Company may also from time to time designate one or more other offices or agencies where the Notes may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; *provided, however*, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in the Borough of Manhattan, the City of New York for such purposes. The Company shall give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

The Company hereby designates the Corporate Trust Office of the Trustee as one such office or agency of the Company in accordance with Section 2.03.

Section 4.03. *Reports.*

(a) Whether or not required by the SEC, so long as any Notes are outstanding, the Company shall furnish to the Trustee for mailing to the Holders of Notes, within 15 days after the time periods specified in the SEC's rules and regulations, (i) all quarterly and annual financial information that is filed or that would be required to be contained in a filing with the SEC on Forms 10-Q and 10-K if or as if the Company were required to file such Forms, including a "Management's Discussion and Analysis of Financial Condition and Results of Operations" and, with respect to the annual information only, a report on the annual financial statements by the Company's certified independent accountants; and (ii) all current reports that would be required to be filed with the SEC on Form 8-K if the

Company were required to file such reports. In addition, following the consummation of the Exchange Offer contemplated by the Registration Rights Agreement, whether or not required by the SEC, the

Company shall file a copy of all of the information and reports referred to in clauses (i) and (ii) above with the Commission for public availability within the time periods specified in the SEC's rules and regulations (unless the SEC will not accept such a filing, in which event the Company shall make such information available to securities analysts and prospective investors upon request).

(b) If the Company has designated any of its Subsidiaries as Unrestricted Subsidiaries, then the quarterly and annual financial information required by the preceding paragraph will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in Management's Discussion and Analysis of Financial Condition and Results of Operations, of the financial condition and results of operations of the Company and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Company.

(c) In addition the Company, for so long as any Notes remain outstanding will furnish to the Holders and to securities analysts and prospective investors, upon their request, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Section 4.04. *Compliance Certificate.*

(a) The Company and each Guarantor (to the extent that such Guarantor is so required under the TIA) shall deliver to the Trustee, within 105 days after the end of each fiscal year, an Officers' Certificate stating that a review of the activities of the Company and its Subsidiaries during the preceding fiscal year has been made under the supervision of the signing Officers with a view to determining whether the Company has kept, observed, performed and fulfilled its obligations under this Indenture, and further stating, as to each such Officer signing such certificate, that to the best of his or her knowledge the Company has kept, observed, performed and fulfilled each and every covenant contained in this Indenture and is not in default in the performance or observance of any of the terms, provisions and conditions of this Indenture (or, if a Default or Event of Default shall have occurred, describing all such Defaults or Events of Default of which he or she may have knowledge and what action the Company is taking or proposes to take with respect thereto) and that to the best of his or her knowledge no event has occurred and remains in existence by reason of which payments on account of the principal of or interest, if any, on the Notes is prohibited or if such event has occurred, a description of the event and what action the Company is taking or proposes to take with respect thereto.

(b) So long as not contrary to the then current recommendations of the American Institute of Certified Public Accountants, the year-end financial statements delivered pursuant to Section 4.03(a) above shall be accompanied by a written statement of the Company's independent public accountants (who shall be a firm of established national reputation) that in making the examination necessary for certification of such financial statements, nothing has come to their attention that would lead them to believe that the Company has violated any provisions of Article 4 or Article 5 hereof or, if any such violation has occurred, specifying the nature and period of existence thereof, it being understood that such accountants shall not be liable directly or indirectly to any Person for any failure to obtain knowledge of any such violation.

(c) The Company shall, so long as any of the Notes are outstanding, deliver to the Trustee, forthwith upon any Officer becoming aware of any Default or Event of Default, an Officers' Certificate specifying such Default or Event of Default and what action the Company is taking or proposes to take with respect thereto.

Section 4.05. *Taxes.*

The Company shall pay, and shall cause each of its Subsidiaries to pay, prior to delinquency, all material taxes, assessments, and governmental levies except such as are contested in good faith and by

appropriate proceedings or where the failure to effect such payment is not adverse in any material respect to the Holders of the Notes.

Section 4.06. *Stay, Extension and Usury Laws.*

The Company and each of the Guarantors covenants (to the extent that it may lawfully do so) that it shall not at any time insist upon, plead, or in any manner whatsoever claim or take the benefit or advantage of, any stay, extension or usury law wherever enacted, now or at any time hereafter in force, that may affect the covenants or the performance of this Indenture; and the Company and each of the Guarantors (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law, and covenants that it shall not, by resort to any such law, hinder, delay or impede the execution of any power herein granted to the Trustee, but shall suffer and permit the execution of every such power as though no such law has been enacted.

Section 4.07. *Restricted Payments.*

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, (i) declare or pay any dividend or make any other distribution on account of the Company's or any of its Restricted Subsidiaries' Equity Interests (including, without limitation, any payment from funds or property of the Company or any of its Restricted Subsidiaries in connection with any merger or consolidation involving the Company or any of its Restricted Subsidiaries) or to the direct or indirect holders of the Company's or any of its Restricted Subsidiaries' Equity Interests in their capacity as such (other than dividends or distributions payable in Equity Interests (other than Disqualified Stock) of the Company or to the Company or a Restricted Subsidiary of the Company); (ii) purchase, redeem or otherwise acquire or retire for value (including, without limitation, any payment from funds or property of the Company or any of its Restricted Subsidiaries in connection with any merger or consolidation involving the Company) any Equity Interests of the Company or any direct or indirect parent of the Company; (iii) make any payment on or with respect to, or purchase, redeem, defease or otherwise acquire or retire for value, any Indebtedness that is subordinated to the Notes or the Subsidiary Guarantees, except a payment of interest or principal at the Stated Maturity thereof; or (iv) make any Restricted Investment (all such payments and other actions set forth in these clauses (i) through (iv) above being collectively referred to as "*Restricted Payments*"), unless, at the time of and after giving effect to such Restricted Payment:

(a) no Default or Event of Default has occurred and is continuing or would occur as a consequence of such Restricted Payment;

(b) the Company would, at the time of such Restricted Payment and after giving pro forma effect thereto as if such Restricted Payment had been made at the beginning of the applicable four-quarter period, have been permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of Section 4.09 hereof; and

(c) such Restricted Payment, together with the aggregate amount of all other Restricted Payments made by the Company and its Restricted Subsidiaries after the date of this Indenture (excluding Restricted Payments permitted by clauses (ii), (iii), (iv) and, solely to the extent not reducing Consolidated Net Income (or Net Income), (viii) of the next succeeding paragraph), is less than the sum, without duplication, of (i) 50% of the Consolidated Net Income of the Company for the period (taken as one accounting period) from the beginning of the fiscal quarter commencing on October 1, 2003 to the end of the Company's most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, if such Consolidated Net Income for such period is a deficit, less 100% of such deficit), plus (ii) 100% of the aggregate net cash proceeds received by the Company since the date of this Indenture as a contribution to its common equity capital or from the issue or sale of Equity

Interests of the Company (other than Disqualified Stock) or from the issue or sale of convertible or exchangeable Disqualified Stock or convertible or exchangeable debt securities of the Company that have been converted into or exchanged for such Equity Interests (other than Equity Interests (or Disqualified Stock or debt securities) sold to a Subsidiary of the Company), *plus* (iii) to the extent that any Restricted Investment that was made after the date of this Indenture is sold for cash or otherwise liquidated or repaid for cash, the lesser of (A) the cash return of capital with respect to such Restricted Investment (less the cost of disposition, if any) and (B) the initial amount of such Restricted Investment, *plus* (iv) to the extent that any Restricted Investment was made after the date of this Indenture in an entity that subsequently becomes a Restricted Subsidiary and such Restricted Investment remains outstanding, the aggregate amount of such Restricted Investments, *plus* (v) to the extent that any Unrestricted Subsidiary of the Company is redesignated as a Restricted Subsidiary in compliance with Section 4.18 hereof after the date of this Indenture, the lesser of (A) the fair market value of the Company's Investment in such Subsidiary as of the date of such redesignation or (B) such fair market value as of the date on which such Subsidiary was originally designated as an Unrestricted Subsidiary.

The preceding provisions will not prohibit (i) the payment of any dividend or the consummation of any irrevocable redemption within 60 days after the date of declaration of the dividend or giving of the redemption notice, as applicable, if at the date of declaration or giving of the redemption notice, as the case may be, the dividend or redemption payment would have complied with the provisions of this Indenture; (ii) the redemption, repurchase, retirement, defeasance or other acquisition of any subordinated Indebtedness of the Company or any Guarantor or of any Equity Interests of the Company in exchange for, or out of the net cash proceeds of the substantially concurrent sale (other than to a Restricted Subsidiary of the Company) of, Equity Interests of the Company (other than Disqualified Stock); *provided* that the amount of any such net cash proceeds that are utilized for any such redemption, repurchase, retirement, defeasance or other acquisition will be excluded from clause (c)(ii) of the preceding paragraph; (iii) the defeasance, redemption, repurchase or other acquisition of subordinated Indebtedness of the Company or any Guarantor with the net cash proceeds from an incurrence of Permitted Refinancing Indebtedness; (iv) the payment of any dividend by a Restricted Subsidiary of the Company to the holders of its Equity Interests on a *pro rata* basis; (v) redemptions, repurchases or repayments to the extent required by any Gaming Authority having jurisdiction over the Company or any Restricted Subsidiary or deemed necessary by the Board of Directors of the Company in order to avoid the suspension, revocation or denial of a gaming license by any Gaming Authority; (vi) the repurchase, redemption or other acquisition or retirement for value of any Equity Interests of the Company or any Restricted Subsidiary of the Company held by any member of the Company's (or any of its Restricted Subsidiaries') management pursuant to any management equity subscription agreement, stock option agreement or similar agreement; *provided* that the aggregate price paid for all such repurchased, redeemed, acquired or retired Equity Interests may not exceed $750,000 in any 12 month period; (vii) other Restricted Payments not to exceed (A) $5 million prior to Supplemental Illinois Gaming Approval or (B) $20 million upon and after receipt of Supplemental Illinois Gaming Approval, in the aggregate since the date of this Indenture; (viii) the declaration and payment of dividends to holders of the Company's Disqualified Stock or the preferred stock of a Guarantor, in each case issued in accordance with Section 4.09 hereof; or (ix) repurchases of Equity Interests deemed to occur upon exercise of stock options if such Equity Interests represent a portion of the exercise price of such options.

The amount of all Restricted Payments (other than cash) will be the fair market value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Company or such Subsidiary, as the case may be, pursuant to the Restricted Payment. The fair market value of any assets or securities that are required to be valued by this covenant will be determined by the Board of Directors, whose resolution with respect thereto will be delivered to the Trustee. The Board of Directors' determination must be based upon an opinion or appraisal issued by an accounting, appraisal or investment banking firm of national standing if the fair market value exceeds $5 million. Not later than 30 days after the date of making any Restricted Payment, the Company will deliver to the Trustee an Officers' Certificate stating that such Restricted Payment is permitted and setting forth the basis upon which the calculations required by this Section 4.07 were computed, together with a copy of any fairness opinion or appraisal required by this Indenture.

Section 4.08 *Dividend and Other Payment Restrictions Affecting Subsidiaries.*

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, create or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (i) pay dividends or make any other distributions on its Capital Stock to the Company or any of its Restricted Subsidiaries, or with respect to any other interest or participation in, or measured by, its profits, or pay any indebtedness owed to the Company or any of its Restricted Subsidiaries; (ii) make loans or advances to the Company or any of its Restricted Subsidiaries; or (iii) transfer any of its properties or assets to the Company or any of its Restricted Subsidiaries.

However, the preceding restrictions will not apply to encumbrances or restrictions existing under or by reason of (i) agreements governing Existing Indebtedness and Credit Facilities as in effect on the date of this Indenture and any amendments, modifications, restatements, renewals, increases, supplements, refundings, restructurings, replacements or refinancings of those agreements; *provided* that the amendments, modifications, restatements, renewals, increases, supplements, refundings, restructurings, replacements or refinancings are no more restrictive, taken as a whole, with respect to such dividend and other payment restrictions than those contained in those agreements on the date of this Indenture; (ii) this Indenture, the Notes and the Subsidiary Guarantees; (iii) applicable law or requirements of any Gaming Authority; (iv) any instrument governing Indebtedness (including Acquired Debt) or Capital Stock of a Person acquired by the Company or any of its Restricted Subsidiaries as in effect at the time of such acquisition (except to the extent such Indebtedness or Capital Stock was incurred in connection with or in contemplation of such acquisition), which encumbrance or restriction is not applicable to any Person, or the properties or assets of any

Person, other than the Person, or the property or assets of the Person, so acquired; *provided* that, in the case of Indebtedness, such Indebtedness was permitted by the terms of this Indenture to be incurred; (v) customary non-assignment provisions in any purchase money financing contracts or leases entered into in the ordinary course of business and consistent with past practices; (vi) purchase money obligations for property acquired in the ordinary course of business that impose restrictions on that property of the nature described in clause (iii) of the preceding paragraph; (vii) any agreement for the sale or other disposition of a Restricted Subsidiary that restricts distributions by that Restricted Subsidiary pending its sale or other disposition; (viii) Permitted Refinancing Indebtedness; *provided* that the restrictions contained in the agreements governing such Permitted Refinancing Indebtedness are no more restrictive, taken as a whole, than those contained in the agreements governing the Indebtedness being refinanced; (ix) Liens securing Indebtedness otherwise permitted to be incurred under the provisions of Section 4.12 hereof that limit the right of the debtor to dispose of the assets subject to such Liens; (x) provisions with respect to the disposition or distribution of assets or property in joint venture agreements, assets sale agreements, stock sale agreements and other similar agreements entered into in the ordinary course of business; (xi) restrictions on cash or other deposits or net worth imposed by customers under contracts entered into in the ordinary course of business; (xii) Senior Debt; *provided* that the restrictions contained in the agreements governing such Senior Debt are no more restrictive,

taken as a whole, than those contained in the Senior Credit Facilities as of the date of this Indenture; (xiii) Indebted-ness and related Guarantees by the Guarantors that ranks *pari passu* with the Notes and the guarantees of the Notes by the Guarantors; *provided* that the restrictions contained in the agreements governing such Indebtedness and related Guarantees are no more restrictive, taken as a whole, than those contained in this Indenture; (xiv) Indebtedness incurred, or preferred stock issued, by Foreign Subsidiaries; *provided* that the restrictions contained in the agreements or instruments governing such Indebtedness or preferred stock: (A) apply only in the event of a payment default or a default with respect to a financial covenant contained in the terms of such Indebtedness or preferred stock or will not materially affect the Company's ability to make principal or interest payments on the Notes as determined by the Board of Directors of the Company, whose determination shall be conclusive; and (B) are not materially more disadvantageous to holders of the Notes than is customary in comparable financings as determined in good faith by the Board of Directors, whose determination shall be conclusive; and (xv) Indebtedness incurred by a Permitted Joint Venture pursuant to clause (ix) of the definition of "Permitted Debt."

Section 4.09. *Incurrence of Indebtedness and Issuance of Preferred Stock.*

The Company will not, and will not permit any of its Subsidiaries to, directly or indirectly, create, incur, issue, assume, guarantee or otherwise become directly or indirectly liable, contingently or otherwise, with respect to (collectively, "*incur*") any Indebtedness (including Acquired Debt), and the Company will not issue any Disqualified Stock and will not permit any of its Subsidiaries to issue any shares of preferred stock; *provided*, *however*, that the Company may incur Indebtedness (including Acquired Debt) or issue Disqualified Stock, and the Guarantors may incur Indebtedness or issue preferred stock, if the Fixed Charge Coverage Ratio for the Company's most recently ended four full fiscal quarters for which internal financial statements are available immediately preceding the date on which such additional Indebtedness is incurred or such Disqualified Stock or preferred stock is issued would have been at least 2.0 to 1.0 determined on a pro forma basis (including a pro forma application of the net proceeds therefrom), as if the additional Indebtedness had been incurred or the preferred stock or Disqualified Stock had been issued, as the case may be, at the beginning of such four-quarter period. The first paragraph of this covenant will not prohibit the incurrence of any of the following items of Indebtedness (collectively, "*Permitted Debt*"):

(i) the incurrence by the Company and/or any of the Guarantors of Indebtedness and letters of credit pursuant to the Credit Facilities; *provided* that the aggregate principal amount of all Indebtedness then classified as having been incurred in reliance upon this clause (i) that remains outstanding under the Credit Facilities after giving effect to such incurrence does not exceed $500 million, less the aggregate amount of all Net Proceeds of Asset Sales that have been applied by the Company or any of its Restricted Subsidiaries since the date of this Indenture to repay any Indebtedness under a Credit Facility (and to reduce commitments with respect thereto in the case of any such Indebtedness that is revolving credit Indebtedness) pursuant to Section 4.10 hereof; *provided*, *however*, that the maximum amount permitted to be outstanding under this clause (i) shall not be deemed to limit additional Indebtedness under the Credit Facilities to the extent the incurrence of such additional Indebtedness is permitted pursuant to any of the other provisions under this Section 4.09;

(ii) the incurrence by the Company and its Restricted Subsidiaries of the Existing Indebtedness;

(iii) the incurrence by the Company and the Guarantors of Indebtedness represented by the Notes to be issued on the date of this Indenture in the principal amount of $200,000,000 (and the Exchange Notes issued in exchange therefor) and the related Subsidiary Guarantees;

(iv) the incurrence by the Company or any of the Guarantors of Indebtedness represented by Purchase Money Indebtedness and Capital Lease Obligations incurred in connection with the purchase or capital lease of video gaming machines, slot machines or other gaming equipment in

an aggregate principal amount or accreted value, as applicable, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any Indebtedness incurred pursuant to this clause (iv), not to exceed $20 million at any time outstanding;

(v) the incurrence by the Company or any of its Restricted Subsidiaries of Permitted Refinancing Indebtedness in exchange for, or the net proceeds of which are used to refund, refinance or replace, Indebtedness that was permitted by this Indenture to be incurred under the first paragraph of this Section 4.09 or clauses (ii), (iii), (iv), (v) or (xiv) of this paragraph;

(vi) the incurrence by the Company or any of its Restricted Subsidiaries of intercompany Indebtedness between or among the Company and any of its Restricted Subsidiaries; *provided*, *however*, that (A) if the Company or any Guarantor is the obligor on such Indebtedness, such Indebtedness must be expressly subordinated to the prior payment in full in cash of all Obligations with respect to the Notes, in the case of the Company, or the Subsidiary Guarantee, in the case of a Guarantor; and (B) (1) any subsequent issuance or transfer of Equity Interests that results in any such Indebtedness being held by a Person other than the Company or a Restricted Subsidiary of the Company and (2) any sale or other transfer of any such Indebtedness to a Person that is neither the Company nor a Restricted Subsidiary of the Company will be deemed, in each case, to constitute an incurrence of such Indebtedness by the Company or such Subsidiary, as the case may be, that was not permitted by this clause (vi);

(vii) the incurrence by the Company or any of its Restricted Subsidiaries of Hedging Obligations that are incurred for the purpose of fixing or hedging interest rate risk or currency exchange risk with respect to any floating rate Indebtedness or non-U.S. dollar-denominated Indebtedness that is permitted by the terms of this Indenture to be outstanding;

(viii) the guarantee by the Company or any of the Guarantors of Indebtedness of the Company or a Restricted Subsidiary of the Company that was permitted to be incurred by another provision of this Section 4.09;

(ix) the incurrence by Permitted Joint Ventures or Unrestricted Subsidiaries of Non-Recourse Debt; *provided*, *however*, that if any such Indebtedness ceases to be Non-Recourse Debt of a Permitted Joint Venture or an Unrestricted Subsidiary, such event shall be deemed to constitute an incurrence of Indebtedness by a Restricted Subsidiary of the Company that was not permitted by this clause;

(x) Indebtedness incurred by the Company or any of its Restricted Subsidiaries constituting reimbursement obligations with respect to letters of credit issued in the ordinary course of business, including without limitation letters of credit with respect to workers' compensation claims or self-insurance, or other Indebtedness with respect to reimbursement-type obligations regarding workers' compensation claims; *provided*, *however*, that upon the drawing of such letters of credit or the incurrence of such Indebtedness, such obligations are reimbursed within 30 days following such drawing or incurrence;

(xi) obligations in respect of performance and surety bonds and completion guarantees provided by the Company or any Restricted Subsidiary in the ordinary course of business;

(xii) the incurrence by the Company or any of its Restricted Subsidiaries of Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument inadvertently (except in the case of daylight overdrafts) drawn against insufficient funds in the ordinary course of business; *provided*, *however*, that such Indebtedness is extinguished within two Business Days of incurrence;

(xiii) incurrence of Indebtedness by the Company or any of its Restricted Subsidiaries (in addition to Existing Indebtedness) consisting of Guarantees of Indebtedness of Pennwood in an aggregate principal amount at any time outstanding not to exceed $20 million; and

(xiv) the incurrence by the Company or any of its Restricted Subsidiaries of additional Indebtedness in an aggregate principal amount (or accreted value, as applicable) at any time outstanding, including all Permitted Refinancing Indebtedness incurred to refund, refinance or replace any other Indebtedness incurred pursuant to this clause (xiv), not to exceed $50 million.

For purposes of determining compliance with this Section 4.09, in the event that an item of proposed Indebtedness meets the criteria of more than one of the categories of Permitted Debt described in clauses (i) through (xiv) above or is entitled to be incurred pursuant to the first paragraph of this Section 4.09, the Company will be permitted to classify such item of Indebtedness on the date of its incurrence in any manner that complies with this Section 4.09. In addition, the Company may, at any time, change the classification of an item of Indebtedness (or any portion thereof) to any other clause or to the first paragraph of this Section 4.09, *provided* that the Company would be permitted to incur such item of Indebtedness (or portion thereof) pursuant to such other clause or the first paragraph of this Section 4.09, as the case may be, at such time of reclassification. Indebtedness under the Senior Credit Facilities outstanding on the date on which Notes are first issued and authenticated under this Indenture will be deemed to have been incurred on such date in reliance on the exception provided by clause (i) of the definition of "Permitted Debt."

Section 4.10. *Asset Sales.*

(a) The Company will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Sale, unless (i) the Company (or the Restricted Subsidiary, as the case may be) receives consideration at the time of the Asset Sale at least equal to the fair market value of the assets or Equity Interests issued or sold or otherwise disposed of; (ii) the fair market value is determined by the Company's Board of Directors and evidenced by a resolution of the Board of Directors set forth in an Officers' Certificate delivered to the Trustee; and (iii) at least 75% of the consideration received in the Asset Sale by the Company or such Restricted Subsidiary is in the form of cash or Cash Equivalents. For purposes of this provision, each of the following will be deemed to be cash: (A) any liabilities, as shown on the Company's or such Restricted Subsidiary's most recent balance sheet, of the Company or such Restricted Subsidiary (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes or any Subsidiary Guarantee) that are assumed by the transferee of any such assets pursuant to a customary novation agreement that releases the Company or such Restricted Subsidiary from further liability; and (B) any securities, notes or other obligations received by the Company or such Restricted Subsidiary from such transferee that are substantially concurrently, subject to ordinary settlement periods, converted by the Company or such Restricted Subsidiary into cash or Cash Equivalents, to the extent of the cash or Cash Equivalents received in that conversion.

(b) Within 360 days after the receipt of any Net Proceeds from an Asset Sale, the Company may apply an amount equal to those Net Proceeds at its option: (i) to repay Senior Debt and, if the Senior Debt repaid is revolving credit Indebtedness, to correspondingly reduce commitments with respect thereto; (ii) to acquire all or substantially all of the assets of, or a majority of the Voting Stock of, another Person primarily engaged in a Permitted Business; (iii) to make capital expenditures; or (iv) to acquire other long-term assets that are used or useful in a Permitted Business. Pending the final application of any Net Proceeds, the Company may temporarily reduce revolving credit borrowings or otherwise invest the Net Proceeds in any manner that is not prohibited by this Indenture.

(c) Any Net Proceeds from Asset Sales that are not applied or invested as provided in the preceding paragraph will constitute "*Excess Proceeds*." When the aggregate amount of Excess Proceeds exceeds $5 million, the Company will make an Asset Sale Offer to all Holders of Notes and all holders of other Indebtedness that is *pari passu* with the Notes containing provisions similar to those set forth in this Indenture with respect to offers to purchase or redeem with the proceeds of sales of assets to purchase the maximum principal amount of Notes and such other *pari passu* Indebtedness that may be purchased out of the Excess Proceeds. The offer price in any Asset Sale Offer will be equal to 100% of principal amount plus accrued and unpaid interest and Additional Interest, if any, to the date of purchase, and will be payable in cash. If any Excess Proceeds remain after consummation of an Asset

Sale Offer, the Company may use those Excess Proceeds for any purpose not otherwise prohibited by this Indenture. If the aggregate principal amount of Notes and other *pari passu* Indebtedness tendered into such Asset Sale Offer exceeds the amount of Excess Proceeds, the Trustee shall select the Notes and such other *pari passu* Indebtedness to be purchased on a pro rata basis. Upon completion of each Asset Sale Offer, the amount of Excess Proceeds will be reset at zero.

(d) Notwithstanding the foregoing, the Company or a Restricted Subsidiary will be permitted to consummate an Asset Sale without complying with the foregoing provisions if: (i) the Company or its Restricted Subsidiary receives consideration at the time of such Asset Sale at least equal to the fair market value of the assets or other property sold, issued or otherwise disposed of (as evidenced by a resolution of the Board of the Company) as set forth in an Officers' Certificate delivered to the Trustee, (ii) the transaction constitutes a "like-kind exchange" of the type contemplated by Section 1031 of the Internal Revenue Code, and (iii) the consideration for such Asset Sale constitutes assets that the Board of Directors in its good faith judgment at the time of the sale determines will be used or useful in a Permitted Business; *provided* that any non-cash consideration not constituting assets that the Board of Directors in its good faith judgment at the time of the sale determines will be used or useful in a Permitted Business received by the Company or a Restricted Subsidiary in connection with such Asset Sale that is converted into or sold or otherwise disposed of for cash or Cash Equivalents at any time within 360 days after such Asset Sale and any cash or Cash Equivalents received by the Company or a Restricted Subsidiary in connection with such Asset Sale shall constitute Net Proceeds subject to the provisions set forth above.

Section 4.11. *Transactions with Affiliates.*

(a) The Company will not, and will not permit any of its Restricted Subsidiaries to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, advance or guarantee with, or for the benefit of, any Affiliate (each, an "*Affiliate Transaction*"), unless: (i) the Affiliate Transaction is on terms that are no less favorable to the Company or the relevant Restricted Subsidiary than those that would have been obtained in a comparable transaction by the Company or such Restricted Subsidiary with an unrelated Person; and (ii) the Company delivers to the Trustee: (A) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of (i) $2 million prior to receipt of Supplemental Illinois Gaming Approval or (ii) $5 million upon and after receipt of Supplemental Illinois Gaming Approval, a resolution of the Board of Directors set forth in an Officers' Certificate certifying that such Affiliate Transaction complies with this covenant and that such Affiliate Transaction has been approved by a majority of the disinterested members of the Board of Directors; and (B) with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate consideration in excess of (i) $5 million prior to Supplemental Illinois Gaming Approval or (ii) $25 million upon and after receipt of Supplemental Illinois Gaming Approval, an opinion as to the fairness to the Holders of such Affiliate Transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing.

(b) The following items will not be deemed to be Affiliate Transactions and, therefore, will not be subject to the provisions of Section 4.11(a): (i) any employment agreements or arrangements and benefit plans or arrangements, and any transactions contemplated by any of the foregoing relating to the compensation and employee benefits matters, in each case in respect of employees, officers or directors entered into by the Company or any of its Restricted Subsidiaries in the ordinary course of business and consistent with the past practice of the Company or such Restricted Subsidiary; (ii) transactions between or among the Company and/or its Restricted Subsidiaries; (iii) transactions with a Person that is an Affiliate of the Company solely because the Company owns an Equity Interest in such Person; (iv) payment of reasonable directors' fees and indemnity provided on behalf of officers, directors or employees of the Company or any of its Restricted Subsidiaries; (v) sales of Equity

Interests (other than Disqualified Stock) to Affiliates of the Company; and (vi) Restricted Payments that are permitted by Section 4.07 hereof.

Section 4.12. *Liens.*

The Company will not, and will not permit any of its Restricted Subsidiaries to, create, incur, assume or otherwise cause or suffer to exist or become effective any Lien of any kind securing Indebtedness or trade payables (other than Permitted Liens) upon any of its property or assets, now owned or hereafter acquired, unless all payments due under this Indenture and the Notes are secured on an equal and ratable basis with the obligations so secured until such time as such obligations are no longer secured by a Lien.

Section 4.13. *Corporate Existence.*

Subject to Article 5 hereof, the Company shall do or cause to be done all things necessary to preserve and keep in full force and effect (i) its corporate existence, and the corporate, partnership or other existence of each of its Subsidiaries, in accordance with the respective organizational documents (as the same may be amended from time to time) of the Company or any such Subsidiary and (ii) the rights (charter and statutory), licenses and franchises of the Company and its Subsidiaries; *provided*, *however*, that the Company shall not be required to preserve any such right, license or franchise, or the corporate, partnership or other existence of any of its Subsidiaries, if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and its Subsidiaries, taken as a whole, and that the loss thereof is not adverse in any material respect to the Holders of the Notes.

Section 4.14. *Offer to Repurchase upon Change of Control.*

(a) Upon the occurrence of a Change of Control, the Company shall make an offer (a "*Change of Control Offer*") to each Holder to repurchase all or any part (equal to $1,000 or an integral multiple thereof) of each Holder's Notes at a purchase price equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and Additional Interest thereon, if any, to the date of purchase, the "*Change of Control Payment*"). Subject to the last paragraph in subsection (b) herein, within 30 days following any Change of Control, the Company shall mail a notice to each Holder describing the transaction or transactions that constitute the Change of Control pursuant to this section 4.14 and stating: (1) that the Change of Control Offer is being made pursuant to this section 4.14 and that all Notes tendered will be accepted for payment; (2) the purchase price and the purchase date, which shall be no earlier than 30 Business Days and no later than 60 Business Days from the date such notice is mailed (the "*Change of Control Payment Date*"); (3) that any Note not tendered will continue to accrue interest; (4) that, unless the Company defaults in the payment of the Change of Control Payment, all Notes accepted for payment pursuant to the Change of Control Offer shall cease to accrue interest after the Change of Control Payment Date; (5) that Holders electing to have any Notes purchased pursuant to a Change of Control Offer will be required to surrender the Notes, with the form entitled "Option of Holder to Elect Purchase" on the reverse of the Notes completed, to the Paying Agent at the address specified in the notice prior to the close of business on the third Business Day preceding the Change of Control Payment Date; (6) that Holders will be entitled to withdraw their election if the Paying Agent receives, not later than the close of business on the second Business Day preceding the Change of Control Payment Date, a telegram, telex, facsimile transmission or letter setting forth the name of the Holder, the principal amount of Notes

delivered for purchase, and a statement that such Holder is withdrawing his election to have the Notes purchased; and (7) that Holders whose Notes are being purchased only in part will be issued new Notes equal in principal amount to the unpurchased portion of the Notes surrendered, which unpurchased portion must be equal to $1,000 in principal amount or an integral multiple thereof. The Company shall comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws and regulations are applicable in connection with the repurchase of Notes in connection with a Change of Control. To the extent that the provisions of any

securities laws or regulations conflict with the provisions of this Section 4.14, the Company shall comply with the applicable securities laws and regulations and will not be deemed to have breached its obligations of this Section 4.14 by virtue of such conflict.

(b) On the Change of Control Payment Date, the Company shall, to the extent lawful (i) accept for payment all Notes or portions of Notes properly tendered pursuant to the Change of Control Offer; (ii) deposit with the paying agent an amount equal to the Change of Control Payment in respect of all Notes or portions of Notes properly tendered; and (iii) deliver or cause to be delivered to the Trustee the Notes properly accepted together with an Officers' Certificate stating the aggregate principal amount of Notes or portions of Notes being purchased by the Company. The paying agent shall promptly mail to each Holder of Notes properly tendered the Change of Control Payment for such Notes, and the Trustee shall promptly authenticate and mail (or cause to be transferred by book entry) to each Holder a new note equal in principal amount to any unpurchased portion of the Notes surrendered, if any; *provided* that each new note shall be in a principal amount of $1,000 or an integral multiple of $1,000. Prior to complying with any of the provisions of this Section 4.14, but in any event within 90 days following a Change of Control, the Company shall either repay all outstanding Senior Debt in cash or Cash Equivalents or obtain the requisite consents, if any, under all agreements governing outstanding Senior Debt to permit the repurchase of Notes required by this covenant. The Company shall publicly announce the results of the Change of Control Offer on or as soon as practicable after the Change of Control Payment Date.

(c) Notwithstanding anything to the contrary in this Section 4.14, the Company shall not be required to make a Change of Control Offer upon a Change of Control if a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in this Section 4.14 and Section 3.09 hereof and all other provisions of this Indenture applicable to a Change of Control Offer made by the Company and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer.

Section 4.15. *No Senior Subordinated Debt.*

The Company will not incur, create, issue, assume, guarantee or otherwise become liable for any Indebtedness that is subordinate or junior in right of payment to any Senior Debt of the Company and senior in any respect in right of payment to the Notes. No Guarantor will incur, create, issue, assume, guarantee or otherwise become liable for any Indebtedness that is subordinate or junior in right of payment to the Senior Debt of such Guarantor and senior in any respect in right of payment to such Guarantor's Subsidiary Guarantee.

Section 4.16. *Payments for Consent.*

The Company will not, and will not permit any of its Restricted Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of this Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement.

Section 4.17. *Additional Subsidiary Guarantees.*

(a) (i) If the Company or any of its Restricted Subsidiaries that is a Guarantor acquires or creates another Wholly Owned Domestic Subsidiary after the date of this Indenture that has assets with a book value in excess of $1 million, or (ii) if any Restricted Subsidiary that is not a Guarantor becomes a guarantor (a "*Significant Debt Guarantor*") with respect to any Credit Facility, the Company's $11^{1}/_{8}$% senior subordinated notes due 2008 or the Company's $8^{7}/_{8}$% senior subordinated notes due 2010, then, subject to applicable Gaming Laws in the case of additional Subsidiary guarantees arising as a result of clause (i) of this covenant, that newly acquired or created Wholly-Owned Domestic Subsidiary or Significant Debt Guarantor will become a Guarantor and execute a supplemental indenture and deliver

an Opinion of Counsel pursuant to Sections 9.06 and 13.04 hereof within 30 Business Days of the date on which it was acquired or created or became a Significant Debt Guarantor (except if that Wholly- Owned Domestic Subsidiary has been properly designated as an Unrestricted Subsidiary in accordance with this Indenture for so long as it continues to constitute an Unrestricted Subsidiary).

(b) The obligation of any Wholly-Owned Domestic Subsidiary to execute a Subsidiary Guarantee will be subject to the receipt of required prior approvals from any applicable Gaming Authority, which the Company and its Restricted Subsidiaries have agreed to use all commercially reasonable efforts to obtain.

Section 4.18. *Designation of Restricted and Unrestricted Subsidiaries.*

Each of the Shreveport Entities shall be an Unrestricted Subsidiary. Further, the Board of Directors may designate any Restricted Subsidiary (other than an owner of a Principal Property) to be an Unrestricted Subsidiary if that designation would not cause a Default. If a Restricted Subsidiary is designated as an Unrestricted Subsidiary, the aggregate fair market value of all outstanding Investments owned by the Company and its Restricted Subsidiaries in the Subsidiary properly designated shall be deemed to be an Investment made as of the time of the designation and shall constitute Restricted Investments under the first paragraph of Section 4.07 hereof or, if eligible, Permitted Investments, as determined by the Company. That designation shall only be permitted if the Investment would be permitted at that time and if the Restricted Subsidiary otherwise meets the definition of an Unrestricted Subsidiary. The Board of Directors may redesignate any Unrestricted Subsidiary to be a Restricted Subsidiary if the redesignation would not cause a Default.

Section 4.19. *Business Activities.*

The Company will not, and will not permit any Restricted Subsidiary to, engage in any business other than Permitted Businesses, except to such extent as would not be material to the Company and its Restricted Subsidiaries taken as a whole.

Section 4.20. *Payment of Additional Interest.*

If Additional Interest is payable due to the occurrence of a Registration Default as described in the Registration Rights Agreement, the Company shall deliver to the Trustee a certificate to that effect stating (1) the amount of such additional interest that is payable and (2) the date on which such interest is payable. Unless and until a Responsible Officer of the Trustee receives at the Corporate Trust Office of the Trustee such a certificate, the Trustee may assume without inquiry that no such interest is payable. If the Company has paid additional interest directly to the person entitled to it, the Company shall deliver to the Trustee a certificate setting forth the particulars of such payment.

ARTICLE 5

SUCCESSORS

Section 5.01. *Merger, Consolidation or Sale of Assets.*

The Company shall not, directly or indirectly: (1) consolidate or merge with or into another Person (whether or not the Company is the surviving corporation); or (2) sell, assign, transfer, convey or otherwise dispose of all or substantially all of the properties or assets of the Company and its Restricted Subsidiaries taken as a whole, in one or more related transactions, to another Person unless: (i) either: (A) the Company is the surviving corporation; or (B) the Person formed by or surviving any such consolidation or merger (if other than the Company) or to which such sale, assignment, transfer, conveyance or other disposition has been made is a corporation organized or existing under the laws of the United States, any state of the United States or the District of Columbia; (ii) the Person formed by or surviving any such consolidation or merger (if other than the Company) or the Person to which such sale, assignment, transfer, conveyance or other disposition has been made assumes all the obligations of the Company under the Notes, this Indenture and the Registration Rights Agreement pursuant to

agreements reasonably satisfactory to the Trustee; (iii) immediately after such transaction no Default or Event of Default exists; (iv) the Company or the Person formed by or surviving any such consolidation or merger (if other than the Company), or to which such sale, assignment, transfer, conveyance or other disposition has been made shall, on the date of such transaction after giving pro forma effect thereto and to any related financing transactions as if the same had occurred at the beginning of the applicable four-quarter period, be permitted to incur at least $1.00 of additional Indebtedness pursuant to the Fixed Charge Coverage Ratio test set forth in the first paragraph of Section 4.09 hereof; and (v) the Company or the successor entity shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, sale, assignment, transfer, lease, conveyance or other disposition and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with the applicable provisions of this Indenture and that all conditions precedent in this Indenture relating to such transaction have been satisfied. In addition, the Company may not, directly or indirectly, lease all or substantially all of its properties or assets, in one or more related transactions, to any other Person. This Section 5.01 will not apply to a sale, assignment, transfer, conveyance or other disposition of assets between or among the Company and any of its Wholly-Owned Restricted Subsidiaries.

Section 5.02. *Successor Corporation Substituted.*

Upon any consolidation or merger, or any sale, assignment, transfer, lease, conveyance or other disposition of all or substantially all of the Company's or its Restricted Subsidiaries' assets, taken as a whole, in compliance with Section 5.01 hereof, the successor corporation formed by such consolidation or into or with which the Company is merged or to which such sale, assignment, transfer, lease, conveyance or other disposition is made shall succeed to, and be substituted for (so that from and after the date of such consolidation, merger, sale, lease, conveyance or other disposition, the provisions of this Indenture referring to the "Company" shall refer instead to the successor corporation and not to the Company), and may exercise every right and power of the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein; *provided*, *however*, that the predecessor Company shall not be relieved from the obligation to pay the principal of and interest on the Notes except in the case of a sale, assignment, transfer, conveyance or other disposition of all of the Company's or its Restricted Subsidiaries' assets, taken as a whole, that meets the requirements of Section 5.01 hereof.

ARTICLE 6

DEFAULTS AND REMEDIES

Section 6.01. *Events of Default.*

An "Event of Default" occurs if:

(a) the Company defaults in the payment when due of interest on, or Additional Interest with respect to, the Notes and such default continues for a period of 30 days whether or not prohibited by the subordination provisions of Article 10;

(b) the Company defaults in the payment when due of principal of or premium, if any, on the Notes when the same becomes due and payable at maturity, upon redemption (including in connection with an offer to purchase) or otherwise, whether or not prohibited by the subordination provisions of Article 10;

(c) the Company or any of its Restricted Subsidiaries fails to comply with any of the provisions of Sections 4.07, 4.09, 4.10, 4.14 or 5.01 hereof;

(d) the Company or any of its Restricted Subsidiaries fails to observe or perform any other covenant, representation, warranty or other agreement in this Indenture or the Notes

for 60 days after notice to the Company by the Trustee or the Holders of at least 25% in aggregate principal amount of the Notes then outstanding voting as a single class;

(e) a default occurs under any mortgage, indenture or instrument under which there may be issued or by which there may be secured or evidenced any Indebtedness for money borrowed by the Company or any of its Restricted Subsidiaries (or the payment of which is guaranteed by the Company or any of its Restricted Subsidiaries) whether such Indebtedness or guarantee now exists, or is created after the date of this Indenture, if that default: (i) is caused by a failure to pay principal on such Indebtedness at final maturity (a "*Payment Default*"); or (ii) results in the acceleration of such Indebtedness prior to its express maturity, and, in each case, the principal amount of any such Indebtedness, together with the principal amount of any other such Indebtedness under which there has been a Payment Default or the maturity of which has been so accelerated, aggregates $15 million or more;

(f) a final judgment or final judgments for the payment of money are entered by a court or courts of competent jurisdiction against the Company or any of its Restricted Subsidiaries and such judgment or judgments remain undischarged for a period (during which execution shall not be effectively stayed) of 60 days; *provided* that the aggregate of all such undischarged judgments exceeds $15 million;

(g) except as permitted by this Indenture, any Subsidiary Guarantee of any Restricted Subsidiary shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Guarantor shall deny or disaffirm its obligations under its Subsidiary Guarantee;

(h) the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary pursuant to or within the meaning of Bankruptcy Law (i) commences a voluntary case, (ii) consents to the entry of an order for relief against it in an involuntary case, (iii) consents to the appointment of a custodian of it or for all or substantially all of its property, (iv) makes a general assignment for the benefit of its creditors, or (v) generally is not paying its debts as they become due; or

(i) a court of competent jurisdiction enters an order or decree under any Bankruptcy Law that (i) is for relief against the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary in an involuntary case; (ii) appoints a custodian of the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary or for all or substantially all of the property of the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary; or (iii) orders the liquidation of the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary; and the order or decree remains unstayed and in effect for 60 consecutive days.

Section 6.02. *Acceleration.*

If any Event of Default (other than an Event of Default specified in clause (h) or (i) of Section 6.01 hereof with respect to the Company, any Restricted Subsidiary that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary) occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable immediately. Upon any such declaration, the Notes shall become due and payable immediately. Notwithstanding the foregoing, if an Event of Default specified in clause (h) or (i) of Section 6.01 hereof occurs with respect to the

Company, any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary, all outstanding Notes shall be due and payable immediately without further action or notice. The Holders of a majority in aggregate principal amount of the then outstanding Notes by written notice to the Trustee may on behalf of all of the Holders rescind an acceleration and its consequences if the rescission would not conflict with any judgment or decree and if the Trustee shall have received an Officers' Certificate that all existing Events of Default (except nonpayment of principal, interest or premium that has become due solely because of the acceleration) have been cured or waived.

If an Event of Default occurs on or after December 1, 2007 by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Company with the intention of avoiding payment of the premium that the Company would have had to pay if the Company then had elected to redeem the Notes pursuant to Section 3.07 hereof, then, upon acceleration of the Notes, an equivalent premium shall also become and be immediately due and payable, to the extent permitted by law, anything in this Indenture or in the Notes to the contrary notwithstanding. If an Event of Default occurs prior to December 1, 2007 by reason of any willful action (or inaction) taken (or not taken) by or on behalf of the Company with the intention of avoiding the prohibition on redemption of the Notes prior to such date, then, upon acceleration of the Notes, an additional premium shall also become and be immediately due and payable in an amount, for each of the years beginning on December 1 of the years set forth below, as set forth below (expressed as a percentage of the principal amount of the Notes on the date of payment that would otherwise be due but for the provisions of this sentence):

Year	Percentage
2003	106.875%
2004	106.016%
2005	105.156%
2006	104.297%

Section 6.03. *Other Remedies.*

If an Event of Default occurs and is continuing, the Trustee may pursue any available remedy to collect the payment of principal, premium and Additional Interest, if any, and interest on the Notes or to enforce the performance of any provision of the Notes or this Indenture.

The Trustee may maintain a proceeding even if it does not possess any of the Notes or does not produce any of them in the proceeding. A delay or omission by the Trustee or any Holder of a Note in exercising any right or remedy accruing upon an Event of Default shall not impair the right or remedy or constitute a waiver of or acquiescence in the Event of Default. All remedies are cumulative to the extent permitted by law.

Section 6.04. *Waiver of Past Defaults.*

Holders of not less than a majority in aggregate principal amount of the then outstanding Notes by notice to the Trustee may on behalf of the Holders of all of the Notes waive an existing Default or Event of Default and its consequences hereunder, except a continuing Default or Event of Default in the payment of the principal of, premium and Additional Interest, if any, or interest on, the Notes (including in connection with an offer to purchase) (*provided*, *however*, that the Holders of a majority in aggregate principal amount of the then outstanding Notes may rescind an acceleration and its consequences, including any related payment default that resulted from such acceleration). Upon any such waiver, such Default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other Default or impair any right consequent thereon.

Section 6.05. *Control by Majority.*

Holders of a majority in principal amount of the then outstanding Notes may direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee or exercising any trust or power conferred on it. However, the Trustee may refuse to follow any direction that conflicts with law or this Indenture that the Trustee determines may be unduly prejudicial to the rights of other Holders of Notes or that may involve the Trustee in personal liability.

Section 6.06. *Limitation on Suits.*

A Holder of a Note may pursue a remedy with respect to this Indenture or the Notes only if:

(a) the Holder of a Note gives to the Trustee written notice of a continuing Event of Default;

(b) the Holders of at least 25% in principal amount of the then outstanding Notes make a written request to the Trustee to pursue the remedy;

(c) such Holder of a Note or Holders of Notes offer and, if requested, provide to the Trustee indemnity satisfactory to the Trustee against any loss, liability or expense;

(d) the Trustee does not comply with the request within 60 days after receipt of the request and the offer and, if requested, the provision of indemnity; and

(e) during such 60-day period the Holders of a majority in principal amount of the then outstanding Notes do not give the Trustee a direction inconsistent with the request.

A Holder of a Note may not use this Indenture to prejudice the rights of another Holder of a Note or to obtain a preference or priority over another Holder of a Note.

Section 6.07. *Rights of Holders of Notes to Receive Payment.*

Notwithstanding any other provision of this Indenture, the right of any Holder of a Note to receive payment of principal, premium and Additional Interest, if any, and interest on the Note, on or after the respective due dates expressed in the Note (including in connection with an offer to purchase), or to bring suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Holder.

Section 6.08. *Collection Suit by Trustee.*

If an Event of Default specified in Section 6.01(a) or (b) occurs and is continuing, the Trustee is authorized to recover judgment in its own name and as Trustee of an express trust against the Company for the whole amount of principal of, premium and Additional Interest, if any, and interest remaining unpaid on the Notes and interest on overdue principal and, to the extent lawful, interest and such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

Section 6.09. *Trustee May File Proofs of Claim.*

The Trustee is authorized to file such proofs of claim and other papers or documents as may be necessary or advisable in order to have the claims of the Trustee (including any claim for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel) and the Holders of the Notes allowed in any judicial proceedings relative to the Company (or any other obligor upon the Notes), its creditors or its property and shall be entitled and empowered to collect, receive and distribute any money or other property payable or deliverable on any such claims and any custodian in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee, and in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due to it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the

Trustee under Section 7.07 hereof. To the extent that the payment of any such compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 7.07 hereof out of the estate in any such proceeding, shall be denied for any reason, payment of the same shall be secured by a Lien on, and shall be paid out of, any and all distributions, dividends, money, securities and other properties that the Holders may be entitled to receive in such proceeding whether in liquidation or under any plan of reorganization or arrangement or otherwise. Nothing herein contained shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Notes or the rights of any Holder, or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding.

Section 6.10. *Priorities.*

If the Trustee collects any money pursuant to this Article, it shall pay out the money in the following order:

First: to the Trustee, its agents and attorneys for amounts due under Section 7.07 hereof, including payment of all compensation, expense and liabilities incurred, and all advances made, by the Trustee and the costs and expenses of collection;

Second: to Holders of Notes for amounts due and unpaid on the Notes for principal, premium and Additional Interest, if any, and interest, ratably, without preference or priority of any kind, according to the amounts due and payable on the Notes for principal, premium and Additional Interest, if any and interest, respectively; and

Third: to the Company or to such party as a court of competent jurisdiction shall direct.

The Trustee may fix a record date and payment date for any payment to Holders of Notes pursuant to this Section 6.10.

Section 6.11. *Undertaking for Costs.*

In any suit for the enforcement of any right or remedy under this Indenture or in any suit against the Trustee for any action taken or omitted by it as a Trustee, a court in its discretion may require the filing by any party litigant in the suit of an undertaking to pay the costs of the suit, and the court in its discretion may assess reasonable costs, including reasonable attorneys' fees, against any party litigant in the suit, having due regard to the merits and good faith of the claims or defenses made by the party litigant. This Section does not apply to a suit by the Trustee, a suit by a Holder of a Note pursuant to Section 6.07 hereof, or a suit by Holders of more than 10% in principal amount of the then outstanding Notes.

ARTICLE 7

TRUSTEE

Section 7.01. *Duties of Trustee.*

(a) If an Event of Default has occurred and is continuing, the Trustee shall exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in its exercise, as a prudent person would exercise or use under the circumstances in the conduct of such person's own affairs.

(b) Except during the continuance of an Event of Default:

(i) the duties of the Trustee shall be determined solely by the express provisions of this Indenture and the Trustee need perform only those duties that are specifically set forth in this Indenture and no others, and no implied covenants or obligations shall be read into this Indenture against the Trustee; and

(ii) in the absence of bad faith on its part, the Trustee may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the Trustee and conforming to the requirements of this Indenture. However, the Trustee shall examine the certificates and opinions to determine whether or not they conform to the requirements of this Indenture.

(c) The Trustee may not be relieved from liabilities for its own negligent action, its own negligent failure to act, or its own willful misconduct, except that:

(i) this paragraph does not limit the effect of paragraph (b) of this Section;

(ii) the Trustee shall not be liable for any error of judgment made in good faith by a Responsible Officer, unless it is proved that the Trustee was negligent in ascertaining the pertinent facts; and

(iii) the Trustee shall not be liable with respect to any action it takes or omits to take in good faith in accordance with a direction received by it pursuant to Section 6.05 hereof.

(d) Whether or not therein expressly so provided, every provision of this Indenture that in any way relates to the Trustee is subject to paragraphs (a), (b), and (c) of this Section.

(e) No provision of this Indenture shall require the Trustee to expend or risk its own funds or incur any liability. The Trustee shall be under no obligation to exercise any of its rights and powers under this Indenture at the request of any Holders, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense.

(f) The Trustee shall not be liable for interest on any money received by it except as the Trustee may agree in writing with the Company. Money held in trust by the Trustee need not be segregated from other funds except to the extent required by law.

Section 7.02. *Rights of Trustee.*

(a) The Trustee may conclusively rely upon any document believed by it to be genuine and to have been signed or presented by the proper Person. The Trustee need not investigate any fact or matter stated in the document.

(b) Before the Trustee acts or refrains from acting, it may require an Officers' Certificate or an Opinion of Counsel or both. The Trustee shall not be liable for any action it takes or omits to take in good faith in reliance on such Officers' Certificate or Opinion of Counsel. The Trustee may

consult with counsel and the written advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection from liability in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon.

(c) The Trustee may act through its attorneys and agents and shall not be responsible for the misconduct or negligence of any agent appointed with due care.

(d) The Trustee shall not be liable for any action it takes or omits to take in good faith that it believes to be authorized or within the rights or powers conferred upon it by this Indenture.

(e) Unless otherwise specifically provided in this Indenture, any demand, request, direction or notice from the Company shall be sufficient if signed by an Officer of the Company.

(f) The Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs,

expenses and liabilities that might be incurred by it in compliance with such request or direction.

Section 7.03. *Individual Rights of Trustee.*

The Trustee in its individual or any other capacity may become the owner or pledgee of Notes and may otherwise deal with the Company or any Affiliate of the Company with the same rights it would have if it were not Trustee. However, in the event that the Trustee acquires any conflicting interest it must eliminate such conflict within 90 days, apply to the SEC for permission to continue as Trustee or resign. Any Agent may do the same with like rights and duties. The Trustee is also subject to Sections 7.10 and 7.11 hereof.

Section 7.04. *Trustee's Disclaimer.*

The Trustee shall not be responsible for and makes no representation as to the validity or adequacy of this Indenture or the Notes, it shall not be accountable for the Company's use of the proceeds from the Notes or any money paid to the Company or upon the Company's direction under any provision of this Indenture, it shall not be responsible for the use or application of any money received by any Paying Agent other than the Trustee, and it shall not be responsible for any statement or recital herein or any statement in the Notes or any other document in connection with the sale of the Notes or pursuant to this Indenture other than its certificate of authentication.

Section 7.05. *Notice of Defaults.*

If a Default or Event of Default occurs and is continuing and if it is known to the Trustee, the Trustee shall mail to Holders of Notes a notice of the Default or Event of Default within 90 days after it occurs. Except in the case of a Default or Event of Default in payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold the notice if and so long as a committee of its Responsible Officers in good faith determines that withholding the notice is in the interests of the Holders of the Notes.

Section 7.06. *Reports by Trustee to Holders of the Notes.*

Within 60 days after each May 15 beginning with the May 15 following the date of this Indenture, and for so long as Notes remain outstanding, the Trustee shall mail to the Holders of the Notes a brief report dated as of such reporting date that complies with TIA § 313(a) (but if no event described in TIA § 313(a) has occurred within the twelve months preceding the reporting date, no report need be transmitted). The Trustee also shall comply with TIA § 313(b)(2). The Trustee shall also transmit by mail all reports as required by TIA § 313(c).

A copy of each report at the time of its mailing to the Holders of Notes shall be mailed to the Company and filed with the SEC and each stock exchange on which the Notes are listed in accordance with TIA § 313(d). The Company shall promptly notify the Trustee when the Notes are listed on any stock exchange.

Section 7.07. *Compensation and Indemnity.*

The Company shall pay to the Trustee from time to time reasonable compensation for its acceptance of this Indenture and services hereunder. The Trustee's compensation shall not be limited by any law on compensation of a Trustee of an express trust. The Company shall reimburse the Trustee promptly upon request for all reasonable disbursements, advances and expenses incurred or made by it in addition to the compensation for its services. Such expenses shall include the reasonable compensation, disbursements and expenses of the Trustee's agents and counsel.

The Company shall indemnify the Trustee against any and all losses, liabilities or expenses incurred by it arising out of or in connection with the acceptance or administration of its duties under this Indenture, including the costs and expenses of enforcing this Indenture against the Company (including this Section 7.07) and defending itself against any claim (whether asserted by the Company or any

Holder or any other person) or liability in connection with the exercise or performance of any of its powers or duties hereunder, except to the extent any such loss, liability or expense may be attributable to its negligence or bad faith. The Trustee shall notify the Company promptly of any claim for which it may seek indemnity. Failure by the Trustee to so notify the Company shall not relieve the Company of its obligations hereunder. The Company shall defend the claim and the Trustee shall cooperate in the defense. The Trustee may have separate counsel and the Company shall pay the reasonable fees and expenses of such counsel. The Company need not pay for any settlement made without its consent, which consent shall not be unreasonably withheld.

The obligations of the Company under this Section 7.07 shall survive the satisfaction and discharge of this Indenture.

To secure the Company's payment obligations in this Section, the Trustee shall have a Lien prior to the Notes on all money or property held or collected by the Trustee, except that held in trust to pay principal and interest on particular Notes. Such Lien shall survive the satisfaction and discharge of this Indenture.

When the Trustee incurs expenses or renders services after an Event of Default specified in Section 6.01(g) or (h) hereof occurs, the expenses and the compensation for the services (including the fees and expenses of its agents and counsel) are intended to constitute expenses of administration under any Bankruptcy Law.

The Trustee shall comply with the provisions of TIA § 313(b)(2) to the extent applicable.

Section 7.08. *Replacement of Trustee.*

A resignation or removal of the Trustee and appointment of a successor Trustee shall become effective only upon the successor Trustee's acceptance of appointment as provided in this Section.

The Trustee may resign in writing at any time and be discharged from the trust hereby created by so notifying the Company. The Holders of a majority in principal amount of the then outstanding Notes may remove the Trustee by so notifying the Trustee and the Company in writing. The Company may remove the Trustee if:

(a) the Trustee fails to comply with Section 7.10 hereof;

(b) the Trustee is adjudged a bankrupt or an insolvent or an order for relief is entered with respect to the Trustee under any Bankruptcy Law;

(c) a custodian or public officer takes charge of the Trustee or its property; or

(d) the Trustee becomes incapable of acting.

If the Trustee resigns or is removed or if a vacancy exists in the office of Trustee for any reason, the Company shall promptly appoint a successor Trustee. Within one year after the successor Trustee takes office, the Holders of a majority in principal amount of the then outstanding Notes may appoint a successor Trustee to replace the successor Trustee appointed by the Company.

If a successor Trustee does not take office within 60 days after the retiring Trustee resigns or is removed, the retiring Trustee, the Company, or the Holders of at least 10% in principal amount of the then outstanding Notes may petition any court of competent jurisdiction for the appointment of a successor Trustee.

If the Trustee, after written request by any Holder who has been a Holder for at least six months, fails to comply with Section 7.10, such Holder may petition any court of competent jurisdiction for the removal of the Trustee and the appointment of a successor Trustee.

A successor Trustee shall deliver a written acceptance of its appointment to the retiring Trustee and to the Company. Thereupon, the resignation or removal of the retiring Trustee shall become

effective, and the successor Trustee shall have all the rights, powers and duties of the Trustee under this Indenture. The successor Trustee shall mail a notice of its succession to Holders. The retiring Trustee shall promptly transfer all property held by it as Trustee to the successor Trustee; *provided* all sums owing to the Trustee hereunder have been paid and subject to the Lien provided for in Section 7.07 hereof. Notwithstanding replacement of the Trustee pursuant to this Section 7.08, the Company's obligations under Section 7.07 hereof shall continue for the benefit of the retiring Trustee.

Section 7.09. *Successor Trustee by Merger, etc.*

If the Trustee consolidates, merges or converts into, or transfers all or substantially all of its corporate trust business (including the administration of the trust created by this Indenture) to, another corporation, the successor corporation without any further act shall be the successor Trustee.

Section 7.10. *Eligibility; Disqualification.*

There shall at all times be a Trustee hereunder that is a corporation organized and doing business under the laws of the United States of America or of any state thereof that is authorized under such laws to exercise corporate trustee power, that is subject to supervision or examination by federal or state authorities and that has (or in the case of a subsidiary of a bank holding company, its bank holding company parent shall have) a combined capital and surplus of at least $100 million as set forth in its most recent published annual report of condition.

This Indenture shall always have a Trustee who satisfies the requirements of TIA §§ 310(a)(1), (2) and (5). The Trustee is subject to TIA § 310(b).

Section 7.11. *Preferential Collection of Claims Against Company.*

The Trustee is subject to TIA § 311(a), excluding any creditor relationship listed in TIA § 311(b). A Trustee who has resigned or been removed shall be subject to TIA § 311(a) to the extent indicated therein.

ARTICLE 8

LEGAL DEFEASANCE AND COVENANT DEFEASANCE

Section 8.01. *Option to Effect Legal Defeasance or Covenant Defeasance.*

The Company may, at the option of its Board of Directors evidenced by a resolution set forth in an Officers' Certificate, at any time, elect to have either Section 8.02 or 8.03 hereof be applied to all outstanding Notes upon compliance with the conditions set forth below in this Article 8.

Section 8.02. *Legal Defeasance and Discharge.*

Upon the Company's exercise under Section 8.01 hereof of the option applicable to this Section 8.02, the Company shall, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, be deemed to have been discharged from its obligations with respect to all outstanding Notes on the date the conditions set forth below are satisfied (hereinafter, "*Legal Defeasance*"). For this purpose, Legal Defeasance means that the Company shall be deemed to have paid and discharged the entire Indebtedness represented by the outstanding Notes, which shall thereafter be deemed to be "outstanding" only for the purposes of Section 8.05 hereof and the other Sections of this Indenture referred to in (a) and (b) below, and to have satisfied all its other obligations under such Notes and this Indenture (and the Trustee, on demand of and at the expense of the Company, shall execute proper instruments acknowledging the same), except for the following provisions which shall survive until otherwise terminated or discharged hereunder: (a) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, or interest or premium and Additional Interest, if any, on such Notes when such payments are due from the trust referred to below, (b) the Company's obligations with respect to the Notes concerning issuing temporary Notes, registration of Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and

money for security payments held in trust, (c) the rights, powers, trusts, duties and immunities of the Trustee, and the Company's and the Guarantor's obligations in connection therewith and (d) this Article 8. Subject to compliance with this Article 8, the Company may exercise its option under this Section 8.02 notwithstanding the prior exercise of its option under Section 8.03 hereof.

Section 8.03. *Covenant Defeasance.*

Upon the Company's exercise under Section 8.01 hereof of the option applicable to this Section 8.03, the Company shall, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, be released from its obligations under the covenants contained in Sections 4.03, 4.07, 4.08, 4.09, 4.10, 4.11, 4.12, 4.13, 4.14, 4.15, 4.16, 4.17, 4.18 and 4.19 hereof and clause (iv) of Section 5.01 hereof with respect to the outstanding Notes on and after the date the conditions set forth in Section 8.04 are satisfied (hereinafter, "*Covenant Defeasance*"), and the Notes shall thereafter be deemed not "outstanding" for the purposes of any direction, waiver, consent or declaration or act of Holders (and the consequences of any thereof) in connection with such covenants, but shall continue to be deemed "outstanding" for all other purposes hereunder (it being understood that such Notes shall not be deemed outstanding for accounting purposes). For this purpose, Covenant Defeasance means that, with respect to the outstanding Notes, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such covenant, whether directly or indirectly, by reason of any reference elsewhere herein to any such covenant or by reason of any reference in any such covenant to any other provision herein or in any other document and such omission to comply shall not constitute a Default or an Event of Default under Section 6.01 hereof, but, except as specified above, the remainder of this Indenture and such Notes shall be unaffected thereby. In addition, upon the Company's exercise under Section 8.01 hereof of the option applicable to this Section 8.03 hereof, subject to the satisfaction of the conditions set forth in Section 8.04 hereof, Sections 6.01(c) through 6.01(f) hereof shall not constitute Events of Default.

Section 8.04. *Conditions to Legal or Covenant Defeasance.*

The following shall be the conditions to the application of either Section 8.02 or 8.03 hereof to the outstanding Notes:

In order to exercise either Legal Defeasance or Covenant Defeasance,

(a) the Company must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the Notes, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as shall be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, or interest and premium and Additional Interest, if any, on the outstanding Notes on the stated maturity or on the applicable redemption date, as the case may be, and the Company must specify whether the Notes are being defeased to maturity or to a particular redemption date;

(b) in the case of an election under Section 8.02 hereof, the Company has delivered to the Trustee an Opinion of Counsel confirming that (i) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (ii) since the date of this Indenture, there has been a change in the applicable federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel shall confirm that, the Holders of the outstanding Notes shall not recognize income, gain or loss for federal income tax purposes as a result of such Legal Defeasance and shall be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(c) in the case of an election under Section 8.03 hereof, the Company has delivered to the Trustee an Opinion of Counsel confirming that the Holders of the outstanding Notes shall not recognize income, gain or loss for federal income tax purposes as a result of such

Covenant Defeasance and shall be subject to federal income tax on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(d) no Default or Event of Default shall have occurred and be continuing on the date of such deposit (other than a Default or Event of Default resulting from the incurrence of Indebtedness all or a portion of the proceeds of which will be used to defease the Notes pursuant to this Article Eight concurrently with such incurrence) or insofar as Sections 6.01(h) or 6.01(i) hereof is concerned, at any time in the period ending on the 91st day after the date of deposit;

(e) such Legal Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than this Indenture) to which the Company or any of its Subsidiaries is a party or by which the Company or any of its Subsidiaries is bound;

(f) the Company shall have delivered to the Trustee an Officers' Certificate stating that the deposit was not made by the Company with the intent of preferring the Holders over any other creditors of the Company or with the intent of defeating, hindering, delaying or defrauding any other creditors of the Company; and

(g) the Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent provided for or relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Section 8.05. *Deposited Money and Government Securities to Be Held in Trust; Other Miscellaneous Provisions.*

Subject to Section 8.06 hereof, all money and non-callable Government Securities (including the proceeds thereof) deposited with the Trustee (or other qualifying trustee, collectively for purposes of this Section 8.05, the "*Trustee*") pursuant to Section 8.04 hereof in respect of the outstanding Notes shall be held in trust and applied by the Trustee, in accordance with the provisions of such Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as Paying Agent) as the Trustee may determine, to the Holders of such Notes of all sums due and to become due thereon in respect of principal, premium and Additional Interest, if any, and interest, but such money need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the cash or non-callable Government Securities deposited pursuant to Section 8.04 hereof or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of the outstanding Notes.

Anything in this Article 8 to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon the request of the Company any money or non-callable Government Securities held by it as provided in Section 8.04 hereof which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee (which may be the opinion delivered under Section 8.04(a) hereof), are in excess of the amount thereof that would then be required to be deposited to effect an equivalent Legal Defeasance or Covenant Defeasance.

Section 8.06. *Repayment to Company.*

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of, premium or Additional Interest, if any, or interest on any Note and remaining unclaimed for two years after such principal, and premium or Additional Interest, if any, or interest has become due and payable shall be paid to the Company on its request or (if then held by the Company) shall be discharged from such trust; and the Holder of such Note shall thereafter look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as Trustee thereof, shall thereupon cease; *provided*, *however*, that the Trustee or such Paying Agent, before being required to make any such repayment, shall at the expense of the Company cause to be published once, in the New York Times and The Wall Street Journal (national edition), notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such notification or publication, any unclaimed balance of such money then remaining shall be repaid to the Company.

Section 8.07. *Reinstatement.*

If the Trustee or Paying Agent is unable to apply any United States dollars or non-callable Government Securities in accordance with Section 8.02 or 8.03 hereof, as the case may be, by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the Company's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 8.02 or 8.03 hereof until such time as the Trustee or Paying Agent is permitted to apply all such money in accordance with Section 8.02 or 8.03 hereof, as the case may be; *provided*, *however*, that, if the Company makes any payment of principal of, premium or Additional Interest, if any, or interest on any Note following the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money held by the Trustee or Paying Agent.

ARTICLE 9

AMENDMENT, SUPPLEMENT AND WAIVER

Section 9.01. *Without Consent of Holders of Notes.*

Notwithstanding Section 9.02 of this Indenture, the Company, the Guarantors and the Trustee may amend or supplement this Indenture, the Subsidiary Guarantees or the Notes without the consent of any Holder of a Note:

(a) to cure any ambiguity, defect or inconsistency;

(b) to provide for uncertificated Notes in addition to or in place of certificated Notes or to alter the provisions of Article 2 hereof (including the related definitions) in a manner that does not materially adversely affect any Holder;

(c) to provide for the assumption of the Company's or a Guarantor's obligations to the Holders of the Notes by a successor to the Company pursuant to Article 5 hereof;

(d) to comply with the rules of any applicable securities depositary;

(e) to make any change that would provide any additional rights or benefits to the Holders of the Notes or that does not adversely affect the legal rights hereunder of any Holder of the Note;

(f) to comply with requirements of the SEC in order to effect or maintain the qualification of this Indenture under the TIA; or

(g) to allow any Guarantor to execute a supplemental indenture and/or a Subsidiary Guarantee with respect to the Notes.

Upon the request of the Company accompanied by a resolution of its Board of Directors authorizing the execution of any such amended or supplemental Indenture, and upon receipt by the Trustee of the documents described in Section 7.02 hereof, the Trustee shall join with the Company and the Guarantors in the execution of any amended or supplemental Indenture authorized or permitted by the terms of this Indenture and to make any further appropriate agreements and stipulations that may be therein contained, but the Trustee shall not be obligated to enter into such amended or supplemental Indenture that affects its own rights, duties or immunities under this Indenture or otherwise.

Section 9.02. *With Consent of Holders of Notes.*

Except as provided below in this Section 9.02, the Company and the Trustee may amend or supplement this Indenture (including Sections 3.09, 4.10 and 4.14 hereof) and the Notes with the consent of the Holders of at least a majority in principal amount of the Notes then outstanding voting as a single class (including consents obtained in connection with a tender offer or exchange offer for, or purchase of, the Notes), and, subject to Sections 6.04 and 6.07 hereof, any existing Default or Event of Default (other than a Default or Event of Default in the payment of the principal of, premium, if any, or interest on the Notes, except a payment default resulting from an acceleration that has been rescinded) or compliance with any provision of this Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes voting as a single class (including consents obtained in connection with a tender offer or exchange offer for, or purchase of, the Notes).

Upon the request of the Company accompanied by a resolution of its Board of Directors authorizing the execution of any such amended or supplemental Indenture, and upon the filing with the Trustee of evidence satisfactory to the Trustee of the consent of the Holders of Notes as aforesaid, and upon receipt by the Trustee of the documents described in Section 7.02 hereof, the Trustee shall join with the Company in the execution of such amended or supplemental Indenture unless such amended or supplemental Indenture directly affects the Trustee's own rights, duties or immunities under this Indenture or otherwise, in which case the Trustee may in its discretion, but shall not be obligated to, enter into such amended or supplemental Indenture.

It shall not be necessary for the consent of the Holders of Notes under this Section 9.02 to approve the particular form of any proposed amendment or waiver, but it shall be sufficient if such consent approves the substance thereof.

After an amendment, supplement or waiver under this Section becomes effective, the Company shall mail to the Holders of Notes affected thereby a notice briefly describing the amendment, supplement or waiver. Any failure of the Company to mail such notice, or any defect therein, shall not, however, in any way impair or affect the validity of any such amended or supplemental Indenture or waiver.

Subject to Sections 6.04 and 6.07 hereof, the Holders of a majority in aggregate principal amount of the Notes then outstanding voting as a single class may waive compliance in a particular instance by the Company with any provision of this Indenture or the Notes. However, without the consent of each Holder affected, an amendment or waiver under this Section 9.02 may not:

(a) reduce the principal amount of Notes whose Holders must consent to an amendment, supplement or waiver;

(b) reduce the principal of or change the fixed maturity of any note or alter the provisions with respect to the redemption of the Notes (other than provisions relating to the covenants described under Sections 3.09, 4.10 and 4.14 hereof);

(c) reduce the rate of or change the time for payment of interest on any Note;

(d) waive a Default or Event of Default in the payment of principal of, or interest or premium, or Additional Interest, if any, on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in aggregate principal amount of the Notes and a waiver of the payment default that resulted from such acceleration);

(e) make any Note payable in money other than that stated in the Notes;

(f) make any change in the provisions of this Indenture relating to waivers of past Defaults or the rights of Holders of Notes to receive payments of principal of, or interest or premium or Additional Interest, if any, on the Notes;

(g) waive a redemption payment with respect to any note (other than a payment required by one of the covenants described under Sections 4.10 and 4.14 hereof);

(h) release any Guarantor from any of its obligations under its Subsidiary Guarantee or this Indenture, except in accordance with the terms of this Indenture; or

(i) make any change in Section 6.04 or 6.07 hereof or in the foregoing amendment and waiver provisions.

In addition, any amendment to, or waiver of, Article 10 of this Indenture that adversely affects the rights of the Holders of the Notes shall require the consent of the Holders of at least 75% in principal amount of the Notes then outstanding voting as a single class (including consents obtained in connection with a tender offer or exchange offer for, or purchase of, the Notes).

Section 9.03. *Compliance with Trust Indenture Act.*

Every amendment or supplement to this Indenture or the Notes shall be set forth in an amended or supplemental Indenture that complies with the TIA as then in effect.

Section 9.04. *Revocation and Effect of Consents.*

Until an amendment, supplement or waiver becomes effective, a consent to it by a Holder of a Note is a continuing consent by the Holder of a Note and every subsequent Holder of a Note or portion of a Note that evidences the same debt as the consenting Holder's Note, even if notation of the consent is not made on any Note. However, any such Holder of a Note or subsequent Holder of a Note may revoke the consent as to its Note if the Trustee receives written notice of revocation before the date the waiver, supplement or amendment becomes effective. An amendment, supplement or waiver becomes effective in accordance with its terms and thereafter binds every Holder.

Section 9.05. *Notation on or Exchange of Notes.*

The Trustee may place an appropriate notation about an amendment, supplement or waiver on any Note thereafter authenticated. The Company in exchange for all Notes may issue and the Trustee shall, upon receipt of an Authentication Order, authenticate new Notes that reflect the amendment, supplement or waiver.

Failure to make the appropriate notation or issue a new Note shall not affect the validity and effect of such amendment, supplement or waiver.

Section 9.06. *Trustee to Sign Amendments, etc.*

The Trustee shall sign any amended or supplemental Indenture authorized pursuant to this Article Nine if the amendment or supplement does not adversely affect the rights, duties, liabilities or immunities of the Trustee. The Company may not sign an amendment or supplemental Indenture until the Board of Directors approves it. In executing any amended or supplemental indenture, the Trustee shall be entitled to receive and (subject to Section 7.01 hereof) shall be fully protected in relying upon, in addition to the documents required by Section 13.04 hereof, an Officer's Certificate and an Opinion

of Counsel stating that the execution of such amended or supplemental indenture is authorized or permitted by this Indenture.

ARTICLE 10

SUBORDINATION

Section 10.01. *Agreement to Subordinate.*

The Company agrees, and each Holder by accepting a Note agrees, that the Indebtedness evidenced by the Notes is subordinated in right of payment, to the extent and in the manner provided in this Article 10, to the prior payment in full of all Senior Debt (whether outstanding on the date hereof or hereafter created, incurred, assumed or guaranteed), and that the subordination is for the benefit of the holders of Senior Debt.

Section 10.02. *Liquidation; Dissolution; Bankruptcy.*

Upon any distribution to creditors of the Company in a liquidation or dissolution of the Company or in a bankruptcy, reorganization, insolvency, receivership or similar proceeding relating to the Company or its property, in an assignment for the benefit of creditors or any marshaling of the Company's assets and liabilities:

(i) holders of Senior Debt shall be entitled to receive payment in full of all Obligations due in respect of such Senior Debt (including interest after the commencement of any such proceeding at the rate specified in the applicable Senior Debt) and all outstanding letters of credits under Credit Facilities shall either have been terminated or cash collateralized in accordance with the terms thereof, before Holders of the Notes shall be entitled to receive any payment on, or distribution with respect to the Notes (except that Holders of the Notes may receive and retain (A) Permitted Junior Securities and (B) payments made from any defeasance trust created pursuant to Section 8.01 hereof), and

(ii) until all Obligations with respect to Senior Debt (as provided in clause (i) above) are paid in full, any distribution to which Holders would be entitled but for this Article 10 shall be made to holders of Senior Debt (except that Holders of Notes may receive (A) Permitted Junior Securities and (B) payments and other distributions made from any defeasance trust created pursuant to Section 8.01 hereof), as their interests may appear.

Section 10.03. *Default on Designated Senior Debt.*

(a) The Company may not make any payment on or distribution to the Trustee or any Holder in respect of Obligations with respect to the Notes (except (A) Permitted Junior Securities and (B) payments and other distributions made from any defeasance trust created pursuant to Section 8.01 hereof) until all principal and other Obligations with respect to the Senior Debt have been paid in full if:

(i) a payment default of any principal or other Obligations with respect to Designated Senior Debt occurs and is continuing beyond any applicable grace period in the agreement, indenture or other document governing such Designated Senior Debt; or

(ii) any other default on Designated Senior Debt occurs and is continuing that then permits holders of the Designated Senior Debt to accelerate its maturity and the Trustee receives a notice of the default (a "Payment Blockage Notice") from the Credit Agent, the Company or any holder of any Designated Debt. If the Trustee receives any such Payment Blockage Notice, no subsequent Payment Blockage Notice shall be effective for purposes of this Section unless and until (A) at least 360 days shall have elapsed since the effectiveness of the immediately prior Payment Blockage Notice and (B) all scheduled payments of principal, premium, if any, and interest on the Securities that have come due have been paid in full in

cash. No nonpayment default that existed or was continuing on the date of delivery of any Payment Blockage Notice to the Trustee shall be, or be made, the basis for a subsequent Payment Blockage Notice unless such default shall have been cured or waived for a period of not less than 90 consecutive days.

(b) The Company may and shall resume payments on and distributions in respect of the Notes:

(i) in the case of a payment default, upon the date on which such default is cured or waived; and

(ii) in the case of a nonpayment default, upon the earlier of the date on which such nonpayment default is cured or waived or 179 days after the date on which the applicable Payment Blockage Notice is received,

unless the maturity of any Designated Senior Debt has been accelerated.

Notwithstanding the foregoing, the Company shall be permitted to repurchase, redeem, repay or prepay any or all of the Notes to the extent required to do so by any Gaming Authority, as described under Section 3.07 hereof.

Section 10.04. *Acceleration of Securities.*

If payment of the Securities is accelerated because of an Event of Default, the Company shall promptly notify holders of Senior Debt of the acceleration.

Section 10.05. *When Distribution Must Be Paid Over.*

In the event that the Trustee or any Holder receives any payment of any Obligations with respect to the Notes at a time when a Responsible Officer of the Trustee or such Holder, as applicable, has actual knowledge that such payment is prohibited by Section 10.03 hereof, such payment shall be held by the Trustee or such Holder, in trust for the benefit of, and shall be paid forthwith over and delivered to, the holders of Senior Debt as their interests may appear or their Representative under this Indenture or other agreement (if any) pursuant to which Senior Debt may have been issued, as their respective interests may appear, for application to the payment of all Obligations with respect to Senior Debt remaining unpaid to the extent necessary to pay such Obligations in full in accordance with their terms, after giving effect to any concurrent payment or distribution to or for the holders of Senior Debt.

With respect to the holders of Senior Debt, the Trustee undertakes to perform only such obligations on the part of the Trustee as are specifically set forth in this Article 10, and no implied covenants or obligations with respect to the holders of Senior Debt shall be read into this Indenture against the Trustee. The Trustee shall not be deemed to owe any fiduciary duty to the holders of Senior Debt, and shall not be liable to any such holders if the Trustee shall pay over or distribute to or on behalf of Holders or the Company or any other Person money or assets to which any holders of Senior Debt shall be entitled by virtue of this Article 10, except if such payment is made as a result of the willful misconduct or gross negligence of the Trustee.

Section 10.06. *Notice by Company.*

The Company shall promptly notify the Trustee and the Paying Agent of any facts known to the Company that would cause a payment of any Obligations with respect to the Notes to violate this Article 10, but failure to give such notice shall not affect the subordination of the Notes to the Senior Debt as provided in this Article 10.

Section 10.07. *Subrogation.*

After all Senior Debt is paid in full and until the Notes are paid in full, Holders of Notes shall be subrogated (equally and ratably with all other Indebtedness *pari passu* with the Notes) to the rights of holders of Senior Debt to receive distributions applicable to Senior Debt to the extent that distributions otherwise payable to the Holders of Notes have been applied to the payment of Senior Debt. A distribution made under this Article 10 to holders of Senior Debt that otherwise would have been made to Holders of Notes is not, as between the Company and Holders, a payment by the Company on the Notes.

Section 10.08. *Relative Rights.*

This Article 10 defines the relative rights of Holders of Notes and holders of Senior Debt. Nothing in this Indenture shall:

(i) impair, as between the Company and Holders of Notes, the obligation of the Company, which is absolute and unconditional, to pay principal of and interest on the Notes in accordance with their terms;

(ii) affect the relative rights of Holders of Notes and creditors of the Company other than their rights in relation to holders of Senior Debt; or

(iii) prevent the Trustee or any Holder of Notes from exercising its available remedies upon a Default or Event of Default, subject to the rights of holders and owners of Senior Debt to receive distributions and payments otherwise payable to Holders of Notes.

If the Company fails because of this Article 10 to pay principal of or interest on a Note on the due date, the failure is still a Default or Event of Default.

Section 10.09. *Subordination May Not Be Impaired by Company.*

No right of any holder of Senior Debt to enforce the subordination of the Indebtedness evidenced by the Notes shall be impaired by any act or failure to act by the Company or any Holder or by the failure of the Company or any Holder to comply with this Indenture.

Section 10.10. *Distribution or Notice to Representative.*

Whenever a distribution is to be made or a notice given to holders of Senior Debt, the distribution may be made and the notice given to their Representative.

Upon any payment or distribution of assets of the Company referred to in this Article 10, the Trustee and the Holders of Notes shall be entitled to rely upon any order or decree made by any court of competent jurisdiction or upon any certificate of such Representative or of the liquidating trustee or agent or other Person making any distribution to the Trustee or to the Holders of Notes for the purpose of ascertaining the Persons entitled to participate in such distribution, the holders of the Senior Debt and other Indebtedness of the Company, the amount thereof or payable thereon, the amount or amounts paid or distributed thereon and all other facts pertinent thereto or to this Article 10.

Section 10.11. *Rights of Trustee and Paying Agent.*

Notwithstanding the provisions of this Article 10 or any other provision of this Indenture, the Trustee shall not be charged with knowledge of the existence of any facts that would prohibit the making of any payment or distribution by the Trustee, and the Trustee and the Paying Agent may continue to make payments on the Notes, unless the Trustee shall have received at its Corporate Trust Office at least five Business Days prior to the date of such payment written notice of facts that would cause the payment of any Obligations with respect to the Notes to violate this Article 10. Only the

Company or a Representative may give the notice. Nothing in this Article 10 shall impair the claims of, or payments to, the Trustee under or pursuant to Section 7.07 hereof.

The Trustee in its individual or any other capacity may hold Senior Debt with the same rights it would have if it were not Trustee. Any Agent may do the same with like rights.

Section 10.12. *Authorization to Effect Subordination.*

Each Holder of Notes, by the Holder's acceptance thereof, authorizes and directs the Trustee on such Holder's behalf to take such action as may be necessary or appropriate to effectuate the subordination as provided in this Article 10, and appoints the Trustee to act as such Holder's attorney-in-fact for any and all such purposes. If the Trustee does not file a proper proof of claim or proof of debt in the form required in any proceeding referred to in Section 6.09 hereof at least 30 days before the expiration of the time to file such claim, the Representatives are hereby authorized to file an appropriate claim for and on behalf of the Holders of the Notes.

Section 10.13. *Amendments.*

The provisions of this Article 10 shall not be amended or modified without the written consent of the holders of all Senior Debt.

ARTICLE 11

SUBSIDIARY GUARANTEES

Section 11.01. *Guarantee.*

Subject to this Article 11, each of the Guarantors hereby, jointly and severally, unconditionally guarantees to each Holder of a Note authenticated and delivered by the Trustee and to the Trustee and its successors and assigns, irrespective of the validity and enforceability of this Indenture, the Notes or the obligations of the Company hereunder or thereunder, that: (a) the principal of and interest on the Notes will be promptly paid in full when due, whether at maturity, by acceleration, redemption or otherwise, and interest on the overdue principal of and interest on the Notes, if any, if lawful, and all other obligations of the Company to the Holders or the Trustee hereunder or thereunder will be promptly paid in full or performed, all in accordance with the terms hereof and thereof; and (b) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, that same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise. Failing payment when due of any amount so guaranteed or any performance so guaranteed for whatever reason, the Guarantors shall be jointly and severally obligated to pay the same immediately. Each Guarantor agrees that this is a guarantee of payment and not a guarantee of collection.

The Guarantors hereby agree that their obligations hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of the Notes or this Indenture, the absence of any action to enforce the same, any waiver or consent by any Holder of the Notes with respect to any provisions hereof or thereof, the recovery of any judgment against the Company, any action to enforce the same or any other circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor. Each Guarantor hereby waives diligence, presentment, demand of payment, filing of claims with a court in the event of insolvency or bankruptcy of the Company, any right to require a proceeding first against the Company, protest, notice and all demands whatsoever and covenant that this Subsidiary Guarantee shall not be discharged except by complete performance of the obligations contained in the Notes and this Indenture.

If any Holder or the Trustee is required by any court or otherwise to return to the Company, the Guarantors or any custodian, trustee, liquidator or other similar official acting in relation to either the

Company or the Guarantors, any amount paid either to the Trustee or such Holder, this Subsidiary Guarantee, to the extent theretofore discharged, shall be reinstated in full force and effect.

Each Guarantor agrees that it shall not be entitled to any right of subrogation in relation to the Holders in respect of any obligations guaranteed hereby until payment in full of all obligations guaranteed hereby. Each Guarantor further agrees that, as between the Guarantors, on the one hand, and the Holders and the Trustee, on the other hand, (x) the maturity of the obligations guaranteed hereby may be accelerated as provided in Article 6 hereof for the purposes of this Subsidiary Guarantee, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed hereby, and

(y) in the event of any declaration of acceleration of such obligations as provided in Article 6 hereof, such obligations (whether or not due and payable) shall forthwith become due and payable by the Guarantors for the purpose of this Subsidiary Guarantee. The Guarantors shall have the right to seek contribution from any non-paying Guarantor so long as the exercise of such right does not impair the rights of the Holders under the Guarantee.

Section 11.02. *Subordination of Subsidiary Guarantee.*

The Obligations of each Guarantor under its Subsidiary Guarantee pursuant to this Article 11 shall be junior and subordinated to the Senior Guarantee of such Guarantor on the same basis as the Notes are junior and subordinated to Senior Debt of the Company. For the purposes of the foregoing sentence, the Trustee and the Holders shall have the right to receive and/or retain payments by any of the Guarantors only at such times as they may receive and/or retain payments in respect of the Notes pursuant to this Indenture, including Article 11 hereof.

Section 11.03. *Limitation on Guarantor Liability.*

Each Guarantor, and by its acceptance of Notes, each Holder, hereby confirms that it is the intention of all such parties that the Subsidiary Guarantee of such Guarantor not constitute a fraudulent transfer or conveyance for purposes of Bankruptcy Law, the Uniform Fraudulent Conveyance Act, the Uniform Fraudulent Transfer Act or any similar federal or state law to the extent applicable to any Subsidiary Guarantee. To effectuate the foregoing intention, the Trustee, the Holders and the Guarantors hereby irrevocably agree that the obligations of such Guarantor will, after giving effect to such maximum amount and all other contingent and fixed liabilities of such Guarantor that are relevant under such laws, and after giving effect to any collections from, rights to receive contribution from or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under this Article 11, result in the obligations of such Guarantor under its Subsidiary Guarantee not constituting a fraudulent transfer or conveyance.

Section 11.04. *Execution and Delivery of Subsidiary Guarantee.*

To evidence its Subsidiary Guarantee set forth in Section 11.01, each Guarantor hereby agrees that a notation of such Subsidiary Guarantee substantially in the form included in Exhibit E shall be endorsed by an Officer of such Guarantor on each Note authenticated and delivered by the Trustee and that this Indenture shall be executed on behalf of such Guarantor by its President or one of its Vice Presidents.

Each Guarantor hereby agrees that its Subsidiary Guarantee set forth in Section 11.01 shall remain in full force and effect notwithstanding any failure to endorse on each Note a notation of such Subsidiary Guarantee.

If an Officer whose signature is on this Indenture or on the Subsidiary Guarantee no longer holds that office at the time the Trustee authenticates the Note on which a Subsidiary Guarantee is endorsed, the Subsidiary Guarantee shall be valid nevertheless.

The delivery of any Note by the Trustee, after the authentication thereof hereunder, shall constitute due delivery of the Subsidiary Guarantee set forth in this Indenture on behalf of the Guarantors.

In the event that the Company creates or acquires any new Subsidiaries subsequent to the date of this Indenture, if required by Section 4.17 hereof, the Company shall cause such Subsidiaries to execute supplemental indentures to this Indenture and Subsidiary Guarantees in accordance with Section 4.17 hereof and this Article 11, to the extent applicable.

Section 11.05. *Guarantors May Consolidate, etc., on Certain Terms.*

Except as otherwise provided in Section 11.06, no Guarantor may consolidate with or merge with or into (whether or not such Guarantor is the surviving Person) another Person whether or not affiliated with such Guarantor unless:

(a) subject to Section 11.06 hereof, the Person formed by or surviving any such consolidation or merger (if other than a Guarantor or the Company) unconditionally assumes all the obligations of such Guarantor, pursuant to a supplemental indenture in form and substance reasonably satisfactory to the Trustee, under the Notes, the Indenture and the Subsidiary Guarantee on the terms set forth herein or therein; and

(b) immediately after giving effect to such transaction, no Default or Event of Default exists.

In case of any such consolidation, merger, sale or conveyance and upon the assumption by the successor Person, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the Subsidiary Guarantee endorsed upon the Notes and the due and punctual performance of all of the covenants and conditions of this Indenture to be performed by the Guarantor, such successor Person shall succeed to and be substituted for the Guarantor with the same effect as if it had been named herein as a Guarantor. Such successor Person thereupon may cause to be signed any or all of the Subsidiary Guarantees to be endorsed upon all of the Notes issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee. All the Subsidiary Guarantees so issued shall in all respects have the same legal rank and benefit under this Indenture as the Subsidiary Guarantees theretofore and thereafter issued in accordance with the terms of this Indenture as though all of such Subsidiary Guarantees had been issued at the date of the execution hereof.

Except as set forth in Articles 4 and 5 hereof, and notwithstanding clauses (a) and (b) above, nothing contained in this Indenture or in any of the Notes shall prevent any consolidation or merger of a Guarantor with or into the Company or another Guarantor, or shall prevent any sale or conveyance of the property of a Guarantor as an entirety or substantially as an entirety to the Company or another Guarantor.

Section 11.06. *Releases Following Sale.*

In the event (i) of a sale or other disposition of all of the assets of any Guarantor, by way of merger, consolidation or otherwise, (ii) of a sale or other disposition of all to the capital stock of any Guarantor, in each case to a Person that is not (either before or after giving effect to such transactions) a Restricted Subsidiary of the Company or (iii) that the Company properly designates any Restricted Subsidiary that is a Guarantor as an Unrestricted Subsidiary in accordance with this Indenture, then such Guarantor (in the event of a sale or other disposition, by way of merger, consolidation or otherwise, of all of the capital stock of such Guarantor) or the corporation acquiring the property (in the event of a sale or other disposition of all or substantially all of the assets of such

Guarantor) will be released and relieved of any obligations under its Subsidiary Guarantee; *provided* that the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of this Indenture, including without limitation Section 4.10 hereof. Upon delivery by the

Company to the Trustee of an Officers' Certificate and an Opinion of Counsel to the effect that such sale or other disposition was made by the Company in accordance with the provisions of this Indenture, including without limitation Section 4.10 hereof, the Trustee shall execute any documents reasonably required in order to evidence the release of any Guarantor from its obligations under its Subsidiary Guarantee.

Any Guarantor not released from its obligations under its Subsidiary Guarantee shall remain liable for the full amount of principal of and interest on the Notes and for the other obligations of any Guarantor under this Indenture as provided in this Article 11.

ARTICLE 12

SATISFACTION AND DISCHARGE

Section 12.01. *Satisfaction and Discharge.*

This Indenture shall be discharged and shall cease to be of further effect as to all Notes issued thereunder, when:

(1) either:

(a) all Notes that have been authenticated, except lost, stolen or destroyed Notes that have been replaced or paid and Notes for whose payment money has been deposited in trust and, if provided for in this Indenture, thereafter repaid to the Company, have been delivered to the Trustee for cancellation; or

(b) all Notes that have not been delivered to the Trustee for cancellation have become due and payable by reason of the mailing of a notice of redemption or otherwise or shall become due and payable within one year and the Company or any Guarantor has irrevocably deposited or caused to be deposited with the Trustee as trust funds in trust solely for the benefit of the Holders, cash in U.S. dollars, non-callable Government Securities, or a combination of cash in U.S. dollars and non-callable Government Securities, in amounts as shall be sufficient without consideration of any reinvestment of interest, to pay and discharge the entire indebtedness on the Notes not delivered to the Trustee for cancellation for principal, premium and Additional Interest, if any, and accrued interest to the date of maturity or redemption;

(2) no Default or Event of Default has occurred and is continuing on the date of the deposit or shall occur as a result of the deposit and the deposit shall not result in a breach or violation of, or constitute a default under, any other instrument to which the Company or any Guarantor is a party or by which the Company or any Guarantor is bound;

(3) the Company or any Guarantor has paid or caused to be paid all other sums payable by it under this Indenture; and

(4) the Company has delivered irrevocable instructions to the Trustee under this Indenture to apply the deposited money toward the payment of the Notes at maturity or the redemption date, as the case may be.

In addition, the Company must deliver an Officers' Certificate and an Opinion of Counsel to the Trustee stating that all conditions precedent to satisfaction and discharge have been satisfied.

Notwithstanding the satisfaction and discharge of this Indenture, if money shall have been deposited with the Trustee pursuant to subclause (b) of clause (1) of this Section, the provisions of Section 12.02 and Section 8.06 shall survive.

Section 12.02. *Application of Trust Money.*

Subject to the provisions of Section 8.06, all money deposited with the Trustee pursuant to Section 11.01 shall be held in trust and applied by it, in accordance with the provisions of the Notes and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal (and premium or Additional Interest, if any) and interest for whose payment such money has been deposited with the Trustee; but such money need not be segregated from other funds except to the extent required by law.

If the Trustee or Paying Agent is unable to apply any money or Government Securities in accordance with Section 11.01 by reason of any legal proceeding or by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, the Company's and any Guarantor's obligations under this Indenture and the Notes shall be revived and reinstated as though no deposit had occurred pursuant to Section 11.01; *provided* that if the Company has made any payment of principal of, premium or Additional Interest, if any, or interest on any Notes because of the reinstatement of its obligations, the Company shall be subrogated to the rights of the Holders of such Notes to receive such payment from the money or Government Securities held by the Trustee or Paying Agent.

ARTICLE 13

MISCELLANEOUS

Section 13.01. *Trust Indenture Act Controls.*

If any provision of this Indenture limits, qualifies or conflicts with the duties imposed by TIA § 318(c), the imposed duties shall control.

Section 13.02. *Notices.*

Any notice or communication by the Company, any Guarantor or the Trustee to the others is duly given if in writing and delivered in Person or mailed by first class mail (registered or certified, return receipt requested), telex, telecopier or overnight air courier guaranteeing next day delivery, to the others' address:

If to the Company and/or any Guarantor:

Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Telecopier No.: (610) 376-2842
Attention: Robert S. Ippolito

With a copy to:

Skadden, Arps, Slate, Meagher & Flom LLP
300 South Grand Avenue
Suite 3400
Los Angeles, CA 90071
Telecopier No.: (213) 687-5600
Attention: Rodrigo Guerra, Jr., Esq.

If to the Trustee:

U.S. Bank National Association
225 Asylum Street Hartford, CT 06103

Telecopier No.: (860) 241-6881
Attention: Corporate Trust Services (Penn National Gaming, Inc. $6^{7}/_{8}$% Senior Subordinated Notes due 2011)

The Company, any Guarantor or the Trustee, by notice to the others may designate additional or different addresses for subsequent notices or communications.

All notices and communications (other than those sent to Holders) shall be deemed to have been duly given: at the time delivered by hand, if personally delivered; five Business Days after being deposited in the mail, postage prepaid, if mailed; when answered back, if telexed; when receipt acknowledged, if telecopied; and the next Business Day after timely delivery to the courier, if sent by overnight air courier guaranteeing next day delivery.

Any notice or communication to a Holder shall be mailed by first class mail, certified or registered, return receipt requested, or by overnight air courier guaranteeing next day delivery to its address shown on the register kept by the Registrar. Any notice or communication shall also be so mailed to any Person described in TIA § 313(c), to the extent required by the TIA. Failure to mail a notice or communication to a Holder or any defect in it shall not affect its sufficiency with respect to other Holders.

If a notice or communication is mailed in the manner provided above within the time prescribed, it is duly given, whether or not the addressee receives it.

If the Company mails a notice or communication to Holders, it shall mail a copy to the Trustee and each Agent at the same time.

Section 13.03. *Communication by Holders of Notes with Other Holders of Notes.*

Holders may communicate pursuant to TIA § 312(b) with other Holders with respect to their rights under this Indenture or the Notes. The Company, the Trustee, the Registrar and anyone else shall have the protection of TIA § 312(c).

Section 13.04. *Certificate and Opinion as to Conditions Precedent.*

Upon any request or application by the Company to the Trustee to take any action under this Indenture, the Company shall furnish to the Trustee:

(a) an Officers' Certificate in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 13.05 hereof) stating that, in the opinion of the signers, all conditions precedent and covenants, if any, provided for in this Indenture relating to the proposed action have been satisfied; and

(b) an Opinion of Counsel in form and substance reasonably satisfactory to the Trustee (which shall include the statements set forth in Section 13.05 hereof) stating that, in the opinion of such counsel, all such conditions precedent and covenants have been satisfied.

Section 13.05. *Statements Required in Certificate or Opinion.*

Each certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture (other than a certificate provided pursuant to TIA § 314(a)(4)) shall comply with the provisions of TIA § 314(e) and shall include:

(a) a statement that the Person making such certificate or opinion has read such covenant or condition;

(b) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(c) a statement that, in the opinion of such Person, he or she has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been satisfied; and

(d) a statement as to whether or not, in the opinion of such Person, such condition or covenant has been satisfied.

Section 13.06. *Rules by Trustee and Agents.*

The Trustee may make reasonable rules for action by or at a meeting of Holders. The Registrar or Paying Agent may make reasonable rules and set reasonable requirements for its functions.

Section 13.07. *No Personal Liability of Directors, Officers, Employees and Stockholders.*

No director, officer, employee, incorporator or stockholder of the Company or any Guarantor, as such, shall have any liability for any obligations of the Company or the Guarantors under the Notes, this Indenture, or the Subsidiary Guarantees, or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of Notes by accepting a note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. The waiver may not be effective to waive liabilities under the federal securities laws.

Section 13.08. *Governing Law.*

THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS INDENTURE AND THE NOTES WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

Section 13.09. *No Adverse Interpretation of Other Agreements.*

This Indenture may not be used to interpret any other indenture, loan or debt agreement of the Company or its Subsidiaries or of any other Person. Any such indenture, loan or debt agreement may not be used to interpret this Indenture.

Section 13.10. *Successors.*

All agreements of the Company in this Indenture and the Notes shall bind its successors. All agreements of the Trustee in this Indenture shall bind its successors. All agreements of each Guarantor in this Indenture shall bind its successors.

Section 13.11. *Severability.*

In case any provision in this Indenture or in the Notes shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

Section 13.12. *Counterpart Originals.*

The parties may sign any number of copies of this Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

Section 13.13. *Table of Contents, Headings, etc.*

The Table of Contents, Cross-Reference Table and Headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only, are not to be considered a part of this Indenture and shall in no way modify or restrict any of the terms or provisions hereof.

[Signatures on following page]

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

PENN NATIONAL GAMING, INC.

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

W-B DOWNS, INC.

By: /s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: President

WILKES BARRE DOWNS, INC.

By: /s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: President

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

BACKSIDE, INC.

By: /s/ RICHARD ORBANN

Name: Richard Orbann
Title: President

PENN NATIONAL SPEEDWAY, INC.

By: /s/ RICHARD J. CARLINO

Name: Richard J. Carlino
Title: President

PENN NATIONAL GSFR, LLC.

By: PENN NATIONAL GAMING, INC.
Sole Member and Manager

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Vice President, Secretary and Treasuruer

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

By: PENN NATIONAL GAMING OF WEST VIRGINIA, INC.,
Managing Member

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary and Treasurer

ALL OTHER GUARANTORS, LISTED ON SCHEDULE B HERETO

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

U.S. BANK NATIONAL ASSOCIATION, AS TRUSTEE

By: /s/ PHILIP G. KANE, JR.

Authorized Signatory

EXHIBIT A

[Face of Note]

CUSIP/CINS

6 7/8% [Series A] [Series B] Senior Subordinated Notes due 2011

No. $

PENN NATIONAL GAMING, INC. promises to pay to or registered assigns, the principal sum of **Dollars on , 2011.**

Interest Payment Dates: and

Record Dates: and

Dated: ,

PENN NATIONAL GAMING, INC.

By:

Name:
Title:

This is one of the Notes referred to in the within-mentioned Indenture:

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By:

Authorized Signatory

[Back of Note]

6 7/8% [Series A] [Series B] Senior Subordinated Notes due 2011

[Insert the Global Note Legend, if applicable pursuant to the provisions of the Indenture]

[Insert the Private Placement Legend, if applicable pursuant to the provisions of the Indenture]

Capitalized terms used herein shall have the meanings assigned to them in the Indenture referred to below unless otherwise indicated.

1. *Interest.* Penn National Gaming, Inc., a Pennsylvania corporation (the "*Company*"), promises to pay interest on the principal amount of this Note at 6 7/8% per annum from December 4, 2003 until maturity and shall pay any Additional Interest. Any Additional Interest following the occurrence of a Registration Default shall be assessed on the principal amount of Transfer Restricted Securities held by such Holder as described in the Registration Rights Agreement. The Company shall pay interest and any Additional Interest semi-annually in arrears on June 1 and December 1 of each year, or if any such day is not a Business Day, on the next succeeding Business Day (each an "*Interest Payment Date*"). Interest on the Notes will accrue from the most recent date to which interest has been paid or, if no interest has been paid, from the date of issuance; *provided* that if there is no existing Default in the payment of interest, and if this Note is authenticated between a record date referred to on the face hereof and the next succeeding Interest Payment Date, interest shall accrue from such next succeeding Interest Payment Date; *provided*, further, that the first Interest Payment Date shall be June 1, 2004. The Company shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue principal and premium, if any, from time to time on demand at a rate that is 1% per annum in excess of the rate then in effect; it shall pay interest (including post-petition interest in any proceeding under any Bankruptcy Law) on overdue installments of interest and any Additional Interest (without regard to any applicable grace periods) from time to time on demand at the same rate to the extent lawful. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

2. *Method of Payment.* The Company will pay interest on the Notes (except defaulted interest) and Additional Interest, if any, to the Persons who are registered Holders of Notes at the close of business on May 15 and November 15 preceding the Interest Payment Date, even if such Notes are canceled after such record date and on or before such Interest Payment Date, except as provided in Section 2.12 of the Indenture with respect to defaulted interest. The Notes will be payable as to principal, premium and Additional Interest, if any, and interest at the office or agency of the Company maintained for such purpose within the City and State of New York, or, at the option of the Company, payment of interest and any Additional Interest may be made by check mailed to the Holders at their addresses set forth in the register of Holders, and provided that payment by wire transfer of immediately available funds will be required with respect to principal of and interest, premium and any Additional Interest on, all Global Notes and all other Notes the Holders of which hold at least $1,000,000 in principal amount of the Notes and shall have provided wire transfer instructions to the Company or the Paying Agent. Such payment shall be in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts.

3. *Paying Agent and Registrar.* Initially, State Street Bank and Trust Company, the Trustee under the Indenture, will act as Paying Agent and Registrar. The Company may change any Paying Agent or Registrar without notice to any Holder. The Company or any of its Subsidiaries may act in any such capacity.

4. *Indenture.* The Company issued the Notes under an Indenture dated as of December 4, 2003 ("*Indenture*") among the Company, the Guarantors and the Trustee. The terms of the Notes include those stated in the Indenture and those made part of the Indenture by reference to the Trust Indenture Act of 1939, as amended (15 U.S. Code §§ 77aaa-77bbbb). The Notes are subject to all such terms, and

Holders are referred to the Indenture and such Act for a statement of such terms. To the extent any provision of this Note conflicts with the express provisions of the Indenture, the provisions of this Indenture shall govern and be controlling.

5. *Optional Redemption.*

(a) At any time prior to December 1, 2006, the Company may on any one or more occasions redeem up to 35% of the aggregate principal amount of Notes originally issued under this Indenture at a redemption price of 106.875% of the principal amount, plus accrued and unpaid interest and Additional Interest, if any, to the redemption date, with the net cash proceeds of one or more Equity Offerings; *provided* that at least 65% of the aggregate principal amount of Notes issued under this Indenture remains outstanding immediately after the occurrence of such redemption (excluding Notes held by the Company and its Subsidiaries); and the redemption occurs within 90 days of the date of the closing of such Equity Offering.

(b) Except as described above, the Notes shall not be redeemable at the Company's option prior to December 1, 2007. On and after December 1, 2007, the Company may redeem all or a part of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed as percentages of principal amount) set forth below plus accrued and unpaid interest and Additional Interest, if any, on the Notes redeemed, to the applicable redemption date, if redeemed during the twelve-month period beginning on December 1 of the years indicated below:

Year	Percentage
2007	103.438%
2008	101.719%
2009 and thereafter	100.000%

In addition to the foregoing, if any Gaming Authority requires that a holder or beneficial owner of Notes must be licensed, qualified or found suitable under any applicable Gaming Laws and such holder or beneficial owner (i) fails to apply for a license, qualification or a finding of suitability within 30 days (or such shorter period as may be required by the applicable Gaming Authority) after being requested to do so by the Gaming Authority, or (ii) is denied such license or qualification or not found suitable, the Company shall have the right, at its option (i) to require any such holder or beneficial owner to dispose of its Notes within 30 days (or such earlier date as may be required by the applicable Gaming Authority) of receipt of such notice or finding by such Gaming Authority, or (ii) to call for the redemption of the Notes of such holder or beneficial owner at a redemption price equal to the least of (A) the principal amount thereof, together with accrued interest and Additional Interest, if any, to the earlier of the date of redemption or the date of the denial of license or qualification or of the finding of unsuitability by such Gaming Authority, (B) the price at which such holder or beneficial owner acquired the Notes, together with accrued interest and Additional Interest, if any, to the earlier of the date of redemption or the date of the denial of license or qualification or of the finding of unsuitability by such Gaming Authority, or (C) such other lesser amount as may be required by any Gaming Authority.

6. *Mandatory Redemption.*

Except as set forth in paragraph 7 below, the Company shall not be required to make mandatory redemption payments with respect to the Notes.

7. *Repurchase at Option of Holder.*

(a) If there is a Change of Control, the Company will be required to make an offer (a "*Change of Control Offer*") to repurchase all or any part (equal to $1,000 or an integral multiple thereof) of each Holder's Notes at a purchase price equal to 101% of the aggregate principal amount thereof plus accrued and unpaid interest and Additional Interest thereon, if any, to the

date of purchase (the "*Change of Control Payment*"). Within 30 days following any Change of Control, the Company will mail a notice to each Holder setting forth the procedures governing the Change of Control Offer as required by the Indenture.

(b) If the Company or a Subsidiary consummates any Asset Sales, within five days of each date on which the aggregate amount of Excess Proceeds exceeds $5 million, the Company will commence an offer to all Holders of Notes (as "*Asset Sale Offer*") pursuant to Section 3.09 of the Indenture to purchase the maximum principal amount of Notes that may be purchased out of the Excess Proceeds at an offer price in cash in an amount equal to 100% of the principal amount thereof plus accrued and unpaid interest and Additional Interest thereon, if any, to the date fixed for the closing of such offer, in accordance with the procedures set forth in the Indenture. To the extent that the aggregate amount of Notes tendered pursuant to an Asset Sale Offer is less than the Excess Proceeds, the Company (or such Subsidiary) may use such deficiency for general corporate purposes. If the aggregate principal amount of Notes surrendered by Holders thereof exceeds the amount of Excess Proceeds, the Trustee will select the Notes to be purchased on a pro rata basis. Holders of Notes that are the subject of an offer to purchase will receive an Asset Sale Offer from the Company prior to any related purchase date and may elect to have such Notes purchased by completing the form entitled "Option of Holder to Elect Purchase" on the reverse of the Notes.

8. *Notice of Redemption.* Notice of redemption will be mailed at least 30 days but not more than 60 days before the redemption date to each Holder whose Notes are to be redeemed at its registered address. Notes in denominations larger than $1,000 may be redeemed in part but only in whole multiples of $1,000, unless all of the Notes held by a Holder are to be redeemed. On and after the redemption date interest ceases to accrue on Notes or portions thereof called for redemption.

9. *Denominations, Transfer, Exchange.* The Notes are in registered form without coupons in denominations of $1,000 and integral multiples of $1,000. The transfer of Notes may be registered and Notes may be exchanged as provided in the Indenture. The Registrar and the Trustee may require a Holder, among other things, to furnish appropriate endorsements and transfer documents and the Company may require a Holder to pay any taxes and fees required by law or permitted by the Indenture. The Company need not exchange or register the transfer of any Note or portion of a Note selected for redemption, except for the unredeemed portion of any Note being redeemed in part. Also, the Company need not exchange or register the transfer of any Notes for a period of 15 days before a selection of Notes to be redeemed or during the period between a record date and the corresponding Interest Payment Date.

10. *Persons Deemed Owners.* The registered Holder of a Note may be treated as its owner for all purposes.

11. *Amendment, Supplement and Waiver.* Subject to certain exceptions, the Indenture or the Notes may be amended or supplemented with the consent of the Holders of at least a majority in principal amount of the then outstanding Notes voting as a single class, and any existing default or compliance with any provision of the Indenture or the Notes may be waived with the consent of the Holders of a majority in principal amount of the then outstanding Notes voting as a single class. Without the consent of any Holder of a Note, the Indenture, the Subsidiary Guarantees or the Notes may be amended or supplemented to cure any ambiguity, defect or inconsistency, to provide for uncertificated Notes in addition to or in place of certificated Notes, to provide for the assumption of the Company's or Guarantor's obligations to Holders of the Notes in case of a merger or consolidation, to make any change that would provide any additional rights or benefits to the Holders of the Notes or that does not adversely affect the legal rights under the Indenture of any such Holder, to comply with the requirements of the SEC in order to effect or maintain the qualification of the Indenture under the

Trust Indenture Act, or to allow any Guarantor to execute a supplemental indenture to the Indenture and/or a Subsidiary Guarantee with respect to the Notes.

12. *Defaults and Remedies.* Events of Default include: (i) default for 30 days in the payment when due of interest or Additional Interest on the Notes; (ii) default in payment when due of principal of or premium, if any, on the Notes when the same becomes due and payable at maturity, upon redemption (including in connection with an offer to purchase) or otherwise, (iii) failure by the Company or any of its Restricted Subsidiaries to comply with Section 4.07, 4.09, 4.10, 4.14 or 5.01 of the Indenture; (iv) failure by the Company or any of its Restricted Subsidiaries for 60 days after notice to the Company by the Trustee or the Holders of at least 25% in principal amount of the Notes then outstanding voting as a single class to comply with certain other agreements in the Indenture or the Notes; (v) default under certain other agreements relating to Indebtedness of the Company which default results in the acceleration of such Indebtedness prior to its express maturity; (vi) certain final judgments for the payment of money that remain undischarged for a period of 60 days; (vii) certain events of bankruptcy or insolvency with respect to the Company or any of its Restricted Subsidiaries that is a Significant Subsidiary or any group of Restricted Subsidiaries that, taken as a whole, would constitute a Significant Subsidiary; and (viii) except as permitted by this Indenture, any Subsidiary Guarantee of any Restricted Subsidiary shall be held in any judicial proceeding to be unenforceable or invalid or shall cease for any reason to be in full force and effect or any Guarantor shall deny or disaffirm its obligations under its Subsidiary Guarantee. If any Event of Default occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the then outstanding Notes may declare all the Notes to be due and payable. Notwithstanding the foregoing, in the case of an Event of Default arising from certain events of bankruptcy or insolvency, all outstanding Notes shall become due and payable without further action or notice. Holders may not enforce the Indenture or the Notes except as provided in the Indenture. Subject to certain limitations, Holders of a majority in principal amount of the then outstanding Notes may direct the Trustee in its exercise of any trust or power. The Trustee may withhold from Holders of the Notes notice of any continuing Default or Event of Default (except a Default or Event of Default relating to the payment of principal, interest or Additional Interest) if it determines that withholding notice is in their interest. The Holders of a majority in aggregate principal amount of the Notes then outstanding by notice to the Trustee may on behalf of the Holders of all of the Notes waive any existing Default or Event of Default and its consequences under the Indenture except a continuing Default or Event of Default in the payment of interest or Additional Interest on, or the principal of, the Notes. The Company is required to deliver to the Trustee annually a statement regarding compliance with the Indenture, and the Company is required upon becoming aware of any Default or Event of Default, to deliver to the Trustee a statement specifying such Default or Event of Default.

13. *Trustee Dealings with Company.* The Trustee, in its individual or any other capacity, may make loans to, accept deposits from, and perform services for the Company or its Affiliates, and may otherwise deal with the Company or its Affiliates, as if it were not the Trustee.

14. *No Recourse Against Others.* A director, officer, employee, incorporator or stockholder, of the Company, as such, shall not have any liability for any obligations of the Company under the Notes or the Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for the issuance of the Notes.

15. *Authentication.* This Note shall not be valid until authenticated by the manual signature of the Trustee or an authenticating agent.

16. *Abbreviations.* Customary abbreviations may be used in the name of a Holder or an assignee, such as: TEN COM (= tenants in common), TEN ENT (= tenants by the entireties), JT TEN (= joint

tenants with right of survivorship and not as tenants in common), CUST (= Custodian), and U/G/M/A (= Uniform Gifts to Minors Act).

17. *Additional Rights of Holders of Restricted Global Notes and Restricted Definitive Notes.* In addition to the rights provided to Holders of Notes under the Indenture, Holders of Restricted Global Notes and Restricted Definitive Notes shall have all the rights set forth in the Registration Rights Agreement.

18. *CUSIP Numbers.* Pursuant to a recommendation promulgated by the Committee on Uniform Security Identification Procedures, the Company has caused CUSIP numbers to be printed on the Notes and the Trustee may use CUSIP numbers in notices of redemption as a convenience to Holders. No representation is made as to the accuracy of such numbers either as printed on the Notes or as contained in any notice of redemption and reliance may be placed only on the other identification numbers placed thereon.

The Company will furnish to any Holder upon written request and without charge a copy of the Indenture and/or the Registration Rights Agreement. Requests may be made to:

Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610
Attention: Robert S. Ippolito

ASSIGNMENT FORM

To assign this Note, fill in the form below:

(I) or (we) assign and transfer this Note to:

(Insert assignee's legal name)

(Insert assignee's soc. sec. or tax I.D. no.)

(Print or type assignee's name, address and zip code)

and irrevocably appoint to transfer this Note on the books of the Company. The agent may substitute another to act for him.

Date:

Your Signature:

(Sign exactly as your name appears on the face of this Note)

Signature Guarantee*:

* Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor acceptable to the Trustee).

OPTION OF HOLDER TO ELECT PURCHASE

If you want to elect to have this Note purchased by the Company pursuant to Section 4.10 or 4.14 of the Indenture, check the appropriate box below:

o Section 4.10 o Section 4.14

If you want to elect to have only part of the Note purchased by the Company pursuant to Section 4.10 or Section 4.14 of the Indenture, state the amount you elect to have purchased:

$

Date:

Your Signature:

(Sign exactly as your name appears on the face of this Note)

Tax Identification No.:

Signature Guarantee*:

* Participant in a recognized Signature Guarantee Medallion Program (or other signature guarantor acceptable to the Trustee).

SCHEDULE OF EXCHANGES OF INTERESTS IN THE GLOBAL NOTE(1)

The following exchanges of a part of this Global Note for an interest in another Global Note or for a Definitive Note, or exchanges of a part of another Global Note or Definitive Note for an interest in this Global Note, have been made:

Date of Exchange	Amount of Decrease in Principal Amount of This Global Note	Amount of Increase in Principal Amount of This Global Note	Principal Amount of This Global Note Following Such	Signature of Responsible Officer of Trustee or Note Custodian

	Decrease (or Increase)	

(1) This schedule should be included only if the Note is issued in global form.

EXHIBIT B

FORM OF CERTIFICATE OF TRANSFER

Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610

U.S. Bank National Association
Goodwin Square
225 Asylum Street
Hartford, CT 06103
Attention: Corporate Trust Services

Re: *6 7/8% Senior Subordinated Notes due 2011*

Reference is hereby made to the Indenture, dated as of December 4, 2003 (the "*Indenture*"), among National Gaming, Inc., as issuer (the "*Company*"), the Guarantors and U.S. Bank National Association, as trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

(the "*Transferor*") owns and proposes to transfer the Note[s] or interest in such Note[s] specified in Annex A hereto, in the principal amount of $ in such Note[s] or interests (the "*Transfer*"), to (the "*Transferee*"), as further specified in Annex A hereto. In connection with the Transfer, the Transferor hereby certifies that:

[CHECK ALL THAT APPLY]

1. o Check if Transferee will take delivery of a beneficial interest in the 144A Global Note or a Definitive Note Pursuant to Rule 144A. The Transfer is being effected pursuant to and in accordance with Rule 144A under the United States Securities Act of 1933, as amended (the "*Securities Act*"), and, accordingly, the Transferor hereby further certifies that the beneficial interest or Definitive Note is being transferred to a Person that the Transferor reasonably believed and believes is purchasing the beneficial interest or Definitive Note for its own account, or for one or more accounts with respect to which such Person exercises sole investment discretion, and such Person and each such account is a "qualified institutional buyer" within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and such Transfer is in compliance with any applicable blue sky securities laws of any state of the United States. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the 144A Global Note and/or the Definitive Note and in the Indenture and the Securities Act.

2. o Check if Transferee will take delivery of a beneficial interest in the Regulation S Global Note or a Definitive Note pursuant to Regulation S. The Transfer is being effected pursuant to and in accordance with Rule 903 or Rule 904 under the Securities Act and, accordingly, the Transferor hereby further certifies that (i) the Transfer is not being made to a person in the United States and (x) at the time the buy order was originated, the Transferee was outside the United States or such Transferor and any Person acting on its behalf reasonably believed and believes that the Transferee was outside the United States or (y) the transaction was executed in, on or through the facilities of a designated offshore securities market and neither such Transferor nor any Person acting on its behalf knows that the transaction was prearranged with a buyer in the United States, (ii) no directed selling efforts have been made in contravention of the requirements of Rule 903(b) or Rule 904(b) of Regulation S under the Securities Act, (iii) the transaction is not part of a plan or scheme to evade the registration

requirements of the Securities Act, and (iv) if the proposed transfer is being made prior to the expiration of the Restricted Period, the transfer is not being made to a U.S. Person or for the account or benefit of a U.S. Person (other than an Initial Purchaser). Upon consummation of the proposed transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will be subject to the restrictions on Transfer enumerated in the Private Placement Legend printed on the Regulation S Global Note and/or the Definitive Note and in the Indenture and the Securities Act.

3. o Check and complete if Transferee will take delivery of a beneficial interest in the IAI Global Note or a Definitive Note pursuant to any provision of the Securities Act other than Rule 144A or Regulation S. The Transfer is being effected in compliance with the transfer restrictions applicable to beneficial interests in Restricted Global Notes and Restricted Definitive Notes and pursuant to and in accordance with the Securities Act and any applicable blue sky securities laws of any state of the United States, and accordingly the Transferor hereby further certifies that (check one):

(a) o such Transfer is being effected pursuant to and in accordance with Rule 144 under the Securities Act;

or

(b) o such Transfer is being effected to the Company or a subsidiary thereof;

or

(c) o such Transfer is being effected pursuant to an effective registration statement under the Securities Act and in compliance with the prospectus delivery requirements of the Securities Act;

or

(d) o such Transfer is being effected to an Institutional Accredited Investor and pursuant to an exemption from the registration requirements of the Securities Act other than Rule 144A, Rule 144 or Rule 904, and the Transferor hereby further certifies that it has not engaged in any general solicitation within the meaning of Regulation D under the Securities Act and the Transfer complies with the transfer restrictions applicable to beneficial interests in a Restricted Global Note or Restricted Definitive Notes and the requirements of the exemption claimed, which certification is supported by (1) a certificate executed by the Transferee in the form of *Exhibit D* to the Indenture and (2) if the Company so requests, an Opinion of Counsel provided by the Transferor or the Transferee (a copy of which the Transferor has attached to this certification), to the effect that such Transfer is in compliance with the Securities Act. Upon consummation of the proposed transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the IAI Global Note and/or the Definitive Notes and in the Indenture and the Securities Act.

4. o Check if Transferee will take delivery of a beneficial interest in an Unrestricted Global Note or of an Unrestricted Definitive Note.

(a) o Check if Transfer is pursuant to Rule 144. (i) The Transfer is being effected pursuant to and in accordance with Rule 144 under the Securities Act and in compliance with the transfer restrictions contained in the Indenture and any applicable blue sky securities laws of any state of the United States and (ii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will no longer be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Notes, on Restricted Definitive Notes and in the Indenture.

(b) o Check if Transfer is Pursuant to Regulation S. (i) The Transfer is being effected pursuant to and in accordance with Rule 903 or Rule 904 under the Securities Act and in compliance with the transfer restrictions contained in the Indenture and any applicable blue sky securities laws of any state of the United States and (ii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will no longer be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Notes, on Restricted Definitive Notes and in the Indenture.

(c) o Check if Transfer is Pursuant to Other Exemption. (i) The Transfer is being effected pursuant to and in compliance with an exemption from the registration requirements of the Securities Act other than Rule 144, Rule 903 or Rule 904 and in compliance with the transfer restrictions contained in the Indenture and any applicable blue sky securities laws of any State of the United States and (ii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act. Upon consummation of the proposed Transfer in accordance with the terms of the Indenture, the transferred beneficial interest or Definitive Note will not be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Global Notes or Restricted Definitive Notes and in the Indenture.

This certificate and the statements contained herein are made for your benefit and the benefit of the Company.

[Insert Name of Transferor]

By: _____

Name:
Title:

Dated: _____

ANNEX A TO CERTIFICATE OF TRANSFER

1. The Transferor owns and proposes to transfer the following:

[CHECK ONE OF (a) OR (b)]

(a) o a beneficial interest in the:

(i) o 144A Global Note (CUSIP), or

(ii) o Regulation S Global Note (CUSIP), or

(iii) o IAI Global Note (CUSIP); or

(b) o a Restricted Definitive Note.

2. After the Transfer the Transferee will hold:

[CHECK ONE]

(a) o a beneficial interest in the:

(i) o 144A Global Note (CUSIP), or

(ii) o Regulation S Global Note (CUSIP), or

(iii) o IAI Global Note (CUSIP); or

(iv) o Unrestricted Global Note (CUSIP); or

(b) o a Restricted Definitive Note; or

(c) o an Unrestricted Definitive Note, in accordance with the terms of the Indenture.

EXHIBIT C

FORM OF CERTIFICATE OF EXCHANGE

Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610

U.S. Bank National Association
Goodwin Square
225 Asylum Street
Hartford, CT 06103
Attention: Corporate Trust Services

Re: *6 7/8% Senior Subordinated Notes due 2011*

(CUSIP)

Reference is hereby made to the Indenture, dated as of December 4, 2003 (the "*Indenture*"), between Penn National Gaming, Inc., as issuer (the "*Company*"), the Guarantors and U.S. Bank National Association, as trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

, (the "*Owner*") owns and proposes to exchange the Note[s] or interest in such Note[s] specified herein, in the principal amount of $ in such Note[s] or interests (the "*Exchange*"). In connection with the Exchange, the Owner hereby certifies that:

1. Exchange of Restricted Definitive Notes or Beneficial Interests in a Restricted Global Note for Unrestricted Definitive Notes or Beneficial Interests in an Unrestricted Global Note

(a) o Check if Exchange is from beneficial interest in a Restricted Global Note to beneficial interest in an Unrestricted Global Note. In connection with the Exchange of the Owner's beneficial interest in a Restricted Global Note for a beneficial interest in an Unrestricted Global Note in an equal principal amount, the Owner hereby certifies (i) the beneficial interest is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to the Global Notes and pursuant to and in accordance with the United States Securities Act of 1933, as amended (the "*Securities Act*"), (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the beneficial interest in an Unrestricted Global Note is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

(b) o Check if Exchange is from beneficial interest in a Restricted Global Note to Unrestricted Definitive Note. In connection with the Exchange of the Owner's beneficial interest in a Restricted Global Note for an Unrestricted Definitive Note, the Owner hereby certifies (i) the Definitive Note is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to the Restricted Global Notes and pursuant to and in accordance with the Securities Act, (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the Definitive Note is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

(c) o Check if Exchange is from Restricted Definitive Note to beneficial interest in an Unrestricted Global Note. In connection with the Owner's Exchange of a Restricted Definitive

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Note for a beneficial interest in an Unrestricted Global Note, the Owner hereby certifies (i) the beneficial interest is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to Restricted Definitive Notes and

pursuant to and in accordance with the Securities Act, (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the beneficial interest is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

(d) o Check if Exchange is from Restricted Definitive Note to Unrestricted Definitive Note. In connection with the Owner's Exchange of a Restricted Definitive Note for an Unrestricted Definitive Note, the Owner hereby certifies (i) the Unrestricted Definitive Note is being acquired for the Owner's own account without transfer, (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to Restricted Definitive Notes and pursuant to and in accordance with the Securities Act, (iii) the restrictions on transfer contained in the Indenture and the Private Placement Legend are not required in order to maintain compliance with the Securities Act and (iv) the Unrestricted Definitive Note is being acquired in compliance with any applicable blue sky securities laws of any state of the United States.

2. Exchange of Restricted Definitive Notes or Beneficial Interests in Restricted Global Notes for Restricted Definitive Notes or Beneficial Interests in Restricted Global Notes

(a) o Check if Exchange is from beneficial interest in a Restricted Global Note to Restricted Definitive Note. In connection with the Exchange of the Owner's beneficial interest in a Restricted Global Note for a Restricted Definitive Note with an equal principal amount, the Owner hereby certifies that the Restricted Definitive Note is being acquired for the Owner's own account without transfer. Upon consummation of the proposed Exchange in accordance with the terms of the Indenture, the Restricted Definitive Note issued will continue to be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the Restricted Definitive Note and in the Indenture and the Securities Act.

(b) o Check if Exchange is from Restricted Definitive Note to beneficial interest in a Restricted Global Note. In connection with the Exchange of the Owner's Restricted Definitive Note for a beneficial interest in the [CHECK ONE] 144A Global Note, Regulation S Global Note, IAI Global Note with an equal principal amount, the Owner hereby certifies (i) the beneficial interest is being acquired for the Owner's own account without transfer and (ii) such Exchange has been effected in compliance with the transfer restrictions applicable to the Restricted Global Notes and pursuant to and in accordance with the Securities Act, and in compliance with any applicable blue sky securities laws of any state of the United States. Upon consummation of the proposed Exchange in accordance with the terms of the Indenture, the beneficial interest issued will be subject to the restrictions on transfer enumerated in the Private Placement Legend printed on the relevant Restricted Global Note and in the Indenture and the Securities Act.

This certificate and the statements contained herein are made for your benefit and the benefit of the Company.

[Insert Name of Transferor]

By: _____

Name:
Title:

EXHIBIT D

FORM OF CERTIFICATE FROM ACQUIRING INSTITUTIONAL ACCREDITED INVESTOR

Penn National Gaming, Inc.
Wyomissing Professional Center
825 Berkshire Boulevard, Suite 200
Wyomissing, PA 19610

U.S. Bank National Association
Goodwin Square
225 Asylum Street
Hartford, CT 06103
Attention: Corporate Trust Services

Re: *6 7/8% Senior Subordinated Notes due 2011*

Reference is hereby made to the Indenture, dated as of December 4, 2003 (the "*Indenture*"), between Penn National Gaming, Inc., as issuer (the "*Company*"), the Guarantors and U.S. Bank National Association, as trustee. Capitalized terms used but not defined herein shall have the meanings given to them in the Indenture.

In connection with our proposed purchase of $ aggregate principal amount of:

(a) o a beneficial interest in a Global Note, or

(b) o a Definitive Note,

we confirm that:

1. We understand that any subsequent transfer of the Notes or any interest therein is subject to certain restrictions and conditions set forth in the Indenture and the undersigned agrees to be bound by, and not to resell, pledge or otherwise transfer the Notes or any interest therein except in compliance with, such restrictions and conditions and the United States Securities Act of 1933, as amended (the "*Securities Act*").

2. We understand that the offer and sale of the Notes have not been registered under the Securities Act, and that the Notes and any interest therein may not be offered or sold except as permitted in the following sentence. We agree, on our own behalf and on behalf of any accounts for which we are acting as

hereinafter stated, that if we should sell the Notes or any interest therein, we will do so only (A) to the Company or any subsidiary thereof, (B) in accordance with Rule 144A under the Securities Act to a "qualified institutional buyer" (as defined therein), (C) to an institutional "accredited investor" (as defined below) that, prior to such transfer, furnishes (or has furnished on its behalf by a U.S. broker-dealer) to you and to the Company a signed letter substantially in the form of this letter and if the Company so requests, an Opinion of Counsel in form reasonably acceptable to the Company to the effect that such transfer is in compliance with the Securities Act, (D) outside the United States in accordance with Rule 904 of Regulation S under the Securities Act, (E) pursuant to the provisions of Rule 144(k) under the Securities Act or (F) pursuant to an effective registration statement under the Securities Act, and we further agree to provide to any person purchasing the Definitive Note or beneficial interest in a Global Note from us in a transaction meeting the requirements of clauses (A) through (E) of this paragraph a notice advising such purchaser that resales thereof are restricted as stated herein.

3. We understand that, on any proposed resale of the Notes or beneficial interest therein, we will be required to furnish to you and the Company such certifications, legal opinions and other information as you and the Company may reasonably require to confirm that the proposed sale

complies with the foregoing restrictions. We further understand that the Notes purchased by us will bear a legend to the foregoing effect.

4. We are an institutional "accredited investor" (as defined in Rule 501(a)(1), (2), (3) or (7) of Regulation D under the Securities Act) and have such knowledge and experience in financial and business matters as to be capable of evaluating the merits and risks of our investment in the Notes, and we and any accounts for which we are acting are each able to bear the economic risk of our or its investment.

5. We are acquiring the Notes or beneficial interest therein purchased by us for our own account or for one or more accounts (each of which is an institutional "accredited investor") as to each of which we exercise sole investment discretion.

You and the Company are entitled to rely upon this letter and are irrevocably authorized to produce this letter or a copy hereof to any interested party in any administrative or legal proceedings or official inquiry with respect to the matters covered hereby.

[Insert Name of Accredited Investor]

By: _____

Name:
Title:

EXHIBIT E

FORM OF SUBSIDIARY GUARANTEE

For value received, each Guarantor (which term includes any successor Person under the Indenture) has, jointly and severally, unconditionally guaranteed, to the extent set forth in the Indenture and subject to the provisions in the Indenture dated as of December 4, 2003 (the "*Indenture*") among Penn National Gaming, Inc. (the "*Company*"), the Guarantors and U.S. Bank National Association, as trustee (the "*Trustee*"), (a) the due and punctual payment of the principal of, premium, if any, and interest on the Notes (as defined in the Indenture), whether at maturity, by acceleration, redemption or otherwise, the due and punctual payment of interest on overdue principal and premium or Additional Interest, if any, and, to the extent permitted by law, interest, and the due and punctual performance of all other obligations of the Company to the Holders or the Trustee all in accordance with the terms of the Indenture and (b) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, that the same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise. The obligations of the Guarantors to the Holders of Notes and to the Trustee pursuant to the Subsidiary Guarantee and the Indenture are expressly set forth in Article 11 of the Indenture and reference is hereby made to the Indenture for the precise terms of the Subsidiary Guarantee. Each Holder of a Note, by accepting the same, (a) agrees to and shall be bound by such provisions, (b) authorizes and directs the Trustee, on behalf of such Holder, to take such action as may be necessary or appropriate to effectuate the subordination as provided in the Indenture and (c) appoints the Trustee attorney-in-fact of such Holder for such purpose; *provided*, *however*, that the Indebtedness evidenced by this Subsidiary Guarantee shall cease to be so subordinated and subject in right of payment upon any defeasance of this Note in accordance with the provisions of the Indenture.

[NAME OF GUARANTOR(S)]

By: _____

Name:
Title:

EXHIBIT F

FORM OF SUPPLEMENTAL INDENTURE TO BE DELIVERED BY SUBSEQUENT GUARANTORS

SUPPLEMENTAL INDENTURE (this "*Supplemental Indenture*"), dated as of , among (the "*Guaranteeing Subsidiary*"), a subsidiary of Penn National Gaming, Inc. (or its permitted successor), a Pennsylvania corporation (the "*Company*"), the Company, the other Guarantors (as

defined in the Indenture referred to herein) and U.S. Bank National Association, as trustee under this Indenture referred to below (the "*Trustee*").

W I T N E S S E T H

WHEREAS, the Company has heretofore executed and delivered to the Trustee an indenture (the "*Indenture*"), dated as of December 4, 2003 providing for the issuance of an unlimited amount of $6^{7}/_{8}$% Senior Subordinated Notes due 2011 (the "*Notes*");

WHEREAS, the Indenture provides that under certain circumstances the Guaranteeing Subsidiary shall execute and deliver to the Trustee a supplemental indenture pursuant to which the Guaranteeing Subsidiary shall unconditionally guarantee all of the Company's Obligations under the Notes and the Indenture on the terms and conditions set forth herein (the "*Subsidiary Guarantee*"); and

WHEREAS, pursuant to Section 9.01 of the Indenture, the Trustee is authorized to execute and deliver this Supplemental Indenture.

NOW THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Guaranteeing Subsidiary and the Trustee mutually covenant and agree for the equal and ratable benefit of the Holders of the Notes as follows:

1. *Capitalized Terms.* Capitalized terms used herein without definition shall have the meanings assigned to them in the Indenture.

2. *Agreement to Guarantee.* The Guaranteeing Subsidiary hereby agrees as follows:

(a) Along with all Guarantors named in the Indenture, to jointly and severally Guarantee, on a senior subordinated basis, to each Holder of a Note authenticated and delivered by the Trustee and to the Trustee and its successors and assigns, the Notes or the obligations of the Company hereunder or thereunder, that:

(i) the principal of and interest on the Notes will be promptly paid in full when due, whether at maturity, by acceleration, redemption or otherwise, and interest on the overdue principal of and interest on the Notes, if any, if lawful, and all other obligations of the Company to the Holders or the Trustee hereunder or thereunder will be promptly paid in full or performed, all in accordance with the terms hereof and thereof; and

(ii) in case of any extension of time of payment or renewal of any Notes or any of such other obligations, that same will be promptly paid in full when due or performed in accordance with the terms of the extension or renewal, whether at stated maturity, by acceleration or otherwise. Failing payment when due of any amount so guaranteed or any performance so guaranteed for whatever reason, the Guarantors shall be jointly and severally obligated to pay the same immediately.

(b) The obligations hereunder shall be unconditional, irrespective of the validity, regularity or enforceability of the Notes or the Indenture, the absence of any action to enforce the same, any waiver or consent by any Holder of the Notes with respect to any provisions hereof or thereof, the recovery of any judgment against the Company, any action to enforce the same or any other

circumstance which might otherwise constitute a legal or equitable discharge or defense of a guarantor.

(c) The following is hereby waived: diligence presentment, demand of payment, filing of claims with a court in the event of insolvency or bankruptcy of the Company, any right to require a proceeding first against the Company, protest, notice and all demands whatsoever.

(d) This Subsidiary Guarantee shall not be discharged except by complete performance of the obligations contained in the Notes and the Indenture, and the Guaranteeing Subsidiary accepts all obligations of a Guarantor under the Indenture.

(e) If any Holder or the Trustee is required by any court or otherwise to return to the Company, the Guarantors, or any Custodian, Trustee, liquidator or other similar official acting in relation to either the Company or the Guarantors, any amount paid by either to the Trustee or such Holder, this Subsidiary Guarantee, to the extent theretofore discharged, shall be reinstated in full force and effect.

(f) The Guaranteeing Subsidiary shall not be entitled to any right of subrogation in relation to the Holders in respect of any obligations guaranteed hereby until payment in full of all obligations guaranteed hereby.

(g) As between the Guarantors, on the one hand, and the Holders and the Trustee, on the other hand, (x) the maturity of the obligations guaranteed hereby may be accelerated as provided in Article 6 of the Indenture for the purposes of this Subsidiary Guarantee, notwithstanding any stay, injunction or other prohibition preventing such acceleration in respect of the obligations guaranteed hereby, and (y) in the event of any declaration of acceleration of such obligations as provided in Article 6 of the Indenture, such obligations (whether or not due and payable) shall forthwith become due and payable by the Guarantors for the purpose of this Subsidiary Guarantee.

(h) The Guarantors shall have the right to seek contribution from any non-paying Guarantor so long as the exercise of such right does not impair the rights of the Holders under the Guarantee.

(i) Pursuant to Section 11.03 of the Indenture, after giving effect to any maximum amount and any other contingent and fixed liabilities that are relevant under any applicable Bankruptcy or fraudulent conveyance laws, and after giving effect to any collections from, any rights to receive contribution from or payments made by or on behalf of any other Guarantor in respect of the obligations of such other Guarantor under Article 11 of the Indenture, this new Subsidiary Guarantee shall be limited to the maximum amount permissible such that the obligations of such Guarantor under this Subsidiary Guarantee will not constitute a fraudulent transfer or conveyance.

3. *Execution and Delivery.* Each Guaranteeing Subsidiary agrees that the Subsidiary Guarantees shall remain in full force and effect notwithstanding any failure to endorse on each Note a notation of such Subsidiary Guarantee.

4. *Guaranteeing Subsidiary May Consolidate, etc. on Certain Terms.*

(a) The Guaranteeing Subsidiary may not consolidate with or merge with or into (whether or not such Guarantor is the surviving Person) another corporation, Person or entity whether or not affiliated with such Guarantor unless:

(i) subject to Sections 11.05 and 11.06 of the Indenture, the Person formed by or surviving any such consolidation or merger (if other than a Guarantor or the Company) unconditionally assumes all the obligations of such Guarantor, pursuant to a supplemental

indenture in form and substance reasonably satisfactory to the Trustee, under the Notes, the Indenture and the Subsidiary Guarantee on the terms set forth herein or therein; and

(ii) immediately after giving effect to such transaction, no Default or Event of Default exists.

(b) In case of any such consolidation, merger, sale or conveyance and upon the assumption by the successor corporation, by supplemental indenture, executed and delivered to the Trustee and satisfactory in form to the Trustee, of the Subsidiary Guarantee endorsed upon the Notes and the due and punctual performance of all of the covenants and conditions of the Indenture to be performed by the Guarantor, such successor corporation shall succeed to and be substituted for the Guarantor with the same effect as if it had been named herein as a Guarantor. Such successor corporation thereupon may cause to be signed any or all of the Subsidiary Guarantees to be endorsed upon all of the Notes issuable hereunder which theretofore shall not have been signed by the Company and delivered to the Trustee. All the Subsidiary Guarantees so issued shall in all respects have the same legal rank and benefit under the Indenture as the Subsidiary Guarantees theretofore and thereafter issued in accordance with the terms of the Indenture as though all of such Subsidiary Guarantees had been issued at the date of the execution hereof.

(c) Except as set forth in Articles 4 and 5 and Section 11.06 of Article 11 of the Indenture, and notwithstanding clauses (a) and (b) above, nothing contained in the Indenture or in any of the Notes shall prevent any consolidation or merger of a Guarantor with or into the Company or another Guarantor, or shall prevent any sale or conveyance of the property of a Guarantor as an entirety or substantially as an entirety to the Company or another Guarantor.

5. *Releases.*

(a) In the event of a sale or other disposition of all of the assets of any Guarantor, by way of merger, consolidation or otherwise, or a sale or other disposition of all the capital stock of any Guarantor, in each case to a Person that is not (either before or after giving effect to such transaction) a Restricted Subsidiary of the Company, then such Guarantor (in the event of a sale or other disposition, by way of merger, consolidation or otherwise, of all of the capital stock of such Guarantor) or the corporation acquiring the property (in the event of a sale or other disposition of all or substantially all of the assets of such Guarantor) will be released and relieved of any obligations under its Subsidiary Guarantee; *provided* that the Net Proceeds of such sale or other disposition are applied in accordance with the applicable provisions of the Indenture, including without limitation Section 4.10 of the Indenture. Upon delivery by the Company to the Trustee of an Officers' Certificate and an Opinion of Counsel to the effect that such sale or other disposition was made by the Company in accordance with the provisions of the Indenture, including without limitation Section 4.10 of the Indenture, the Trustee shall execute any documents reasonably required in order to evidence the release of any Guarantor from its obligations under its Subsidiary Guarantee.

(b) Any Guarantor not released from its obligations under its Subsidiary Guarantee shall remain liable for the full amount of principal of and interest on the Notes and for the other obligations of any Guarantor under the Indenture as provided in Article 11 of the Indenture.

6. *No Recourse Against Others.* No past, present or future director, officer, employee, incorporator, stockholder or agent of the Guaranteeing Subsidiary, as such, shall have any liability for any obligations of the Company or any Guaranteeing Subsidiary under the Notes, any Subsidiary Guarantees, the Indenture or this Supplemental Indenture or for any claim based on, in respect of, or by reason of, such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the

Notes. Such waiver may not be effective to waive liabilities under the federal securities laws and it is the view of the SEC that such a waiver is against public policy.

7. *New York Law to Govern.* THE INTERNAL LAW OF THE STATE OF NEW YORK SHALL GOVERN AND BE USED TO CONSTRUE THIS SUPPLEMENTAL INDENTURE BUT WITHOUT GIVING EFFECT TO APPLICABLE PRINCIPLES OF CONFLICTS OF LAW TO THE EXTENT THAT THE APPLICATION OF THE LAWS OF ANOTHER JURISDICTION WOULD BE REQUIRED THEREBY.

8. *Counterparts.* The parties may sign any number of copies of this Supplemental Indenture. Each signed copy shall be an original, but all of them together represent the same agreement.

9. *Effect of Headings.* The Section headings herein are for convenience only and shall not affect the construction hereof.

10. *The Trustee.* The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made solely by the Guaranteeing Subsidiary and the Company.

IN WITNESS WHEREOF, the parties hereto have caused this Supplemental Indenture to be duly executed and attested, all as of the date first above written.

Dated: _____ ,

[GUARANTEEING SUBSIDIARY]

By: _____

Name:
Title:

PENN NATIONAL GAMING, INC.

By: _____

Name:
Title:

[EXISTING GUARANTORS]

By: _____

Name:
Title:

U.S. BANK NATIONAL ASSOCIATION, as Trustee

By: _____

Authorized Signatory

Schedule B
SCHEDULE OF GUARANTORS

The following schedule lists each Guarantor under the Indenture as of the Issue Date:

BSL, INC.
BTN, INC.
BACKSIDE, INC.
CHC CASINOS CORP.
CRC HOLDINGS, INC.
THE DOWNS RACING, INC.
EBETUSA.COM, INC.
HOLLYWOOD CASINO-AURORA, 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.
MILL CREEK LAND, INC.
MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION
NORTHEAST CONCESSIONS, INC.
PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY
PNGI CHARLES TOWN FOOD & BEVERAGE LIMITED LIABILITY COMPANY
PNGI POCONO, INC.
PENN BULLPEN, INC.
PENN BULLWHACKERS, INC.
PENN MILLSITE, INC.
PENN NATIONAL GAMING OF WEST VIRGINIA, INC.
PENN NATIONAL GSFR, INC.
PENN NATIONAL HOLDING COMPANY
PENN NATIONAL SPEEDWAY, INC.
PENN SILVER HAWK, INC.
PENNSYLVANIA NATIONAL TURF CLUB, INC.
STERLING AVIATION, INC.
W-B DOWNS, INC.
WILKES BARRE DOWNS, INC.

QuickLinks

Exhibit 4.12

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.16(a)

AGREEMENT

For good and valuable consideration, the LIVE RACING AGREEMENT (the "Agreement") effective March 23, 1999 through January 1, 2004 by and among PENN NATIONAL TURF CLUB, INC., MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION, the PENNSYLVANIA HORSEMEN'S BENEVOLENT AND PROTECTIVE ASSOCIATION, INC. and all of its terms and conditions are hereby extended by the mutual consent of all parties through 11:59 pm on March 31, 2004.

To indicate their acceptance of this extension of the Agreement, the duly authorized agents of the parties have executed below.

PENNSYLVANIA NATIONAL TURF
CLUB, INC.

By: /s/ RICHARD T. SCHNAARS

Name: Richard T. Schnaars

Title: Vice Pres./Gen. Mgr.

Date: 12/30/03

MOUNTAINVIEW THOROUGHBRED
RACING ASSOCIATION

By: /s/ RICHARD T. SCHNAARS

Name: Richard T. Schnaars

Title: Vice Pres./Gen. Mgr.

Date: 12/30/03

PENNSYLVANIA HORSEMEN'S
BENEVOLENT AND PROTECTIVE
ASSOCIATION, INC.

By: /s/ JOHN J. WANES

Name: John J. Wanes

Title: President PA HBPA

Date: 12/30/03

QuickLinks

Exhibit 10.16(a)

AGREEMENT

QuickLinks -- Click here to rapidly navigate through this document

Exhibit 10.17(a)

AGREEMENT

For good and valuable consideration, the Agreement effective February 27, 2003 through January 16, 2004 by and among The Downs Racing, Inc. and The Pennsylvania Harness Horsemen Association, Inc. and all of the terms and conditions of the Agreement are hereby extended by the mutual consent of all parties through 11:59 pm on March 16, 2004.

To indicate their acceptance of this extension of the Agreement, the duly authorized agents of the parties have executed below.

THE DOWNS RACING, INC.

By: /s/ RICHARD ORBANN

Name: Richard Orbann

Title: President

Date: Feb 15, 2004

THE PENNSYLVANIA HARNESS HORSEMEN ASSOCIATION, INC.

By:

Name: Ronald P. Battoni

Title: Executive Director

Date: Feb 13, 2004

QuickLinks

Exhibit 10.17(a)

AGREEMENT

Exhibit 10.18(c)

Notice shall be sent to:

PNGI Charles Town Gaming Limited Liability Company Address:	James Buchanan, President PO 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
Charles Town HBPA, Inc. Address:	Ann Hilton, President c/o Charles Town HBPA, Inc. PO Box 581 Charles Town, WV 25414
Copy to:	Clarence E. Martin, III, Esquire Martin & Seibert, LC 1164 Winchester Avenue Martinsburg, WV 25402

WHEREAS, the HBPA and Charles Town Races wish to extend that Agreement as amended herein as it relates to paragraph 21 "Notices" until the 30th day of June 2004.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties do hereby agree to extend that Agreement dated the 7th day of May, 1997 until the 30th day of June 2004.

WITNESS the following signatures and seals as of the day and date above first written.

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY,
a West Virginia Limited Liability Company

By: /s/ JAMES BUCHANAN

James Buchanan, its President

PENN NATIONAL GAMING OF WEST VIRGINIA, INC., a West Virginia Corporation, Managing Member of PNGI Charles Town Gaming Limited Liability Company

By: /s/ KEVIN DESANCTIS

Kevin DeSanctis, its President

CHARLES TOWN HBPA, INC.
A West Virginia Corporation

By: /s/ ANN HILTON

Ann Hilton, its President

STATE OF WEST VIRGINIA

COUNTY OF JEFFERSON, to wit:

I, Zo E. Cave, a notary public for the County/City and State aforesaid, certify that James Buchanan, whose name is signed to the foregoing as President of **PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY**, a West Virginia Corporation, a West Virginia Limited Liability Company, dated the 27th day of February, 2004 acknowledged the same on behalf of the Limited Liability Company before me in the County/City aforesaid.

Given under my hand and official seal this 27th day of February 2004.

/s/ Zo E. Cave

Notary Public

My commission expires on Nov. 8, 2010.

[Notarial Seal]

STATE OF PENNSYLVANIA

COUNTY OF BERKS, to wit:

I, Claudine M. Beatty, a notary public for the County/City and State aforesaid, certify that Kevin DeSanctis, whose name is signed to the foregoing as President of **PENN NATIONAL GAMING OF WEST VIRGINIA, INC**., a West Virginia Corporation, the Managing Partner of **PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY**, a West Virginia Limited Liability Company, dated the 27th day of February, 2004 acknowledged the same on behalf of the Limited Liability Company before me in the County/City aforesaid.

Given under my hand and official seal this 27th day of February 2004.

/s/ Claudine M. Beatty

Notary Public

[Notarial Seal]

My commission expires on May 29, 2007.

STATE OF WEST VIRGINIA

COUNTY OF JEFFERSON, to wit:

I, Zo E. Cave, a notary public for the County/City and State aforesaid, certify that Ann Hilton, whose name is signed to the foregoing as President of **THE CHARLES TOWN HBPA, INC**., a West Virginia Corporation, dated the 27th day of February, 2004 acknowledged the same on behalf of the Corporation before me in the County/City aforesaid.

Given under my hand and official seal this 27th day of February 2004.

/s/ Zo E. Cave

Notary Public

[Notarial Seal]

My commission expires on Nov 8, 2010.

Exhibit 10.19

PENN NATIONAL GAMING, INC.,
as Borrower,

and

THE SUBSIDIARY GUARANTORS PARTY HERETO

CREDIT AGREEMENT

Dated as of March 3, 2003,
As Amended and Restated as of December 5, 2003

BEAR, STEARNS & CO. INC.,
as Sole Lead Arranger and Sole Bookrunner in connection with
Term D Loan Facility and the Amendment and Restatement,

and

BEAR, STEARNS & CO. INC. and
MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
as Original Joint Lead Arrangers and Original Joint Bookrunners,

and

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED,
as Syndication Agent,

and

BEAR STEARNS CORPORATE LENDING INC.,
as Swingline Lender, Administrative Agent and Collateral Agent,

and

SOCIETE GENERALE and
CREDIT LYONNAIS NEW YORK BRANCH,
as Joint Documentation Agents,

and

THE LENDERS PARTY HERETO

TABLE OF CONTENTS

CREDIT AGREEMENT dated as of March 3, 2003, as amended and restated as of December 5, 2003, among **PENN NATIONAL GAMING, INC.** as **Borrower**; the **Subsidiary Guarantors** party hereto; the **Lenders** party hereto; **BEAR, STEARNS & CO. INC**. and **MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED**, as original joint lead arrangers and original joint bookrunners (in such capacities, together with their successors in

such capacities, "**Original Lead Arrangers**"); **MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED**, as syndication agent (in such capacity, together with its successors in such capacity, "**Syndication Agent**"); **BEAR, STEARNS & CO. INC.,** as sole lead arranger and sole bookrunner in connection with the Term D Loan Facility and this amendment and restatement of the Original Credit Agreement (the "**New Lead Arranger**"; together with the Original Lead Arrangers, the "**Lead Arrangers**"); **BEAR STEARNS CORPORATE LENDING INC.,** as swingline lender ("**Swingline Lender**"), as administrative agent (in such capacity, together with its successors in such capacity, "**Administrative Agent**") and as collateral agent (in such capacity, together with its successors in such capacity, "**Collateral Agent**"); and **SOCIETE GENERALE** and **CREDIT LYONNAIS NEW YORK BRANCH**, as joint documentation agents (in such capacities, together with their successors in such capacities, "**Documentation Agents**").

WHEREAS, Borrower and P Acquisition Corp., a corporation newly formed at the direction of Borrower, have entered into an agreement and plan of merger dated as of August 7, 2002 (as amended, the "**Acquisition Agreement**") with Hollywood Casino Corporation ("**Target**") pursuant to which Borrower acquired through merger (the "**Hollywood Acquisition**") all of the capital stock of Target for cash;

WHEREAS, Borrower intends to (A) prepay certain of its Obligations in respect of Term Loans under the Credit Agreement dated as of March 3, 2003 (the "**Original Credit Agreement**"), among Borrower, Original Lead Arrangers, Syndication Agent, Swingline Lender, Administrative Agent, Collateral Agent, Documentation Agents and the existing lenders thereunder, with the proceeds of the issuance of $200.0 million in aggregate principal amount of New Subordinated Notes (as defined herein) and cash on hand, such that, after giving effect thereto, the only remaining unpaid principal amount of Term Loans under the Original Credit Agreement will be $399,700,000 of Term B Facility Loans, and (B) convert the Term B Facility Loans in their entirety into Term D Facility Loans (as defined herein), a new tranche of term loans provided for hereunder;

WHEREAS, in connection therewith, Borrower desires to amend and restate the terms and provisions of the Original Credit Agreement in the form hereof in order to, among other things, reflect the modifications set forth above; and

WHEREAS, the Lenders are willing to amend and restate the Original Credit Agreement and are willing to continue and extend credit to Borrower, and the other parties hereto are willing to amend and restate the Original Credit Agreement, in each case upon the terms and subject to the conditions set forth herein.

NOW, THEREFORE, in consideration of the mutual agreements, provisions and covenants contained herein, the parties agree as follows:

ARTICLE I

DEFINITIONS, ACCOUNTING MATTERS AND RULES OF CONSTRUCTION

SECTION 1.01. Certain Defined Terms. As used herein, the following terms shall have the following meanings:

"**ABR Loans**" shall mean Loans that bear interest at rates based upon the Alternate Base Rate.

"**Acquisition**" shall mean, with respect to any person, any transaction or series of related transactions for the direct or indirect (a) acquisition of all or substantially all of the Property of any

other person, or of any business or division of any other person, (b) acquisition of more than 50% of the Equity Interests of any other person, or otherwise causing any other person to become a Subsidiary of such person or (c) merger or consolidation or any other combination with any other person.

"**Acquisition Agreement**" see Recitals.

"**Adjusted Net Income**" shall mean, for any period, the net income or loss of Borrower and its Restricted Subsidiaries for such period, adjusted by excluding (to the extent taken into account in the calculation of such consolidated net income (loss)) the effect of (a) gains or losses for such period from Asset Sales not in the ordinary course of business and the net tax consequences thereof for such period, (b) any non-recurring or extraordinary items of income (other than the proceeds of business interruption insurance) or expense for such period and the net tax consequences thereof for such period (as determined in good faith by Borrower and reasonably acceptable to the Lead Arrangers), (c) transaction costs for the Original Transactions in an amount not to exceed $8.5 million and transaction costs related to this amendment and restatement of the Original Credit Agreement, (d) non-recurring costs and expenses (including legal fees and fines) paid and payable in connection with lawsuits by and against Target and Jack E. Pratt, (e) non-cash valuation adjustments, (f) any expenses related to the repurchase of stock options to the extent not prohibited by this Agreement, (g) expenses related to the grant of stock options, stock appreciation rights or other equivalent or similar instruments, (h) income of any less than 50% owned entities unless such income is actually received in cash and (i) any non-cash loss or charges associated with the write-down or impairment of assets or intangibles not in the ordinary course of business (including any write-down of goodwill pursuant to FASB 142). Adjusted Net Income shall be calculated on a *pro forma* basis in accordance with Regulation S-X under the Securities Act to give effect to the Hollywood Acquisition and any other Acquisition and Asset Sales consummated during the Test Period of Borrower ended on the Test Date thereof as if each such Acquisition had been effected on the first day of such period and as if each such Asset Sale had been consummated on the day prior to the first day of such period.

"**Administrative Agent**" see the introduction hereto.

"**Administrative Agent's Fee Letter**" shall mean the fee letter dated February 3, 2003 between Borrower and Administrative Agent.

"**Administrative Questionnaire**" shall mean an Administrative Questionnaire in the form of Exhibit S, or such other form as may be supplied from time to time by Administrative Agent.

"**Advance Date**" see Section 4.06.

"**Affiliate**" shall mean, with respect to any person, any other person that directly or indirectly controls, or is under common control with, or is controlled by, such person. As used in this definition, "**control**" (including, with its correlative meanings, "**controlled by**" and "**under common control with**") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other ownership interests, by contract or otherwise); *provided* that no Company shall be deemed to be an Affiliate of any other Company.

"**Agent**" shall mean any of Administrative Agent, Collateral Agent and/or Lead Arrangers, as applicable. All discretionary authority vested in Collateral Agent hereunder may be exercised in consultation with Lead Arrangers and/or counsel to the Agents.

"**Agent Related Parties**" see Section 12.01.

"**Agreement**" shall mean this Credit Agreement, as amended, restated, amended and restated, supplemented or otherwise modified from time to time.

"**Alternate Base Rate**" shall mean for any day, the higher of (i) the corporate base rate of interest announced by Administrative Agent from time to time, changing effective on the date of announcement of said corporate base rate changes, and (ii) the Federal Funds Rate plus 0.50% *per annum.* The corporate base rate is not necessarily the lowest rate charged by Administrative Agent to its customers.

"**Alternate Target Subsidiary Bond Offers**" shall mean tender offers for either or both issues of Target Subsidiary Bonds at a blended price of greater than 101% and not more than 102% of the aggregate principal amount thereof, plus accrued and unpaid interest, and, in connection therewith, the obtaining of consents to the elimination of all significant covenants from the governing indenture in connection therewith (x) subject to a minimum condition that the holders of 51% of the aggregate principal amount outstanding of the particular issue of Target Subsidiary Bonds consent thereto and (y) the inclusion of equal and ratable Liens to secure the Credit Facilities with the collateral securing the Target Subsidiary Bonds subject to a minimum condition that 85% of the holders of a particular issue consent thereto.

"**Amortization Payment**" shall mean each scheduled installment of payments on the Term Loans as set forth in Section 3.01(b).

"**Applicable Fee Percentage**" shall be the applicable percentage *per annum* set forth on *Annex B* attached hereto set forth opposite the relevant Consolidated Total Leverage Ratio in such Annex as evidenced in the most recent Interest Rate Certificate delivered hereunder. Any change in the Consolidated Total Leverage Ratio shall be effective to adjust the Applicable Fee Percentage as of the date of receipt by Administrative Agent of the Interest Rate Certificate most recently delivered pursuant to Section 9.04(e). If Borrower fails to deliver the financial statements and Interest Rate Certificate within the times specified in Sections 9.04(a) and (e), as applicable, such ratio shall be deemed to be at Level I as set forth in *Annex B* from the date of any such failure to deliver until Borrower delivers such Interest Rate Certificate and financial statements.

"**Applicable Lending Office**" shall mean, for each Lender and for each Type of Loan, the "Lending Office" of such Lender (or of an Affiliate of such Lender) designated for such Type of Loan on *Annex A* hereof or such other office of such Lender (or of an Affiliate of such Lender) as such Lender may from time to time specify to Administrative Agent and Borrower as the office by which its Loans of such Type are to be made and maintained.

"**Applicable Margin**" shall be the applicable percentage *per annum* as set forth on *Annex B* attached hereto for such Type and Class of Loan set forth opposite the relevant Consolidated Total Leverage Ratio in such Annex as evidenced in the most recent Interest Rate Certificate delivered hereunder. Any change in the Consolidated Total Leverage Ratio shall be effective to adjust the Applicable Margin as of the date of receipt by Administrative Agent of the Interest Rate Certificate most recently delivered pursuant to Section 9.04(e); *provided* that in the event Borrower or any of its Restricted Subsidiaries issues Permitted Subordinated Indebtedness, any change in the Consolidated Senior Leverage Ratio resulting therefrom shall be effective to adjust the Applicable Margin immediately upon delivery of an Interest Rate Certificate evidencing such change (which may be delivered upon or after giving effect to such issuance notwithstanding anything herein to the contrary). If Borrower fails to deliver the financial statements or Interest Rate Certificate within the times specified in Sections 9.04(a) and (e), as applicable, such ratio shall be at Level I as set forth in *Annex B* attached hereto from the date of any such failure to deliver until Borrower delivers such Interest Rate Certificate and financial statements.

"**Approved Fund**" shall mean, with respect to any Lender that is a fund or commingled investment vehicle that invests in commercial loans, any other fund that invests in commercial loans and is managed or advised by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

"**Asset Sale**" shall mean (i) any conveyance, sale, lease, assignment, transfer or other disposition (including by way of merger or consolidation and including any sale and leaseback transaction) of any Property (including accounts receivable and Equity Interests of any person owned by Borrower or any of its Restricted Subsidiaries but not any Equity Issuance) (whether owned on the Closing Date or thereafter acquired) by Borrower or any of its Restricted Subsidiaries to any person (other than (a) with respect to any Credit Party, to any Credit Party and (b) with respect to any other Company, to any Company) to the extent that the aggregate value of such Property sold in any single transaction or related series of transactions is greater than or equal to $250,000 and (ii) any issuance or sale by any Restricted Subsidiary of its Equity Interests to any person (other than any Company).

"**Assignment Agreement**" shall mean an Assignment Agreement substantially in the form attached as *Exhibit N* hereto.

"**Aurora Casino**" shall mean the Gaming Facility known as "The Hollywood Casino Aurora" located in Aurora, Illinois.

"**Bankruptcy Code**" shall mean the United States Federal Bankruptcy Code of 1978, as amended or supplemented.

"**Beneficial Owner**" has the meaning assigned to such term in Rule 13d-3 and 13d-5 under the Exchange Act. The terms "**Beneficially Owns**" and "**Beneficially Owned**" have a corresponding meaning.

"**Boomtown Casino**" shall mean the Gaming Facility known as "The Boomtown Biloxi Casino," located in Biloxi, Mississippi.

"**Borrower**" shall mean Penn National Gaming, Inc., a Pennsylvania corporation.

"**Borrower Outstanding Bonds**" shall mean $175,000,000 aggregate principal amount of $8^{7}/_{8}$% Senior Subordinated Notes due 2010 of Borrower, $200,000,000 aggregate principal amount of $11^{1}/_{8}$% Senior Subordinated Notes due 2008 of Borrower and the New Subordinated Notes.

"**Borrowing**" shall mean (a) Loans of the same Class and Type made, converted or continued on the same date and, in the case of LIBOR Loans, as to which a single Interest Period is in effect, or (b) a Swingline Loan.

"**Bullwhackers Casino**" shall mean the Gaming Facilities known as "Bullwhackers Casino," "Bullpenn Casino" and "Silver Hawk Casino" located in Blackhawk, Colorado.

"**Business Day**" shall mean any day, except a Saturday or Sunday, (a) on which commercial banks are not authorized or required to close in New York City and (b) if such day relates to a borrowing of, a payment or prepayment of principal of or interest on, a Continuation or Conversion of or into, or an Interest Period for, a LIBOR Loan or a notice by Borrower with respect to any such borrowing, payment, prepayment, Continuation, Conversion or Interest Period, that is also a day on which dealings in Dollar deposits are carried out in the London interbank market.

"**Capital Expenditures**" shall mean, for any period, with respect to any person, any expenditures of such person for the acquisition or leasing of fixed or capital assets (including, without limitation, expenditures for maintenance and repairs that should be capitalized in accordance with GAAP and Capital Lease Obligations) that should be capitalized in accordance with GAAP, excluding (i) expenditures in an amount not to exceed the sum of (x) the Net Available Proceeds of any Casualty Event to the extent such Net Available Proceeds are not required to be applied to the prepayment of the Loans in accordance with Section 2.10(a)(i) and (y) the amount of any applicable insurance deductibles with respect to such Casualty Event to the extent such Net Available Proceeds are applied as set forth in Section 2.10(a)(i) within the period specified therein, (ii) equipment or other property that is purchased simultaneously or substantially concurrently with the trade-in of existing equipment or

property owned by such person to the extent of the trade-in credit with respect to the equipment or property being traded in, (iii) expenditures made using Net Available Proceeds as applied in accordance with Section 2.10(iv) and (iv) amounts to effect a Permitted Acquisition.

"**Capital Lease**" as applied to any person, shall mean any lease of any Property by that person as lessee that, in conformity with GAAP, is required to be classified and accounted for as a capital lease on the balance sheet of that person.

"**Capital Lease Obligations**" shall mean, for any person, all obligations of such person to pay rent or other amounts under a Capital Lease, and, for purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

"**Cash Equivalents**" shall mean, for any person: (a) direct obligations of the United States of America, or of any agency thereof, or obligations guaranteed as to principal and interest by the United States of America, or by any agency thereof, in either case maturing not more than one year from the date of acquisition thereof by such person; (b) time deposits, certificates of deposit or bankers' acceptances (including eurodollar deposits) issued by (i) any bank or trust company organized under the laws of the United States of America or any state thereof and having capital, surplus and undivided profits of at least $500.0 million that is assigned at least a "B" rating by Thomson Financial BankWatch or (ii) any Lender (in each case, at the time of acquisition); (c) commercial paper rated at least "A-1" or the equivalent thereof by S&P or at least "P-1" or the equivalent thereof by Moody's, respectively, maturing not more than nine months from the date of acquisition thereof by such person (in each case, at the time of acquisition); (d) repurchase obligations with a term of not more than 30 days for underlying securities of the types described in clause (a) above entered into with a bank meeting the qualifications described in clause (b) above (in each case, at the time of acquisition); (e) securities with maturities of one year or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof or by any foreign government, and rated at least "A" by S&P or "A" by Moody's (in each case, at the time of acquisition); (f) securities with maturities of six months or less from the date of acquisition backed by standby letters of credit issued by any Lender or any commercial bank satisfying the requirements of clause (b) above; or (g) money market mutual funds that invest primarily in the foregoing items.

"**Casino Magic**" shall mean the Gaming Facility known as "The Casino Magic-Bay St. Louis Casino," located in Bay St. Louis, Mississippi.

"**Casino Rouge**" shall mean the Gaming Facility known as "Casino Rouge" located in Baton Rouge, Louisiana.

"**Casualty Event**" shall mean, with respect to any Property (including Real Property) of any person, any loss of title with respect to such Property or any loss of or damage to or destruction of, or any condemnation or other taking (including by any Governmental Authority) of, such Property for which such person or any of its Subsidiaries receives insurance proceeds or proceeds of a condemnation award or other compensation; *provided*, *however,* no such event shall constitute a Casualty Event if such proceeds or other compensation in respect thereof is less than $1,000,000. "Casualty Event" shall include, but not be limited to, any taking of all or any part of any Real Property of any Company or any part thereof, in or by condemnation or other eminent domain proceedings pursuant to any Law, or by reason of the temporary requisition of the use or occupancy of all or any part of any Real Property of any Company or any part thereof by any Governmental Authority, civil or military.

"**CERCLA**" shall mean the Comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended, 42 U.S.C. § 9601 *et seq.*

A "**Change of Control**" shall be deemed to have occurred if: (a) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Exchange Act) other than Principal or a Related

Party of Principal, is or becomes the Beneficial Owner, directly or indirectly, of Voting Stock representing more than 50% of the voting power of the total outstanding Voting Stock of Borrower; (b) at any time a change of control occurs under and as defined in any documentation relating to any material Indebtedness of Borrower; (c) Peter M. Carlino ceases to be the Chairman of the Board of Directors of Borrower for any reason other than his death or disability unless a replacement satisfactory to Lead Arrangers is appointed within 90 days; or (d) during any period of two consecutive years, individuals who at the beginning of such period constituted the Board of Directors of Borrower (together with any new directors whose election to such Board of Directors or whose nomination for election was approved by a vote of a majority of the directors of Borrower then still in office who were either directors at the beginning of such period or whose election or nomination for election was previously so approved) cease for any reason to constitute a majority of the Board of Directors of Borrower.

"**Change of Control Offers**" shall mean the change of control offers made pursuant to the terms of the Target Subsidiary Bonds.

"**Charles Town Facility**" shall mean the Gaming Facility known as "The Charles Town Races" located in Charles Town, West Virginia.

"**Class**" see Section 1.03.

"**Closing Date**" shall mean March 3, 2003.

"**Code**" shall mean the United States Internal Revenue Code of 1986, as amended.

"**Collateral**" shall mean all of the Pledged Collateral, the Mortgaged Real Property and any other property, whether now owned or hereafter acquired, upon which a Lien securing the Obligations is granted or purported to be granted under any Security Document.

"**Collateral Account**" shall have the meaning assigned to such term in the Security Agreement.

"**Collateral Agent**" shall mean Bear Stearns Corporate Lending Inc. in its capacity as collateral agent in accordance with the introduction hereto and in accordance with the terms of the Security Documents, as the case may be.

"**Commitment Letter**" shall mean the Credit Facilities Commitment Letter among Bear, Stearns & Co., Inc., Bear Stearns Corporate Lending Inc., Merrill Lynch Capital Corporation and Borrower dated August 5, 2002, together with Exhibit A thereto.

"**Commitments**" shall mean the Revolving Commitments, the Term Loan Commitments and the Swingline Commitment.

"**Companies**" shall mean Borrower and its Subsidiaries; and "**Company**" shall mean any one of them.

"**Confidential Information Memorandum**" shall mean that certain confidential information memorandum distributed in connection herewith dated as of January 2003.

"**Consolidated Companies**" shall mean Borrower and each Subsidiary of Borrower (whether now existing or hereafter created or acquired), the financial statements of which shall be (or should have been) consolidated with the financial statements of Borrower in accordance with GAAP.

"**Consolidated EBITDA**" shall mean, for any period, the sum (without duplication) of Adjusted Net Income for such period, *plus*, in each case to the extent deducted in calculating such Adjusted Net Income, (1) income tax expense, (2) Consolidated Interest Expense and non-cash interest expense, (3) depreciation and amortization expense, (4) any extraordinary non-cash items, (5) other non-cash items of expense, other than to the extent such non-cash items require an accrual or reserve for future cash expenses (*provided* that if such accrual or reserve is for contingent items, the outcome of which is

subject to uncertainty, such non-cash items of expense will be added to Adjusted Net Income and deducted when and to the extent actually paid in cash), (6) any Pre-Opening Expenses, and (7) in any fiscal quarter during which a purchase of property subject to any Company's operating lease shall occur and during the three following fiscal quarters, an amount equal to the quarterly payment in respect of such lease times (a) 4 (in the case of the quarter in which such purchase occurs), (b) 3 (in the case of the quarter following such purchase), (c) 2 (in the case of the second quarter following such purchase) and (d) 1 (in the case of the third quarter following such purchase), all as determined on a consolidated basis for Borrower and its Restricted Subsidiaries; *provided*, *however*, for the first four Test Dates, Borrower may add to Consolidated EBITDA an amount equal to $7.0 million, $5.0 million, $3.0 million and $1.0 million, respectively, representing $7.0 million in the aggregate of add-backs arising from synergies expected to be achieved in good faith by Borrower within twelve months of the consummation of the Original Transactions. Components of Consolidated EBITDA shall be calculated on a *pro forma* basis and otherwise in accordance with Regulation S-X under the Securities Act to give effect to the Hollywood Acquisition and any other Acquisition and Asset Sales consummated during the fiscal period of Borrower ended on the Test Date thereof as if each such Acquisition had been effected on the first day of such period and as if each such Asset Sale had been consummated on the day prior to the first day of such period. Consolidated EBITDA shall be further adjusted, in the event any Incremental Loans are advanced, to give pro forma effect to the anticipated Consolidated EBITDA expected to result from the use of the Incremental Loan proceeds, in a manner reasonably satisfactory to Borrower, Lead Arrangers and the Majority Lenders.

"**Consolidated Indebtedness**" shall mean, as at any date of determination, the aggregate amount of all Indebtedness (but including in any event the then outstanding principal amount of all Loans, all Notes, all Capital Lease Obligations and all L/C Liability) of Borrower and its Restricted Subsidiaries on a consolidated basis as determined in accordance with GAAP.

"**Consolidated Interest Expense**" shall mean, for any period, the sum of all cash interest expense of Borrower and its Restricted Subsidiaries for such period as determined on a consolidated basis for Borrower and its Restricted Subsidiaries in accordance with GAAP.

"**Consolidated Senior Leverage Ratio**" shall mean, for any Test Period, the ratio of (a) Consolidated Indebtedness as of the last day of such Test Period, *minus*, without duplication, all unsecured senior subordinated or subordinated Indebtedness of Borrower and its Restricted Subsidiaries as of such date, to (b) Consolidated EBITDA for such Test Period.

"**Consolidated Total Leverage Ratio**" shall mean, for any Test Period, the ratio of (a) Consolidated Indebtedness (other than $310,000,000 aggregate principal amount of $11^{1}/_{4}$% Senior Secured Notes due 2007 of Target and $50,000,000 aggregate principal amount of Floating Rate Senior Secured Notes due 2006 of Target) as of the last day of such Test Period to (b) Consolidated EBITDA for such Test Period.

"**Contested Collateral Lien Conditions**" shall mean, with respect to any Permitted Lien of the type described in clauses (a), (b) and (f) of Section 10.02, the following conditions:

(i) any proceeding instituted contesting such Lien shall operate to stay the sale or forfeiture of any portion of the Collateral on account of such Lien;

(ii) at the option and upon request of Administrative Agent, the appropriate Credit Party shall maintain cash reserves (or availability under the Revolving Facility) in an amount sufficient to pay and discharge such Lien and Administrative Agent's reasonable estimate of all interest and penalties related thereto; and

(iii) such Lien shall in all respects be subject and subordinate in priority to the Lien and security interest created and evidenced by the Security Documents, except if and to the extent that the law or regulation creating, permitting or authorizing such Lien provides that such Lien is or

must be superior to the Lien and security interest created and evidenced by the Security Documents.

"**Contingent Obligation**" shall mean, as to any person, any obligation of such person guaranteeing or intended to guarantee any Indebtedness, leases, dividends or other obligations ("**primary obligations**") of any other person (the "**primary obligor**") in any manner, whether directly or indirectly, including any obligation of such person, whether or not contingent, (a) to purchase any such primary obligation or any property constituting direct or indirect security therefor; (b) to advance or supply funds (i) for the purchase or payment of any such primary obligation or (ii) to maintain working capital or equity capital of the primary obligor or otherwise to maintain the net worth or solvency of the primary obligor; (c) to purchase property, securities or services primarily for the purpose of assuring the owner of any such primary obligation of the ability of the primary obligor to make payment of such primary obligation; or (d) otherwise to assure or hold harmless the holder of such primary obligation against loss in respect thereof; *provided*, *however*, that the term Contingent Obligation shall not include endorsements of instruments for deposit or collection in the ordinary course of business and any lease guarantees executed by any Company in the ordinary course of business. The amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the primary obligation in respect of which such Contingent Obligation is made (or, if less, the maximum amount of such primary obligation for which such person may be liable pursuant to the terms of the instrument evidencing such Contingent Obligation) or, if not stated or determinable, the maximum reasonably anticipated potential liability in respect thereof (assuming such person is required to perform thereunder) as determined by such person in good faith.

"**Continue,**" "**Continuation**" and "**Continued**" shall refer to the continuation pursuant to Section 2.09 of a LIBOR Loan from one Interest Period to the next Interest Period.

"**Contractual Obligation**" shall mean as to any person, any provision of any security issued by such person or of any mortgage, security agreement, pledge agreement, indenture, credit agreement, securities purchase agreement, debt instrument, contract, agreement, instrument or other undertaking to which such person is a party or by which it or any of its Property is bound or subject.

"**Controlled Account**" shall have the meaning assigned to such term in the Security Agreement.

"**Convert,**" "**Conversion**" and "**Converted**" shall refer to a conversion pursuant to Section 2.09 of one Type of Loan (other than Swingline Loans) into another Type of Loan, which may be accompanied by the transfer by a Lender (at its sole discretion) of a Loan from one Applicable Lending Office to another.

"**Covered Taxes**" see Section 5.06(a).

"**Converted Term Loan**" see Section 2.01(b).

"**Credit Documents**" shall mean (i) this Agreement, (ii) the Notes, (iii) the L/C Documents, (iv) the Security Documents and (v) each other agreement entered into by any Credit Party with or certificate delivered to Administrative Agent and/or any Lender in connection herewith or therewith evidencing or governing the Obligations or delivered in connection herewith or therewith, all as amended from time to time but shall not include a Swap Contract for purposes of Sections 11.01(a), (b), (c) and (e).

"**Credit Facilities**" shall mean the Term Facilities and the Revolving Facility.

"**Credit Parties**" shall mean Borrower and the Subsidiary Guarantors.

"**Creditor**" shall mean each of (i) each Agent, (ii) each L/C Lender, (iii) each Lender, and (iv) each party to a Swap Contract relating to the Loans if at the date of entering into such Swap Contract such person was a Lender or an Affiliate of a Lender.

"**Debt Issuance**" shall mean the incurrence by Borrower or any Restricted Subsidiary of any Indebtedness after the Closing Date (other than as permitted by Section 10.01).

"**Debt Service Maintenance Agreement**" shall mean that certain Debt Service Maintenance Agreement among Borrower, Backside, Inc., The Downs Racing, Inc., Mill Creek Land, Inc., Mountainview Thoroughbred Association, Northeast Concessions, Inc., PNGI Pocono, Inc., Penn National Gaming of West Virginia, Inc., Penn National GSFR, Inc., Penn National Holding Company, Penn National Speedway, Inc., Pennsylvania National Turf Club, Inc., Sterling Aviation Inc., Tennessee Downs, Inc. and Wilkes Barre Downs, Inc. for the benefit of Commerce Bank, N.A., dated as of July 29, 1999, as amended or otherwise modified from time to time in accordance with this Agreement.

"**Default**" shall mean any event or condition that constitutes an Event of Default or that would become, with notice or lapse of time or both, an Event of Default.

"**Disqualified Capital Stock**" shall mean, with respect to any person, any Equity Interest of such person that, by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable), or upon the happening of any event, matures (excluding any maturity as the result of an optional redemption by the issuer thereof) or is mandatorily redeemable or redeemable at the sole option of the holder thereof (other than solely for Qualified Capital Stock or upon a sale of assets or a change of control that constitutes an Asset Sale or a Change of Control and is subject to the prior payment in full of the

Obligations or as a result of a redemption required by Gaming Law), pursuant to a sinking fund obligation or otherwise (other than solely for Qualified Capital Stock) or exchangeable or convertible into debt securities of the issuer thereof at the sole option of the holder thereof, in whole or in part, on or prior to the date that is 181 days after the Term D Final Maturity Date then in effect.

"**Dividend Payment**" shall mean dividends (in cash, Property or obligations) on, or other payments or distributions on account of, or the setting apart of money for a sinking or other analogous fund for, or the purchase, redemption, retirement or other acquisition of, any Equity Interests or Equity Rights of Borrower or any of its Restricted Subsidiaries, but excluding dividends paid through the issuance of additional shares of Qualified Capital Stock and any redemption or exchange of any Qualified Capital Stock of Borrower or such Restricted Subsidiary through the issuance of Qualified Capital Stock of Borrower or any of its Restricted Subsidiaries.

"**Documentation Agents**" see the introduction hereto.

"**Dollars**" and "**$**" shall mean lawful money of the United States of America.

"**Effective Date**" see Section 7.01.

"**Eligible Person**" shall mean (A) to the extent required under applicable Gaming Laws, a person registered or licensed with, approved, qualified or found suitable by, or not disapproved, denied a license, qualification or approval or found unsuitable (whichever may be required under applicable Gaming Law), and (B)(i) a commercial bank organized under the laws of the United States, or any state thereof, and having a combined capital and surplus of at least $100.0 million; (ii) a commercial bank organized under the laws of any other country that is a member of the Organization for Economic Cooperation and Development (the "**OECD**")**,** or a political subdivision of any such country, and having a combined capital and surplus in a dollar equivalent amount of at least $100.0 million; *provided*, *however*, that such bank is acting through a branch or agency located in the country in which it is organized or another country that is also a member of the OECD; (iii) an insurance company, mutual fund or other entity which is regularly engaged in making, purchasing or investing in loans or securities; or any other financial institution organized under the laws of the United States, any state thereof, any other country that is a member of the OECD or a political subdivision of any such country with assets, or assets under management, in a dollar equivalent amount of at least $100.0 million; (iv) any Affiliate of a Lender or an Approved Fund of a Lender; (v) any other entity (other than a

natural person) which is an "accredited investor" (as defined in Regulation D under the Securities Act) which extends credit or buys loans as one of its businesses or investing activities including, but not limited to, insurance companies, mutual funds and investment funds; and (vi) any other entity consented to by each Lead Arranger, Administrative Agent and Borrower. With respect to any Lender, any Approved Fund in respect thereof shall be treated as a single Eligible Person.

"**Employee Benefit Plan**" shall mean an employee benefit plan (as defined in Section 3(3) of ERISA) that is maintained or contributed to by any ERISA Entity.

"**Engagement Letter**" shall mean the Engagement Letter among Borrower and Original Lead Arrangers dated as of August 5, 2002.

"**Environment**" shall mean ambient air, surface water and groundwater (including potable water, navigable water and wetlands), the land surface or subsurface strata, natural resources, the workplace or as otherwise defined in any Environmental Law.

"**Environmental Action**" shall mean (a) any notice, claim, demand or other written or, to the knowledge of Company, oral communication alleging liability for investigation, remediation, removal, cleanup, response, corrective action or other costs, damages to natural resources, personal injury, property damage, fines or penalties resulting from, related to or arising out of (i) the presence, Release or threatened Release in or into the Environment of Hazardous Material at any location or (ii) any violation of Environmental Law, and shall include, without limitation, any claim seeking damages, contribution, indemnification, cost recovery, compensation or injunctive relief resulting from, related to or arising out of the presence, Release or threatened Release of Hazardous Material or alleged injury or threat of injury to human health, safety or the Environment arising under Environmental Law and (b) any investigation, monitoring, removal or remedial activities undertaken by or on behalf of Borrower or any of its Subsidiaries, arising under Environmental Law whether or not such activities are carried out voluntarily.

"**Environmental Law**" shall mean any and all applicable treaties, laws, statutes, ordinances, regulations, rules, decrees, judgments, orders, consent orders, consent decrees and other binding legal requirements, and the common law, relating to protection of public health or the Environment, the Release or threatened Release of Hazardous Material, natural resources or natural resource damages, or occupational safety or health.

"**Equity Interests**" shall mean, with respect to any person, any and all shares, interests, participations or other equivalents, including membership interests (however designated, whether voting or non-voting), of capital of such person, including, if such person is a partnership, partnership interests (whether general or limited) and any other interest or participation that confers on a person the right to receive a share of the profits and losses of, or distributions of assets of, such partnership, whether outstanding on the Closing Date or issued after the Closing Date.

"**Equity Issuance**" shall mean (a) any issuance or sale after the Closing Date by Borrower of any Equity Interests in any public offering or private placement (excluding any Equity Interests issued upon exercise of any Equity Rights) or any Equity Rights, or (b) the receipt by Borrower after the Closing Date of any capital contribution (whether or not evidenced by any Equity Interest issued by the recipient of such contribution). The issuance or sale of any debt instrument convertible into or exchangeable or exercisable for any Equity Interests shall be deemed a Debt Issuance and not an Equity Issuance for purposes of Section 2.10(a).

"**Equity Rights**" shall mean, with respect to any person, any then outstanding subscriptions, options, warrants, commitments, preemptive rights or agreements of any kind (including any stockholders' or voting trust agreements) for the issuance, sale, registration or voting of, or outstanding securities convertible into, any additional Equity Interests of any class, or partnership or other ownership interests of any type in, such person.

"**ERISA**" shall mean the United States Employee Retirement Income Security Act of 1974, as amended.

"**ERISA Entity**" shall mean any member of an ERISA Group.

"**ERISA Event**" shall mean (a) any "reportable event," as defined in Section 4043 of ERISA or the regulations issued thereunder, with respect to a Pension Plan (other than an event for which the 30-day notice requirement is waived); (b) the existence with respect to any Pension Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived, the failure by any ERISA Entity to make by its due date a required installment under Section 412(m) of the Code with respect to any Pension Plan or the failure to make any required contribution to a Multiemployer Plan; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Pension Plan; (d) the incurrence by any ERISA Entity of any liability under Title IV of ERISA with respect to the termination of any Pension Plan; (e) the receipt by any ERISA Entity from the PBGC or a plan administrator of any notice relating to the termination of any Pension Plan or the appointment of a trustee to administer any Pension Plan; (f) the occurrence of any event or condition which could constitute grounds under ERISA for the termination of or the appointment of a trustee to administer, any Pension Plan; (g) the incurrence by any ERISA Entity of any liability with respect to the withdrawal or partial withdrawal from any Pension Plan or Multiemployer Plan; (h) the receipt by an ERISA Entity of any notice, or the receipt by any Multiemployer Plan from any ERISA Entity of any notice, concerning the imposition of Withdrawal Liability on any ERISA Entity or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA; (i) the making of any amendment to any Pension Plan which would be reasonably likely to result in the imposition of a lien or the posting of a bond or other security; or (j) the occurrence of a nonexempt prohibited transaction (within the meaning of Section 4975 of the Code or Section 406 of ERISA) which would reasonably be expected to result in liability to any Company.

"**ERISA Group**" shall mean any Company and all members of a controlled group of corporations and all trades or businesses (whether or not incorporated) under common control which, together with such Company, are treated as a single employer under Section 414(b) or (c) of the Code.

"**Estoppels**" shall mean those certain Lessor Consent and Estoppel Certificates executed by the applicable landlord under each of the Ground Leases, each of which shall be substantially in the form attached hereto as *Exhibit Q*.

"**Event of Default**" see Article XI.

"**Excess Cash Flow**" shall mean, for any Excess Cash Flow Period, the sum (without duplication) of:

(a) consolidated net income (or loss) of Borrower and its Restricted Subsidiaries for such Excess Cash Flow Period, adjusted to exclude any gains or losses attributable to prepayment of any Loans; *plus*

(b) depreciation and amortization deducted in determining such consolidated net income (or loss) for such Excess Cash Flow Period; *plus*

(c) other non-cash charges or losses (except for such non-cash charges or losses representing or requiring an accrual or reserve for future cash expenses, charges or losses) deducted in determining such consolidated net income (or loss) for such Excess Cash Flow Period; *plus*

(d) the sum of (i) the amount, if any, by which Working Capital decreased during such Excess Cash Flow Period *plus* (ii) the net amount, if any, by which the consolidated deferred revenues and other consolidated accrued long-term liability accounts of Borrower and its Restricted Subsidiaries increased during such Excess Cash Flow Period plus (iii) the net amount, if any, by which the

consolidated accrued long-term asset accounts of Borrower and its Restricted Subsidiaries decreased during such Excess Cash Flow Period; *minus*

(e) the sum of (i) any non-cash gains included in determining such consolidated net income (or loss) for such Excess Cash Flow Period plus (ii) the amount, if any, by which Working Capital increased during such Excess Cash Flow Period *plus* (iii) the net amount, if any, by which the consolidated deferred revenues and other consolidated accrued long-term liability accounts of Borrower and its Restricted Subsidiaries decreased during such Excess Cash Flow Period *plus* (iv) the net amount, if any, by which the consolidated accrued long-term asset accounts of Borrower and its Restricted Subsidiaries increased during such Excess Cash Flow Period; *minus*

(f) the sum of (i) Capital Expenditures for such Excess Cash Flow Period (except to the extent attributable to the incurrence of Capital Lease Obligations or otherwise financed by incurring Indebtedness) *plus* (ii) cash consideration paid during such Excess Cash Flow Period to make Permitted Acquisitions (except to the extent financed by incurring Indebtedness) *plus* (iii) Investments permitted under Section 10.04(p); *minus*

(g) the proceeds realized from any Casualty Event (and any applicable insurance deductible in respect thereof) or Asset Sale (only deducted to the extent included the calculation of consolidated net income) during such Excess Cash Flow Period; *minus*

(h) the aggregate principal amount of Indebtedness repaid or prepaid by Borrower and its Restricted Subsidiaries during such Excess Cash Flow Period, excluding (i) Indebtedness in respect of Revolving Loans and Letters of Credit (unless the Revolving Commitments are reduced in connection therewith), (ii) Term Loans prepaid pursuant to Section 2.10 and (iii) repayments or prepayments of Indebtedness to the extent financed by incurring other Indebtedness.

"**Excess Cash Flow Measurement Date**" see Section 2.10(v).

"**Excess Cash Flow Period**" shall mean, in the fiscal year in which the Closing Date occurs, the period commencing on the Closing Date and ending on the last day of such fiscal year, and for any subsequent fiscal year, such fiscal year.

"**Exchange Act**" shall mean the United States Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"**Excluded Taxes**" shall mean any Tax (other than any Other Taxes) (i) imposed on or measured by the net income or net profits of a Lender pursuant to the laws of the jurisdiction in which it is organized or the jurisdiction in which the principal office or Applicable Lending Office of such Lender is located or any jurisdiction in which such Lender conducts business or any subdivision thereof or therein, (ii) imposed on any Lender in the nature of franchise taxes or other

similar taxes imposed as a result of such Lender doing business in a particular jurisdiction, or (iii) any branch profits taxes imposed by the United States of America.

"**Existing Letters of Credit**" see Section 2.03.

"**Existing Term B Lender**" see Section 1.05(b).

"**Existing Term B Loans**" see Section 1.05(b).

"**Expansion Capital Expenditure**" shall mean any Capital Expenditure by Borrower or any of its Restricted Subsidiaries that is not properly characterized as a Maintenance Capital Expenditure, including, without limitation, expenditures with respect to the buy-out of real property leases.

"**fair market value**" shall mean, with respect to any Property, a price (after taking into account any liabilities relating to such Property), as determined in good faith by the board of directors of Borrower,

that could be negotiated in an arm's-length free market transaction, for cash, between a willing seller and a willing and able buyer, neither of which is under any compulsion to complete the transaction.

"**FASB 142**" shall mean Statement of Financial Accounting Standards No. 142 issued on June 29, 2001 by the Financial Accounting Standards Board.

"**Federal Funds Rate**" shall mean, for any day, the rate *per annum* (rounded upwards, if necessary, to the nearest $1/100^{th}$ of 1%) equal to the weighted average of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; *provided, however,* that (a) if the day for which such rate is to be determined is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day and (b) if such rate is not so published for any Business Day, the Federal Funds Rate for such Business Day shall be the average rate quoted to Administrative Agent on such Business Day on such transactions by three federal funds brokers of recognized standing, as determined by Administrative Agent.

"**Financial Maintenance Covenants**" shall mean the covenants set forth in Sections 10.08(a) through (d).

"**FIRREA**" shall mean the Financial Institutions Reform, Recovery and Enforcement Act.

"**First Mortgage**" shall mean an agreement, including, but not limited to, a mortgage, deed of trust or any other document, creating and evidencing a first Lien (subject only to the Liens permitted thereunder) in favor of Collateral Agent on behalf of the First Priority Secured Parties on a Mortgaged Real Property, which shall be in substantially in the form of *Exhibit J*, with such schedules and including such provisions as shall be necessary to conform such document to applicable or local law or as shall be customary under local law, as the same may at any time be amended in accordance with the terms thereof and hereof.

"**First Priority Lenders**" shall mean, collectively, the Term D Facility Lenders, the L/C Lender, the Incremental Loan Lenders, the Revolving Lenders and the Swingline Lender.

"**First Priority Loans**" shall mean, collectively, the Term D Facility Loans, the Incremental Loans, the Revolving Loans, the Letters of Credit and the Swingline Loans.

"**First Priority Secured Parties**" shall mean the Agents, the First Priority Lenders and each party to a Swap Contract relating to the First Priority Loans if at the date of entering into such Swap Contract such person was a First Priority Lender or an Affiliate of a First Priority Lender and such person executes and delivers to Collateral Agent a letter agreement in form and substance acceptable to Collateral Agent pursuant to which such person (x) appoints Collateral Agent as its agent under the applicable Credit Documents and (y) agrees to be bound by the provisions of Article IV hereof.

"**First Security Agreement**" shall mean a First Security Agreement substantially in the form of *Exhibit I* among the Credit Parties and Collateral Agent, as the same may be amended in accordance with the terms thereof and hereof, or such other agreements reasonably acceptable to Collateral Agent as shall be necessary to comply with applicable Requirements of Law and effective to grant to Collateral Agent on behalf of the First Priority Secured Parties a first priority (subject only to the Liens permitted thereunder) perfected security interest in the Pledged Collateral covered thereby.

"**First Security Documents**" shall mean the First Security Agreement, the First Mortgages, the First Ship Mortgages, the Perfection Certificate and each other security document or pledge agreement required by applicable local law to grant a valid, perfected security interest in any Property acquired or developed that is of the kind and nature that would constitute Collateral on the date hereof, and all UCC or other financing statements or instruments of perfection required by this Agreement, the First Security Agreement or any First Mortgage or First Ship Mortgage to be filed with respect to the

security interests in Property and fixtures created pursuant to the First Security Agreement or any First Mortgage or First Ship Mortgage and any other document or instrument utilized to pledge as collateral for the Obligations any Property of whatever kind or nature.

"**First Ship Mortgage**" shall mean a First Ship Mortgage substantially in the form of *Exhibit K* among the applicable Credit Parties and Collateral Agent, as the same may be amended in accordance with the terms thereof and hereof, or such other agreements reasonably acceptable to Collateral Agent as shall be necessary to comply with applicable Requirements of Law and effective to grant to Collateral Agent on behalf of the First Priority Secured Parties a first preferred mortgage on the Vessel covered thereby (subject only to the Liens permitted thereunder).

"**Fixed Charge Coverage Ratio**" shall mean, for any Test Date, the ratio of (x) Consolidated EBITDA for the four fiscal quarters ending on such Test Date *minus* Maintenance Capital Expenditures for such period to (y) Fixed Charges for the four fiscal quarters ending on such Test Date.

"**Fixed Charges**" shall mean, for any period, the sum of, without duplication, (i) Consolidated Interest Expense (other than interest expense with respect to the $310,000,000 aggregate principal amount of $11^{1}/_{4}$% Senior Secured Notes due 2007 of Target and $50,000,000 aggregate principal amount of Floating Rate Senior Secured Notes due 2006 of Target) for such period to the extent paid or mandatorily payable in cash during such period, (ii) the sum of all scheduled principal payments on any Indebtedness of Borrower and its Restricted Subsidiaries (including, without duplication, any lease payments in respect of Capital Leases of Borrower and its Restricted Subsidiaries but excluding any prepayment of a type contemplated by Section 2.10) and (iii) all cash income tax expense actually paid to any Governmental Authority by Borrower and its Restricted Subsidiaries for such period (other than taxes related to Asset Sales not in the ordinary course of business). Notwithstanding the foregoing, for the initial four Test Dates after the Closing Date, for the purposes of calculation of Fixed Charges, Consolidated Interest Expense shall equal the product of (x) Consolidated Interest Expense since the Closing Date to the date in question and (y) a fraction, the numerator of which is 365 and the denominator of which is the number of days since the Closing Date.

"**Foreign Lender Certificate**" see Section 5.06(b).

"**Foreign Plan**" shall mean any employee benefit plan, program, policy, arrangement or agreement maintained or contributed to by, or entered into with, any Company with respect to employees employed outside the United States.

"**Foreign Subsidiary**" shall mean each Subsidiary that is organized under the laws of a jurisdiction other than the United States of America or any state thereof.

"**Funding Date**" shall mean the date of the making of any extension of credit hereunder (including the Closing Date and the Effective Date).

"**GAAP**" shall mean generally accepted accounting principles set forth as of the relevant date in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board (or agencies with similar functions of comparable stature and authority within the U.S. accounting profession), which are applicable to the circumstances as of the date of determination.

"**Gaming Approval**" shall mean any and all approvals, authorizations, consents, rulings, orders or directives of any Governmental Authority (i) necessary to enable Borrower or any of its Restricted Subsidiaries to engage in the casino, gambling, horse racing or gaming business or otherwise continue to conduct its business as is contemplated on the Closing Date, (ii) required by any Gaming Authority or under any Gaming Law or (iii) necessary, as is contemplated on the Closing Date, to accomplish the financing and other transactions contemplated hereby.

"**Gaming Authority**" shall mean any governmental agency, authority, board, bureau, commission, department, office or instrumentality with regulatory, licensing or permitting authority or jurisdiction over any gaming business or enterprise or any Gaming Facility (including, without limitation, the Alcohol and Gaming Commission of Ontario, the Colorado Division of Gaming, the Colorado Limited Gaming Control Commission, the Illinois Gaming Board, the Louisiana Gaming Control Board, the Mississippi Gaming Commission, the Mississippi State Tax Commission, the Pennsylvania State Horse Racing Commission, the Pennsylvania State Harness Racing Commission, the West Virginia Racing Commission, the West Virginia Lottery Commission, the New Jersey Racing Commission and the New Jersey Casino Control Commission), or with regulatory, licensing or permitting authority or jurisdiction over any gaming operation (or proposed gaming operation) owned, managed or operated by Borrower or any of its Restricted Subsidiaries.

"**Gaming Facility**" shall mean any gaming establishment and other property or assets directly ancillary thereto or used in connection therewith, including, without limitation, any casinos, hotels, resorts, race tracks, off-track wagering sites, theaters, parking facilities, recreational vehicle parks, timeshare operations, retail shops, restaurants, other buildings, land, golf courses and other recreation and entertainment facilities, marinas, vessels, barges, ships and related equipment.

"**Gaming Laws**" shall mean all applicable provisions of all: (a) constitutions, treaties, statutes or laws governing Gaming Facilities (including, without limitation, card club casinos and pari mutuel race tracks) and rules, regulations, codes and ordinances of, and all administrative or judicial orders or decrees or other laws pursuant to which, any Gaming Authority possesses regulatory, licensing or permit authority over gambling, gaming or Gaming Facility activities conducted by Borrower or any of its Restricted Subsidiaries within its jurisdiction; (b) Gaming Approvals; and (c) orders, decisions, determinations, judgments, awards and decrees of any Gaming Authority.

"**Governmental Authority**" shall mean any government or political subdivision of the United States or any other country or any agency, authority, board, bureau, central bank, commission, department or instrumentality thereof or therein, including, without limitation, any court, tribunal, grand jury or arbitrator, in each case whether foreign or domestic, or any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to such government or political subdivision including, without limitation, any Gaming Authority.

"**Governmental Real Property Disclosure Requirements**" shall mean any Requirement of Law requiring notification of the buyer, mortgagee or assignee of real property, or notification, registration or filing to or with any Governmental Authority, in connection with the sale, lease, mortgage, assignment or other transfer (including, without limitation, any transfer of control) of any real property, establishment or business, of the actual or threatened presence or release in or into the Environment, or the use, disposal or handling of Hazardous Material on, at, under or near the real property, facility or business to be sold, mortgaged, assigned or transferred.

"**Ground Leases**" shall mean, collectively, (i) that certain Lease Agreement between Martha Peresich McDermott, as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of June 2, 1995, in connection with the Boomtown Casino (the "**McDermott Lease**"), (ii) that certain Lease Agreement between Gary Gollott, Tommy Gollott and Tyrone Gollott, collectively, as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of September 22, 1994, in connection with the Boomtown Casino (the "**Gollott Lease**"), (iii) that certain Lease Agreement between Andrew Cvitanovich and Anthony C. Cvitanovich, together, as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of March 3, 1994, in connection with the Boomtown Casino (the "**Cvitanovich Lease**"), (iv) that certain Lease Agreement between Joseph A. Suarez, Jr. and Mary Ellen Suarez, together, as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of May 9, 1994, in connection with the Boomtown Casino (the "**Suarez Lease**"), (v) that certain Lease Agreement

between R.A. Fayard Seafood Co., Inc., as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of May 9, 1994, in connection with the Boomtown Casino (the "**Fayard Lease**"), (vi) that certain Lease Agreement between James A. Desporte and Linda L. Desporte, together, as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of June 25, 1998, in connection with the Boomtown Casino (the "**Desporte Lease**"), (vii) that certain Lease Agreement between Marilyn C. Hille, as landlord, and BSL, Inc., successor in interest to Casino Advertising, Inc., as tenant, dated as of July 10, 1992, in connection with the Casino Magic (the "**Hille Lease**"), (viii) that certain Lease with Option to Purchase between L.D. Lang, Jr., as landlord, and BSL, Inc., successor in interest to Mardi Gras Casino Corp., as tenant, dated as of March 30, 1994, in connection with the Casino Magic (the "**Lang Lease**"), (ix) that certain Lease Agreement between Custom Pack, Inc., as landlord, and BTN, Inc., successor in interest to Mississippi Gaming, L.P., as tenant, dated as of March 1, 1996, in connection with the Boomtown Casino (the "**Custom Pack Lease**"), (x) that certain Lease Agreement between R.M. Leatherman & Hugh M. Magevney III, as landlord, and HWCC-Tunica, Inc., successor in interest to Summit Riverboat Casinos- Tunica, Inc., as tenant, dated as of October 11, 1993, in connection with the Hollywood Casino Tunica (the "**Leatherman Lease**"), (xi) that certain Lease between Edward E. Smith and Shirley J. Smith, as landlord, and Penn Bullpen, Inc., successor in interest to Wild Card Casino, Inc., as tenant, dated as of March 17, 1992, in connection with the Penn Bullpen Casino (the "**Smith Lease**"), (xii) that certain Lease between KDL, Inc., as landlord, and Penn Bullpen, Inc., successor in interest to Pioneer Associates Ltd. as tenant, dated as of March 16, 1994, in connection with the Penn Bullpen Casino (the "**KDL Lease**"), (xiii) that certain Lease between Elizabeth Branecki, as landlord, and Penn Bullpen, Inc., successor in interest to KDL, Inc. as tenant, dated as of July 10, 1991, in connection with the Penn Bullpen Casino (the "**Branecki Lease**"), (xiv) that certain Lease Agreement between Sharon and Eloy Perea, as landlord, and Penn Silver Hawk, Inc., successor in interest to Gold Mine Casino, Inc. as tenant, dated as of October 1, 1995, in connection with the Penn Silver Hawk Casino (the "**Perea Lease**"), (xv) that certain Lease Agreement between City of Aurora, Illinois, as landlord, and Hollywood Casino-Aurora, Inc., as tenant, dated as of June 4, 1991, in connection with the Hollywood Casino Aurora (the "**Aurora Parking Lease**"), (xvi) that certain Lease Agreement between Aurora Metropolitan Exposition Auditorium and Office Building Authority, as landlord, and Hollywood Casino-Aurora, Inc., as tenant, dated as of June 12, 1995, in connection with the Hollywood Casino Aurora (the "**Aurora Metropolitan Exposition Lease**"), (xvii) that certain Lease Agreement between City of Aurora, Illinois, as landlord, and Hollywood Casino-Aurora, Inc., as tenant, dated as of February 27, 2001, in connection with the Hollywood Casino Aurora (the "**City of Aurora Lease I**"), (xviii) that certain Lease Agreement between Aurora YWCA, as landlord, and Hollywood Casino-Aurora, Inc., as tenant, dated as of November 14, 2001, in connection with the Hollywood Casino Aurora (the "**YWCA Lease**"), and (xix) that certain Lease Agreement between City of Aurora, Illinois, as landlord, and Hollywood Casino-Aurora, Inc., as tenant, dated as of July 1, 2002, in connection with the Hollywood Casino Aurora (the "**City of Aurora Lease II**"), each as it may be or may have been amended, supplemented, replaced or otherwise modified from time to time.

"**Guarantee**" shall mean the guarantee of each Subsidiary Guarantor pursuant to Article VI.

"**Guaranteed Obligations**" see Section 6.01.

"**Hazardous Material**" shall mean any material, substance, waste, constituent, compound, pollutant or contaminant including, without limitation, petroleum (including, without limitation, crude oil or any fraction thereof or any petroleum product or waste) subject to regulation or which could reasonably be expected to give rise to liability under Environmental Law.

"**Hollywood Acquisition**" see Recitals.

"**Hollywood Shreveport**" shall mean HWCC-Louisiana, Inc. and its Subsidiaries.

"**Immaterial Subsidiary**" shall mean any Subsidiary of Borrower having assets with a fair market value of less than $1.0 million.

"**Incremental Loan Activation Notice**" shall mean a notice substantially in the form of *Exhibit C*.

"**Incremental Loan Amount**" shall mean, as to each Incremental Loan Lender, on and after the effectiveness of any Incremental Loan Activation Notice, the obligation of such Incremental Loan Lender to make Incremental Loans hereunder in a principal amount equal to the amount set forth under the heading "Incremental Loan Amount" opposite such Incremental Loan Lender's name on such Incremental Loan Activation Notice.

"**Incremental Loan Effective Date**" shall mean each date, which shall be a Business Day on or before the Incremental Loan Maturity Date, on which any Lender shall execute and deliver to Administrative Agent an Incremental Loan Activation Notice pursuant to Section 2.01(e).

"**Incremental Loan Facility**" shall mean the credit facility comprising the Incremental Loans, if any.

"**Incremental Loan Facility Commitments**" shall mean for each Incremental Loan Lender, the obligation of such Lender to make an Incremental Loan for the amount requested and agreed to in any Incremental Loan Activation Notice.

"**Incremental Loan Lenders**" shall mean (a) on any Incremental Loan Effective Date, the Lenders (including Eligible Persons not previously Lenders) signatory to the Incremental Loan Activation Notice and (b) thereafter, each Lender that has made, or acquired pursuant to an assignment made pursuant to Section 13.06(b), an Incremental Loan.

"**Incremental Loan Maturity Date**" shall mean, as to the Incremental Loans to be made pursuant to any Incremental Loan Activation Notice, the maturity date specified in such Incremental Loan Activation Notice, which date shall be no earlier than the Term D Final Maturity Date then in effect in the case of Incremental Loans that are Term Loans, and no earlier than the R/C Maturity Date then in effect in the case of Incremental Loans that are revolving loans.

"**Incremental Loans**" shall mean Loans made pursuant to Section 2.01(e).

"**Incremental Notes**" shall mean the promissory notes substantially in the form of *Exhibit A-4*.

"**incur**" shall mean, with respect to any Indebtedness or other obligation of any person, to create, issue, incur (including by conversion, exchange or otherwise), assume, guarantee or otherwise become liable in respect of such Indebtedness or other obligation, or to grant or create a Lien upon any Property of such person to secure any Indebtedness or Contingent Obligations of another person (and "**incurrence,**" "**incurred**" and "**incurring**" shall have meanings correlative to the foregoing).

"**Indebtedness**" of any person shall mean, without duplication, (a) all obligations of such person for borrowed money; (b) all obligations of such person evidenced by bonds, debentures, notes or similar instruments; (c) all obligations of such person under conditional sale or other title retention agreements relating to property purchased by such person; (d) all obligations of such person issued or assumed as the deferred purchase price of property or services (excluding trade accounts payable and accrued obligations incurred in the ordinary course of business); (e) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such person, whether or not the obligations secured thereby have been assumed (*provided* that if such obligations have not been assumed, the amount of such Indebtedness included for the purposes of this definition will be the amount equal to the lesser of the fair market value of such property and the amount of the Indebtedness secured); (f) all Capital Lease Obligations and Purchase Money Obligations of such person; (g) all obligations of such person in respect of interest rate protection agreements, foreign currency exchange agreements or

other interest or exchange rate hedging arrangements; (h) all obligations of such person as an account party in respect of letters of credit and bankers' acceptances, except obligations in respect of letters of credit issued in support of obligations not otherwise constituting Indebtedness shall not constitute Indebtedness except to the extent such letter of credit is drawn and not reimbursed within ten Business Days; and (i) all Contingent Obligations of such person in respect of Indebtedness or obligations of others of the kinds referred to in clauses (a) through (h) above. The Indebtedness of any person shall include the Indebtedness of any partnership in which such person is a general partner unless recourse is limited, in which case the amount of such Indebtedness shall be the limited amount. The amount of Indebtedness of the type referred to in clause (g) above of any person shall be zero unless and until such Indebtedness shall be terminated, in which case the amount of such Indebtedness shall be the then termination payment due thereunder by such person.

"**Indemnitee**" see Section 13.03(b).

"**Insurance Requirements**" shall mean all material terms of any insurance policy required pursuant to this Agreement or any Security Document and all material regulations and then current standards applicable to or affecting any Mortgaged Real Property or any part thereof or any use or condition thereof, which may, at any time, be recommended by the Board of Fire Underwriters, if any, having jurisdiction over any Mortgaged Real Property, or any other body exercising similar functions.

"**Intellectual Property**" see Section 8.22.

"**Interest Period**" shall mean, with respect to any LIBOR Loan, each period commencing on the date such LIBOR Loan is made or Converted from an ABR Loan or the last day of the next preceding Interest Period for such LIBOR Loan and (subject to the requirements of Section 2.09) ending on the numerically corresponding day in the first, second, third or sixth calendar month thereafter, as Borrower may select as provided in Section 4.05, except that each Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) shall end on the last Business Day of the appropriate subsequent calendar month. Notwithstanding the foregoing: (i) if any Interest Period for any Revolving Loan would otherwise end after the R/C Maturity Date, such Interest Period shall end on the R/C Maturity Date; (ii) each Interest Period that would otherwise end on a day that is not a Business Day shall end on the next succeeding Business Day (or, if such next succeeding Business Day falls in the next succeeding calendar month, on the next preceding Business Day); and (iii) notwithstanding clause (i) above, except as otherwise provided in Section 2.01(f) no Interest Period shall have a duration of less than one month and, if the Interest Period for any LIBOR Loan would otherwise be a shorter period, such Loan shall not be available hereunder as a LIBOR Loan for such period.

"**Interest Rate Certificate**" shall mean an Interest Rate Certificate substantially in the form of *Exhibit E*, delivered pursuant to Section 9.04(e), demonstrating in reasonable detail the calculation of the Consolidated Total Leverage Ratio and the Consolidated Senior Leverage Ratio as of any Test Date.

"**Interest Rate Protection Agreement**" shall mean, for any person, an interest rate swap, cap or collar agreement or similar arrangement between such person and one or more financial institutions which has been designated as either a secured Interest Rate Protection Agreement or an unsecured Interest Rate Protection Agreement pursuant to a written notice from Borrower to Administrative Agent providing for the transfer or mitigation of interest risks either generally or under specific contingencies.

"**internally generated funds**" shall mean funds not generated from the proceeds of any Loan, Debt Issuance, Equity Issuance, Asset Sale, insurance recovery or Indebtedness (in each case without regard

to the exclusions from the definition thereof (other than transactions in the ordinary course of business)).

"**Investment**" see Section 10.04.

"**Joinder Agreements**" shall mean the Joinder Agreement substantially in the form of *Exhibit P* attached hereto and the Joinder Agreements to be entered into pursuant to the Security Agreement.

"**Lang Parcels**" shall mean those certain parcels of real property identified in Exhibit "A" to that certain Lease with Option to Purchase, dated as of March 30, 1994, by and between L.D. Lang, Jr., as landlord, and BSL, Inc., as successor-in-interest to Mardi Gras Casino Corp., as tenant.

"**Laws**" shall mean, collectively, all common law and all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents, including without limitation the interpretation thereof by any Governmental Authority charged with the enforcement thereof.

"**L/C Commitments**" shall mean the commitments of the L/C Lender to issue Letters of Credit pursuant to Section 2.03.

"**L/C Disbursements**" shall mean a payment or disbursement made by any L/C Lender pursuant to a Letter of Credit.

"**L/C Documents**" shall mean, with respect to any Letter of Credit, collectively, any other agreements, instruments, guarantees or other documents (whether general in application or applicable only to such Letter of Credit) governing or providing for (a) the rights and obligations of the parties concerned or at risk with respect to such Letter of Credit or (b) any collateral security for any of such obligations, each as the same may be modified and supplemented and in effect from time to time.

"**L/C Exposure**" shall mean at any time the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time *plus* (b) the aggregate principal amount of all L/C Disbursements that have not yet been reimbursed at such time. The L/C Exposure of any Revolving Lender at any time shall mean its R/C Percentage of the aggregate L/C Exposure at such time.

"**L/C Interest**" shall mean, for each Revolving Lender, such Lender's participation interest (or, in the case of L/C Lender, L/C Lender's retained interest) in L/C Lender's liability under Letters of Credit and such Lender's rights and interests in Reimbursement Obligations and fees, interest and other amounts payable in connection with Letters of Credit and Reimbursement Obligations.

"**L/C Lender**" shall mean Wachovia Bank, N.A. or any of its Affiliates, or such other Lender or Lenders selected by Administrative Agent and reasonably satisfactory to Borrower, as the issuer of Letters of Credit under Section 2.03, together with its successors and assigns in such capacity.

"**L/C Liability**" shall mean, without duplication, at any time and in respect of any Letter of Credit, the sum of (a) the undrawn face amount of such Letter of Credit, *plus* (b) the aggregate unpaid principal amount of all Reimbursement Obligations at such time due and payable in respect of all drawings made under such Letter of Credit.

"**Lead Arrangers**" see the introduction hereto.

"**Lease**" shall mean any lease, sublease, franchise agreement, license, occupancy or concession agreement.

"**Lenders**" shall mean (a) the financial institutions listed under the caption "Lenders" on the signature pages hereto (other than any such financial institution that has ceased to be a party hereto pursuant to Section 13.06(b)), (b) any financial institution that has become a party hereto pursuant to Section 13.06(b), in each case as reflected in the Register (subject to Section 2.08) and (c) any

Incremental Loan Lenders. Unless the context clearly indicates otherwise, the term "Lenders" shall include the Swingline Lender.

"**Letter of Credit**" see Section 2.03.

"**LIBO Base Rate**" shall mean, with respect to any LIBOR Loan for any Interest Period therefor, the rate *per annum*determined by Administrative Agent to be the arithmetic mean (rounded to the nearest 1/100th of 1%) of the offered rates for deposits in Dollars with a term comparable to such Interest Period that appears on the Dow Jones Market Screen 3750 (as defined below) at approximately 11:00 a.m., London, England time, on the second full Business Day preceding the first day of such Interest Period; *provided*, *however*, that (i) if no comparable term for an Interest Period is available, the LIBO Base Rate shall be determined using the weighted average of the offered rates for the two terms most nearly corresponding to such Interest Period and (ii) if there shall at any time no longer exist a Dow Jones Market Screen 3750, "LIBO Base Rate" shall mean, with respect to each day during each Interest Period pertaining to LIBOR Loans comprising part of the same borrowing, the rate *per annum* equal to the rate at which Administrative Agent is offered deposits in Dollars at approximately 11:00 a.m., London, England time, two Business Days prior to the first day of such Interest Period in the London interbank market for delivery on the first day of such Interest Period for the number of days comprised therein and in an amount comparable to the amount of such LIBOR Loan to be outstanding during such Interest Period. "**Dow Jones Market Screen 3750**" shall mean the display designated as Page 3750 on the Dow Jones Market Service (or such other page as may replace such page on such service for the purpose of displaying the rates at which Dollar deposits are offered by leading banks in the London interbank deposit markets).

"**LIBO Rate**" shall mean, for any LIBOR Loan for any Interest Period therefor, a rate *per annum* (rounded upwards, if necessary, to the nearest $1/100^{th}$ of 1%) determined by Administrative Agent to be equal to the LIBO Base Rate for such Loan for such Interest Period divided by 1 *minus* the Reserve Requirement (if any) for such Loan for such Interest Period.

"**LIBOR Loans**" shall mean Loans that bear interest at rates based on rates referred to in the definition of "LIBO Rate" in this Section 1.01.

"**License Revocation**" shall mean the revocation, failure to renew or suspension of, or the appointment of a receiver, supervisor or similar official with respect to, any Gaming Approval or other casino, gambling, horse racing or gaming license issued by any Gaming Authority covering any Gaming Facility owned, leased, operated or used by Borrower or any of its Restricted Subsidiaries.

"**Lien**" shall mean, with respect to any Property, any mortgage, deed of trust, lien, pledge, claim, charge, security interest, assignment, hypothecation or encumbrance of any kind or any filing of any financing statement under the UCC or any other similar notice of lien under any similar notice or recording statute of any Government Authority (other than such financing statements or similar notices filed for informational purposes only), any conditional sale or other title retention agreement or any lease in the nature thereof and, to the extent not co-extensive with such definitions, the definition of "Lien" or "Liens" in the Security Documents.

"**Liquor Authorities**" see Section 13.14.

"**Liquor Laws**" see Section 13.14.

"**Loans**" shall mean the Revolving Loans, the Swingline Loans, the Term Loans and the Incremental Loans, if any.

"**Losses**" of any person shall mean the losses, liabilities, claims (including those based upon negligence, strict or absolute liability and liability in tort), damages, reasonable expenses, obligations, penalties, actions, judgments, encumbrances, liens, penalties, fines, suits, reasonable and documented costs or disbursements of any kind or nature whatsoever (including reasonable fees and expenses of

counsel in connection with any Proceeding commenced or threatened in writing, whether or not such person shall be designated a party thereto) at any time (including following the payment of the Obligations) incurred by, imposed on or asserted against such person.

"**Maintenance Cap Ex Basket**" see Section 10.08(d)(i).

"**Maintenance Capital Expenditures**" shall mean any Capital Expenditures by Borrower or any of its Restricted Subsidiaries that are made to maintain, restore, refurbish or replace in the ordinary course of business the condition or usefulness of property of Borrower or any of its Restricted Subsidiaries, or otherwise to support the continuation of such person's day-to-day operations as then conducted, but that are not properly chargeable to repairs and maintenance in accordance with GAAP.

"**Majority Lenders**" shall mean Lenders holding at least a majority of the sum of (without duplication) (a) the aggregate principal amount of outstanding Loans, *plus* (b) the aggregate amount of all L/C Liabilities, *plus* (c) the aggregate Unutilized R/C Commitments.

"**Majority Pro Rata Lenders**" see Section 13.04(i)(m).

"**Majority Revolving Lenders**" shall mean Lenders holding at least a majority of the sum of (without duplication) (a) the aggregate principal amount of outstanding Revolving Loans, *plus* (b) the aggregate amount of all L/C Liabilities, *plus* (c) the aggregate Unutilized R/C Commitments then in effect.

"**Margin Stock**" shall mean margin stock within the meaning of Regulations T, U and X.

"**Material Adverse Change**" shall mean, with respect to any person, a material adverse change, or any condition or event that has resulted or could reasonably be expected to result in a material adverse change, in the business, operations, condition (financial or otherwise), Properties or liabilities (contingent or otherwise) of such person, together with its Restricted Subsidiaries taken as a whole.

"**Material Adverse Effect**" shall mean an event, circumstance, occurrence, or condition which has caused as of any date of determination any of (a) a material adverse effect, or any condition or event that has resulted or could reasonably be expected to result in a material adverse effect, on the business, operations, condition (financial or otherwise), Properties or liabilities (contingent or otherwise) of Borrower, together with the Restricted Subsidiaries taken as a whole, (b) a material adverse effect on the ability of the Credit Parties to consummate in a timely manner the Transactions or to perform any of their material obligations under any Credit Document or (c) a material adverse effect on the legality, binding effect or enforceability of any Credit Document or any of the material rights and remedies of any Creditor thereunder or the legality, priority or enforceability of the Lien on a material portion of the Collateral.

"**Material Indebtedness**" see Section 10.09.

"**MGC Loan Report**" shall mean the report required to be filed with the Mississippi Gaming Commission within 30 days after the Closing Date pursuant to MGC Reg. II.I Section 11.

"**Moody's**" shall mean Moody's Investors Service, Inc.

"**Mortgage**" shall mean with respect to each Mortgaged Real Property a First Mortgage.

"**Mortgaged Real Property**" shall mean (i) each Real Property identified on *Schedule 1.01(a)* to the Original Credit Agreement and (ii) each Real Property, if any, which shall be subject to a Mortgage delivered after the Closing Date pursuant to Section 9.09.

"**Multiemployer Plan**" shall mean a multiemployer plan within the meaning of Section 4001(a)(3) of ERISA (i) to which any ERISA Entity is then making or accruing an obligation to make contributions, (ii) to which any ERISA Entity has within the preceding five plan years made

contributions, including any person which ceased to be an ERISA Entity during such five year period, or (iii) with respect to which any Company is reasonably likely to incur liability.

"**NAIC**" shall mean the National Association of Insurance Commissioners.

"**Net Available Proceeds**" shall mean:

(i) in the case of any Asset Sale, the aggregate amount of all cash payments (including any cash payments received by way of deferred payment of principal pursuant to a note or otherwise, but only as and when received) received by any Company directly or indirectly in connection with such Asset Sale, net (without duplication) of (A) the amount of all reasonable fees and expenses paid by or on behalf of any Company in connection with such Asset Sale; (B) any Taxes paid or estimated in good faith to be payable by or on behalf of any Company as a result of such Asset Sale (after application of all credits and other offsets that arise from such Asset Sale); (C) any repayments by or on behalf of any Company of Indebtedness (other than the Obligations) to the extent that such Indebtedness is secured by a Permitted Lien on the subject Property required to be repaid as a condition to the purchase or sale of such Property; (D) amounts required to be paid to any person (other than any Company) owning a beneficial interest in the subject Property; and (E) amounts reserved, in accordance with GAAP, against any liabilities associated with such Asset Sale and retained by Borrower or any of its Subsidiaries after such Asset Sale and related thereto, including pension and other post-employment benefit liabilities, purchase price adjustments, liabilities related to environmental matters and liabilities under any indemnification obligations associated with such Asset Sale, all as reflected in an Officer's Certificate delivered to Administrative Agent;

(ii) in the case of any Casualty Event, the aggregate amount of cash proceeds of insurance, condemnation awards and other compensation received by the person whose Property was subject to such Casualty Event in respect of such Casualty Event net of (A) fees and expenses incurred by or on behalf

of such Company in connection with recovery thereof, (B) repayments of Indebtedness (other than Indebtedness hereunder) to the extent secured by a Lien on such Property that is permitted by the Credit Documents, and (C) any Taxes paid or payable by or on behalf of any Company in respect of the amount so recovered (after application of all credits and other offsets arising from such Casualty Event); and

(iii) in the case of any Equity Issuance or any Debt Issuance, the aggregate amount of all cash received in respect thereof by the person consummating such Equity Issuance or Debt Issuance in respect thereof net of all investment banking fees, discounts and commissions, legal fees, consulting fees, accountants' fees, underwriting discounts and commissions and other fees and expenses, actually incurred in connection therewith.

"**New Fee Letter**" shall mean that certain Fee Letter dated as of the Effective Date between the New Lead Arranger and Borrower.

"**New Jersey Joint Venture**" shall mean the joint venture between Greenwood Racing, Inc. (and its successors and assigns) and Penn National Holding Company (and its successors and assigns) comprising Pennwood pursuant to an agreement dated October 30, 1998 and as amended on January 28, 1999.

"**New Lead Arranger**" see the introduction hereto.

"**New Subordinated Notes**" shall mean the $6^{7}/_{8}$% Senior Subordinated Notes of Borrower due 2011 in the aggregate principal amount of $200,000,000 (including any exchange notes issued in exchange therefor contemplated by the registration rights agreement related thereto) and the Indebtedness represented thereby, together with the associated guarantees.

"**New Subordinated Notes Documents**" shall mean the New Subordinated Notes, the indenture under which the New Subordinated Notes are issued and all other documents evidencing, guaranteeing or otherwise governing the terms of the New Subordinated Notes.

"**New Transactions**" shall mean (a) the execution, delivery and performance by Borrower and each Subsidiary Guarantor of the Credit Documents (including, without limitation, this amendment and restatement of the Original Credit Agreement and the conversion of Term B Facility Loans into Term D Facility Loans) to which it is or is to become a party, the borrowing of Term D Facility Loans, the use of the proceeds thereof, in each case to occur on the Effective Date, (b) the execution, delivery and performance of the New Subordinated Notes Documents by each party thereto, the issuance of the New Subordinated Notes and the use of the proceeds thereof, (c) the Term A Prepayment and (d) the other transactions contemplated hereby to occur on or immediately following the Effective Date.

"**Non-U.S. Lender**" see Section 5.06(b).

"**Notes**" shall mean the Revolving Notes, the Swingline Notes and the Term Loan Notes.

"**Notice of Assignment**" shall mean a notice of assignment pursuant to Section 13.06 substantially in the form of *Exhibit O*.

"**Notice of Borrowing**" shall mean a notice of borrowing substantially in the form of *Exhibit B*.

"**Notice of Continuation/Conversion**" shall mean a notice of continuation/conversion substantially in the form of *Exhibit D*.

"**Obligations**" shall mean all amounts, direct or indirect, contingent or absolute, of every type or description, and at any time existing, owing by any Credit Party to any Creditor or any of its Agent Related Parties or their respective successors, transferees or assignees pursuant to the terms of any Credit Document or any Swap Contract relating to the Loans or secured by any of the Security Documents, whether or not the right of such person to payment in respect of such obligations and liabilities is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured and whether or not such claim is discharged, stayed or otherwise affected by any bankruptcy case or insolvency or liquidation proceeding.

"**OECD**" see the definition of Eligible Person.

"**Officer's Certificate**" shall mean, as applied to any corporation, a certificate executed on behalf of such corporation by its Chairman of the Board of Directors (if an officer), its Chief Executive Officer, its President, its Chief Financial Officer or its Treasurer (in each case, or an equivalent officer) in their official (and not individual) capacities.

"**Option Parcel**" see Section 8.26(m).

"**Organic Document**" shall mean, relative to any person, its certificate of incorporation, its by-laws, its partnership agreement, its memorandum and articles of association, share designations or similar organization documents and all shareholder agreements, voting trusts and similar arrangements applicable to any of its authorized Equity Interests.

"**Original Credit Agreement**" see introduction hereto.

"**Original Fee Letter**" shall mean the Credit Facilities Fee Letter dated as of August 5, 2002, among Bear, Stearns & Co., Inc., Bear Stearns Corporate Lending Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Merrill Lynch Capital Corporation and Borrower.

"**Original Lead Arranger**" shall have the meaning assigned to such term in the preamble hereto.

"**Original Transactions**" shall mean the financings and transactions that occured on the Closing Date, including the Hollywood Acquisition, the tender offer and consent solicitation with respect to not

less than 85% of the Target Non-Callable Bonds (as defined in the Original Credit Agreement) or a discharge or defeasance of the Target Non-Callable Bonds, the discharge of Target's $50.0 million of Floating Rate Senior Secured Notes due May 1, 2007, the refinancing of Borrower's then existing revolving credit facility, the payment of Target's severance and pension cost in an amount not to exceed $29.4 million, the initial borrowings under the Original Credit Agreement and the payment of all fees and expenses in connection with foregoing.

"**Other Taxes**" see Section 5.06(c).

"**Participant**" see Section 13.06(d).

"**Payor**" see Section 4.06.

"**PBGC**" shall mean the United States Pension Benefit Guaranty Corporation or any successor thereto.

"**Pennwood**" shall mean, collectively, Pennwood Racing, Inc., a Delaware corporation, and its subsidiaries, including, without limitation, GS Park Services, L.P., FR Park Services, L.P., GS Park Racing, L.P. and FR Park Racing, L.P.

"**Pension Plan**" shall mean an employee pension benefit plan (other than a Multiemployer Plan) that is covered by Title IV of ERISA or subject to the minimum funding standards under Section 412 of the Code or Section 302 of ERISA and is maintained or contributed to by any ERISA Entity or with respect to which any Company is reasonably likely to incur liability.

"**Perfection Certificate**" shall mean a Perfection Certificate substantially in the form of *Exhibit L*.

"**Permits**" see Section 8.16.

"**Permitted Acquisitions**" shall mean any acquisition, whether by purchase, merger, consolidation or otherwise, by Borrower or any of its Restricted Subsidiaries of all or substantially all the assets of, or all the Equity Interests in, a person or business of a person so long as (a) such acquisition shall not have been preceded by a tender offer that has not been approved by the Board of Directors of such person, (b) such assets are to be used in, or such person so acquired is engaged in, as the case may be, a business of the type conducted by Borrower and its Restricted Subsidiaries on the Closing Date or activities related or ancillary thereto and (c) immediately after giving effect thereto, (i) no Default has occurred and is continuing or would result therefrom, (ii) all transactions related thereto are consummated in all material respects in accordance with applicable laws, (iii) Borrower and its Restricted Subsidiaries are in compliance, on a pro forma basis after giving effect to such acquisition, with the covenants contained in Section 10.08 computed as at the last day of the most recently ended fiscal quarter of Borrower for which financial statements are available, as if such acquisition (and any related incurrence or repayment of Indebtedness) had occurred on the first day of such relevant Test Period (*provided* that any acquisition that occurs prior to the first Test Period under such Section 10.08 shall be deemed to have occurred during such first Test Period) and (iv) Borrower has delivered to Administrative Agent an Officer's Certificate to the effect set forth in clauses (a), (b) and (c)(i) through (iii) above, together with all relevant financial information for the person or assets to be acquired.

"**Permitted Liens**" see Section 10.02.

"**Permitted Mortgage Liens**" see Section 9.09.

"**Permitted Refinancing**" shall mean, with respect to any Indebtedness or Contingent Obligation, any refinancing thereof, *provided*, *however*, that:

(a) no Default or Event of Default shall have occurred and be continuing or would arise therefrom;

(b) any such refinancing Indebtedness shall (i) not have defaults, rights or remedies materially more burdensome, taken as a whole (as reasonably determined by Borrower and Lead Arrangers), to any Credit Party or any Creditor than the Indebtedness being refinanced, (ii) not have a stated maturity or weighted average life that is shorter than that of the Indebtedness or Contingent Obligation being refinanced (*provided* that the stated maturity or weighted average life may be shorter if the stated maturity of any principal payment (including any amortization payments) is not earlier than the earlier of (1) the stated maturity in effect prior to such refinancing or (2) 181 days after the Term D Final Maturity Date then in effect), (iii) if the Indebtedness or Contingent Obligation being refinanced is subordinated by its terms or by the terms of any agreement or instrument relating to such Indebtedness or Contingent Obligation, be at least as subordinate to the Obligations as the Indebtedness or Contingent Obligation being refinanced (and unsecured if the refinanced Indebtedness is unsecured) and (iv) be in a principal amount that does not exceed the principal amount so refinanced, *plus* accrued interest, *plus* any reasonable premium or other payment required to be paid in connection with such refinancing, *plus*, in either case, the amount of fees and reasonable expenses of Borrower or any of its Restricted Subsidiaries incurred in connection with such refinancing; and

(c) the sole obligor on such refinancing Indebtedness or Contingent Obligation shall be Borrower or the original obligor on such Indebtedness or Contingent Obligation being refinanced; *provided*, *however*, that (i) any guarantor of the Indebtedness or Contingent Obligation being refinanced shall be permitted to guarantee the refinancing Indebtedness and (ii) any Credit Party shall be permitted to guarantee any such refinancing Indebtedness of any other Credit Party.

"**Permitted Subordinated Indebtedness**" shall mean unsecured Indebtedness of Borrower and/or its Restricted Subsidiaries (a) that contains subordination provisions that are reasonably satisfactory to Lead Arrangers (it being understood that subordination provisions providing that such Indebtedness is at least as subordinated in all material respects to the Obligations then outstanding as the obligations under the indenture governing the New Subordinated Notes, as in effect on the date hereof, to the Obligations are reasonably satisfactory to Lead Arrangers), (b) that shall not have any principal payments due prior to the date that is twelve months after the Term D Final Maturity Date then in effect, whether at maturity or otherwise, except upon the occurrence of a Change of Control or similar event (including Asset Sales), in each case as long as the provisions relating to Change of Control or similar events (including Asset Sales) included in the governing instrument of such Indebtedness are substantially similar to such provisions in the New Subordinated Notes, and (c) that bears interest at a fixed rate, which rate shall be, in the good faith judgment of Borrower's Board of Directors, consistent with the market at the time of issuance for similar Indebtedness for comparable issuers or borrowers; *provided*, *however*, that subject to Section 9.11, such Permitted Subordinated Indebtedness may be swapped for variable rate Indebtedness, which rate shall be, in the good faith judgment of Borrower's Board of Directors, consistent with the market at the time of issuance for similar Indebtedness for comparable issuers or borrowers.

"**Permitted Vessel Liens**" shall mean maritime Liens on ships, barges or other vessels for damages arising out of a maritime tort, wages of a stevedore, when employed directly by a person listed in 46 U.S.C. Section 31341, crew's wages, salvage and general average, whether now existing or hereafter arising and other maritime Liens which arise by operation of law during normal operations of such ships, barges or other vessels.

"**person**" shall mean any individual, corporation, company, voluntary association, partnership, limited liability company, joint venture, trust, unincorporated organization or government (or any agency, instrumentality or political subdivision thereof).

"**Pledged Collateral**" has the meaning set forth in the Security Agreement.

"**Pre-Opening Expenses**" shall mean, with respect to any fiscal period, the amount of expenses (other than Consolidated Interest Expense) incurred with respect to capital projects which are classified as "pre-opening expenses" on the applicable financial statements of Borrower and its Subsidiaries for such period, prepared in accordance with GAAP.

"**Principal**" shall mean Peter M. Carlino.

"**Principal Office**" shall mean the principal office of Administrative Agent, located on the Closing Date at 383 Madison Avenue, New York, NY 10179, or such other office as may be designated by Administrative Agent.

"**Principal Payment Date**" shall mean, with respect to any Term Loan, each Quarterly Date or other date set forth on *Annex C* on which a payment of principal is due with respect to such Term Loan.

"**Proceeding**" shall mean any claim, counterclaim, action, judgment, suit, hearing, governmental investigation, arbitration or proceeding, including by or before any Governmental Authority and whether judicial or administrative.

"**Property**" shall mean any right, title or interest in or to property or assets of any kind whatsoever, whether real, personal or mixed and whether tangible or intangible and including all contract rights, real property interests, trademarks, trade names, equipment and proceeds of the foregoing and Equity Interests or other ownership interests of any person.

"**Purchase Money Obligation**" shall mean, for any person, the obligations of such person in respect of Indebtedness incurred for the purpose of financing all or any part of the purchase price of any Property (including Equity Interests of any person) or the cost of installation, construction or improvement of any property or assets and any refinancing thereof; *provided, however,* that such Indebtedness is incurred within 180 days after such acquisition of such Property by such person.

"**Qualified Capital Stock**" shall mean with respect to any person any Equity Interests of such person which is not Disqualified Capital Stock.

"**Quarter**" shall mean each three month period ending on March 31, June 30, September 30 and December 31.

"**Quarterly Dates**" shall mean the last Business Day of each Quarter in each year, commencing with the last Business Day of the first full Quarter after the Closing Date; *provided, however,* that solely for purposes of Section 2.05, the Quarterly Dates shall commence with the last Business Day of the first full Quarter after the Closing Date.

"**R/C Maturity Date**" shall mean September 1, 2007; *provided, however,* that if Borrower's outstanding $11^{1}/_{8}$% Senior Subordinated Notes due 2008 are refinanced in full to a date that is at least seven years and 181 days after the Closing Date, "R/C Maturity Date" shall mean the fifth anniversary of the Closing Date.

"**R/C Percentage**" shall mean, with respect to any Revolving Lender, the ratio of (a) the amount of the Revolving Commitment of such Lender to (b) the aggregate amount of the Revolving Commitments of all of the Lenders.

"**Real Property**" shall mean all right, title and interest of Borrower or any of its Restricted Subsidiaries (including, without limitation, any leasehold estate) in and to a parcel of real property owned or operated by Borrower or any of its Restricted Subsidiaries, whether by lease, license or other use or occupancy agreement, together with, in each case, all improvements and appurtenant fixtures, easements and other real property and rights incidental to the ownership, lease or operation thereof or thereon.

"**redeem**" shall mean redeem, repurchase, repay, defease or otherwise acquire or retire for value; and "**redemption**" and "**redeemed**" have correlative meanings.

"**refinance**" shall mean refinance, renew, extend, replace, defease or refund, in whole or in part, including successively; and "**refinancing**" and "**refinanced**" have correlative meanings.

"**Register**" see Section 2.08.

"**Regulation D**" shall mean Regulation D (12 C.F.R. Part 204) of the Board of Governors of the United States Federal Reserve System.

"**Regulations T, U and X**" shall mean, respectively, Regulation T (12 C.F.R. Part 220), Regulation U (12 C.F.R. Part 221) and Regulation X (12 C.F.R. Part 224) of the Board of Governors of the United States Federal Reserve System (or any successor), as the same may be modified and supplemented and in effect from time to time.

"**Reimbursement Obligations**" shall mean, at any time, the obligations of Borrower then outstanding, or that may thereafter arise in respect of all Letters of Credit then outstanding, to reimburse amounts paid by L/C Lender in respect of any drawings under a Letter of Credit.

"**Related Party**" shall mean:

(1) any immediate family member of Principal; or

(2) any trust, corporation, partnership or other entity, in which Principal and/or such other persons referred to in the immediately preceding clause (1) have an 80% or more controlling interest.

"**Release**" shall mean any spilling, leaking, pumping, pouring, emitting, emptying, discharging, injecting, escaping, leaching, dumping, disposing, depositing, dispersing, emanating or migrating of any Hazardous Material in, into, onto or through the Environment.

"**Replaced Lender**" see Section 2.11.

"**Replacement Lender**" see Section 2.11.

"**Replacement Vessel**" shall mean the replacement, in any manner, of any Vessel existing on the Closing Date including, without limitation, any replacement of such Vessel with a vessel, riverboat, barge or improvement on real property, whether such vessel, riverboat, barge or improvement is acquired or constructed and whether or not such vessel, riverboat, barge or improvement is temporarily or permanently moored or affixed to any real property.

"**Required Payment**" see Section 4.06.

"**Requirement of Law**" shall mean as to any person, the Organic Documents of such person, and any Law or determination of an arbitrator or any Governmental Authority, in each case applicable to or binding upon such person or any of its Property or to which such person or any of its Property is subject.

"**Requisite Tranche Lenders**" shall mean (i) with respect to Lenders having Revolving Commitments or Revolving Loans, Lenders having at least a majority of the aggregate sum of the Unutilized R/C Commitments, Revolving Loans and L/C Liabilities then outstanding, (ii) with respect to Lenders having Term D Facility Loans or Term D Facility Commitments, Lenders having at least a majority of the aggregate sum of the Term D Facility Loans and Term D Facility Commitments then outstanding and (iii) if applicable, with respect to Lenders having Incremental Loans, Lenders having at least a majority of the aggregate sum of the Incremental Loans then outstanding.

"**Reserve Requirement**" shall mean, for any Interest Period for any LIBOR Loan, the average maximum rate at which reserves (including any marginal, supplemental or emergency reserves) are

required to be maintained during such Interest Period under Regulation D by member banks of the United States Federal Reserve System in New York City with deposits exceeding one billion Dollars against "Eurocurrency liabilities" (as such term is used in Regulation D).

"**Response Action**" shall mean (a) "response" as such term is defined in CERCLA, 42 U.S.C. § 9601(24), and (b) all other actions required by any Governmental Authority or voluntarily undertaken to: (i) clean up, remove, treat, abate or in any other way address any Hazardous Material in the Environment, (ii) prevent the Release or threatened Release, or minimize the further Release, of any Hazardous Material or (iii) perform studies and investigations in connection with, or as a precondition to, clause (i) or (ii) above.

"**Responsible Officer**" shall mean the chief executive officer of Borrower, the president of Borrower (if not the chief executive officer) and, with respect to financial matters, the chief financial officer of Borrower.

"**Restricted Subsidiaries**" shall mean all existing and future Subsidiaries of Borrower other than the Unrestricted Subsidiaries.

"**Revolving Availability Period**" shall mean the period from and including the Closing Date to but excluding the earlier of the R/C Maturity Date and the date of termination of the Revolving Commitments.

"**Revolving Borrowing**" shall mean a Borrowing comprised of Revolving Loans.

"**Revolving Commitment**" shall mean, for each Revolving Lender, the obligation of such Lender to make Revolving Loans in an aggregate principal amount at any one time outstanding up to but not exceeding the amount set opposite the name of such Lender on *Annex A* under the caption "Revolving Commitment" (as the same may be reduced from time to time pursuant to Section 2.04 or changed pursuant to Section 13.06(b)). The initial aggregate principal amount of the sum of the Revolving Commitments of all Lenders is $100.0 million.

"**Revolving Exposure**" shall mean, with respect to any Lender at any time, the aggregate principal amount at such time of all outstanding Revolving Loans of such Lender, *plus* the aggregate amount at such time of such Lender's L/C Exposure, *plus* the aggregate amount at such of such Lender's Swingline Exposure.

"**Revolving Facility**" shall mean the credit facility comprising the Revolving Commitments.

"**Revolving Lenders**" shall mean (a) on the Closing Date, the Lenders having a Revolving Commitment on *Annex A* hereof and (b) thereafter, the Lenders from time to time holding Revolving Loans and a Revolving Commitment after giving effect to any assignments thereof permitted by Section 13.06(b).

"**Revolving Loans**" see Section 2.01 (a).

"**Revolving Notes**" shall mean the promissory notes substantially in the form of *Exhibit A-1*.

"**S&P**" shall mean Standard & Poor's, a division of The McGraw-Hill Companies.

"**SEC**" shall mean the United States Securities and Exchange Commission.

"**Secured Interest Rate Protection Agreement**" shall mean a secured interest rate swap or other similar agreement between Borrower and/or any or all of its Restricted Subsidiaries and one or more Lenders or Affiliates thereof (including any guarantees thereof by any Restricted Subsidiaries) which has been designated as a Secured Interest Rate Protection Agreement pursuant to a written notice from Borrower to Administrative Agent providing for interest rate swaps or other similar agreements with respect to a notional amount of indebtedness not to exceed the amount of Permitted Subordinated

Indebtedness, the net proceeds of which have been used to permanently reduce Borrower's Obligations under this Agreement.

"**Secured Parties**" shall mean, collectively, the First Priority Secured Parties.

"**Securities Act**" shall mean the United States Securities Act of 1933, as amended, and all rules and regulations of the SEC promulgated thereunder.

"**Security Agreement**" shall mean the First Security Agreement.

"**Security Documents**" shall mean the Security Agreement, the Mortgages, the Ship Mortgages, the Perfection Certificate and each other security document or pledge agreement required by applicable local law to grant a valid, perfected security interest in any Property acquired or developed that is of the kind and nature that would constitute Collateral on the date hereof, and all UCC or other financing statements or instruments of perfection required by this Agreement, the Security Agreement, any Mortgage or Ship Mortgage to be filed with respect to the security interests in Property and fixtures created pursuant to the Security Agreement, any Mortgage or Ship Mortgage and any other document or instrument utilized to pledge as collateral for the Obligations any Property of whatever kind or nature.

"**Ship Mortgage**" shall mean with respect to each Vessel, a First Ship Mortgage.

"**Shreveport**" shall mean the Gaming Facility known as "Hollywood Casino Shreveport" located in Hollywood, Louisiana.

"**Shreveport EBITDA**" shall mean the net income of Hollywood Shreveport, *plus*, in each case to the extent deducted in calculating such net income, (1) income tax expense, (2) interest expense, (3) depreciation and amortization expense, (4) any extraordinary non-cash items, (5) any non-recurring or extraordinary items of income or expense and net tax consequences thereof, (6) non-cash valuation adjustments, and (7) other non-cash items of expense, other than to the extent such non-cash items require an accrual or reserve for future cash expenses (*provided* that if such accrual or reserve is for contingent items, the outcome of which is subject to uncertainty, such non-cash items of expense will be added to net income and deducted when and to the extent actually paid in cash), in each case on a consolidated basis in accordance with GAAP.

"**Solvent**" and "**Solvency**" shall mean, for any person on a particular date, that on such date (a) the fair value of the Property of such person is greater than the total amount of liabilities, including, without limitation, contingent liabilities, of such person, (b) the present fair salable value of the assets of such person is not less than the amount that will be required to pay the probable liability of such person on its debts as they become absolute and matured, (c) such person does not intend to, and does not believe that it will, incur debts and liabilities beyond such person's ability to pay as such debts and liabilities mature, (d) such person is not engaged in a business or a transaction, and is not about to engage in a business or a transaction, for which such person's Property would constitute an unreasonably small capital and (e) such person is able to pay its debts as they become due and payable. For purposes of this definition, the amount of contingent liabilities at any time shall be computed as the amount that, in the light of all the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability, without duplication.

"**Subsidiary**" shall mean, with respect to any person (the "**parent**") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled

or held, or (b) that is, as of such date, otherwise controlled, by the parent or one or more subsidiaries of the parent.

"**Subsidiary Guarantors**" shall mean each of the persons listed on *Schedule 1.01(b)* to the Original Credit Agreement and each person which has executed or may execute after the Closing Date a Joinder Agreement pursuant to Section 9.12, together with their successors and permitted assigns, and "**Subsidiary Guarantor**" shall mean any one of them. Schedule 1.01(b) is hereby updated to include each person listed as a Subsidiary Guarantor on the signature pages hereto.

"**Survey**" shall mean a survey of any Mortgaged Real Property (and all improvements thereon): (i) prepared by a surveyor or engineer licensed to perform surveys in the state, province or country where such Mortgaged Real Property is located at the time such survey was prepared, (ii) dated (or redated) not earlier than 6 months prior to the date of delivery to Administrative Agent thereof unless there shall have occurred after the date of such survey any exterior construction on the site of such Mortgaged Real Property, in which event such survey shall be dated (or redated) after the completion of such construction or, if such construction shall not have been completed as of such date of delivery, not earlier than 20 days prior to such date of delivery or if such survey is dated more than 6 months prior to the date of delivery to Administrative Agent, then accompanied by an affidavit or certification to the Title Company from the applicable Credit Party that since the date of such survey there has been no exterior construction on the improvements depicted on such survey (to the extent such affidavit or certification can factually be made), (iii) certified by the surveyor (in a manner reasonably acceptable to Collateral Agent) to Administrative Agent and Collateral Agent and (iv) complying in all material respects with the Minimum Standard Detail Requirements for ALTA/ACSM surveys by the American Land Title Association at the time such survey was prepared.

"**Swap Contract**" shall mean any agreement entered into in the ordinary course of business (as a bona fide hedge and not for speculative purposes) (including any master agreement and any schedule or agreement, whether or not in writing, relating to any single transaction) that is an interest rate swap agreement, basis swap, forward rate agreement, commodity swap, commodity option, equity or equity index swap or option, bond option, interest rate option, foreign exchange agreement, rate cap, collar or floor agreement, currency swap agreement, cross-currency rate swap agreement, swaption, currency option or any other similar agreement (including any option to enter into any of the foregoing) and is designed to protect any Company against fluctuations in interest rates, currency exchange rates, commodity prices, or similar risks (including any Interest Rate Protection Agreement entered into pursuant to Section 9.11).

"**Swingline Commitment**" shall mean the commitment of the Swingline Lender to make loans pursuant to Section 2.01(g), as the same may be reduced from time to time pursuant to Section 2.04.

"**Swingline Exposure**" shall mean at any time the aggregate principal amount at such time of all outstanding Swingline Loans. The Swingline Exposure of any Revolving Lender at any time shall equal its R/C Percentage of the aggregate Swingline Exposure at such time.

"**Swingline Lender**" shall have the meaning assigned to such term in the preamble hereto.

"**Swingline Loan**" shall mean any loan made by the Swingline Lender pursuant to Section 2.01(g).

"**Swingline Notes**" shall mean the promissory notes substantially in the form of *Exhibit A-5*.

"**Taking**" shall mean a taking or voluntary conveyance during the term of this Agreement of all or part of any Mortgaged Real Property or Vessel, or any interest therein or right accruing thereto or use thereof, as the result of, or in settlement of, any condemnation or other eminent domain proceeding by any Governmental Authority affecting any Mortgaged Real Property or Vessel or any portion thereof, whether or not the same shall have actually been commenced.

"**Target**" see Recitals.

"**Target Subsidiary Bonds**" shall mean the Hollywood Casino Shreveport and Shreveport Capital Corporation First Mortgage Notes due 2006 and the Hollywood Casino Shreveport and Shreveport Capital Corporation 13% Senior Secured Notes due 2006 and, in each case, the indenture related thereto.

"**Tax Benefit**" see Section 5.06(e).

"**Tax Returns**" see Section 8.08.

"**Taxes**" shall mean (i) any and all taxes, imposts, duties, charges, fees, levies or other charges or assessments of whatever nature, including income, gross receipts, excise, real or personal property, sales, withholding, social security, retirement, unemployment, occupation, use, service, license, net worth, payroll, franchise, and transfer and recording, imposed by the Internal Revenue Service or any taxing authority (whether domestic or foreign, including any federal, state, U.S. possession, county, local or foreign government or any subdivision or taxing agency thereof) including interest, fines, penalties or additions to tax attributable to or imposed on or with respect to any such taxes, charges, fees, levies or other assessments and (ii) all transferee, successor, joint and several or contractual liability (including, without limitation, liability pursuant to Treas. Reg. §1.1502-6 (or any similar state, local or foreign provisions)) in respect of any items described in clause (i).

"**Term A Prepayment**" shall mean an optional prepayment by Borrower of all outstanding Obligations in respect of Term A Facility Loans (as defined in the Original Credit Agreement) pursuant to Section 2.09 of the Original Credit Agreement.

"**Term A Facility Notes**" shall mean the promissory notes substantially in the form of Exhibit A-2 to the Original Credit Agreement.

"**Term B Facility**" shall mean, from and after the Effective Date for all purposes of the Security Documents and Section 13.04(i)(o) and (iv) only, the credit facility comprising the Term D Facility Commitments and Term D Facility Loans.

"**Term B Facility Lenders**" shall mean, from and after the Effective Date for all purposes of the Security Documents and Section 13.04(i)(o) and (iv) only, the Lenders from time to time holding Term D Facility Loans and Term D Facility Commitments, after giving effect to any assignments thereof permitted by Section 13.06(b); all such Lenders also being First Priority Lenders for such purposes.

"**Term B Facility Loans**" shall mean, from and after the Effective Date for all purposes of the Security Documents and Section 13.04(i)(o) and (iv) only, the Term D Facility Loans; all such Loans also being First Priority Loans for such purposes.

"**Term D Facility**" shall mean the credit facility comprising the Term D Facility Commitments and the Term D Facility Loans.

"**Term D Facility Commitment**" shall mean, for each Term D Facility Lender, the obligation of such Lender to make a Term D Facility Loan in an amount up to but not exceeding the amount set opposite the name of such Lender on *Annex A* under the caption "Term D Facility Commitment" (as the same may be reflected in the Register, subject to Section 2.08, or be changed pursuant to Section 13.06(b)). The initial aggregate amount of the sum of the Term D Facility Commitments of all Lenders is $399,700,000.

"**Term D Facility Lenders**" shall mean (a) on the Effective Date, the Lenders having Term D Facility Commitments on *Annex A*, and (b) thereafter, the Lenders from time to time holding Term D Facility Loans and Term D Facility Commitments after giving effect to any assignments thereof permitted by Section 13.06(b).

"**Term D Facility Loans**" see Section 2.01(b).

"**Term D Facility Notes**" shall mean the promissory notes substantially in the form of *Exhibit A-2*.

"**Term D Final Maturity Date**" shall mean September 1, 2007; *provided*, *however*, that if Borrower's outstanding $11^{1}/_{8}$% Senior Subordinated Notes due 2008 are refinanced in full to a date that is at least seven years and 181 days after the Closing Date, the Term D Final Maturity Date shall mean the sixth anniversary of the Closing Date.

"**Term Facilities**" shall mean the credit facilities comprising the Term D Facility and the Incremental Loan Facility, if any, collectively.

"**Term Loan Commitments**" shall mean the Term D Facility Commitments and the Incremental Loan Facility Commitments, once drawn.

"**Term Loan Lenders**" shall mean the Term D Facility Lenders and the Incremental Loan Lenders, if any, collectively.

"**Term Loan Notes**" shall mean the Term D Facility Notes and the Incremental Notes, if any, collectively.

"**Term Loans**" shall mean the Term D Facility Loans and any Incremental Loans that are term loans, collectively.

"**Test Date**" shall mean, for any Financial Maintenance Covenant, the last day of each fiscal quarter of Borrower included within any period set forth in the table for such Financial Maintenance Covenant.

"**Test Period**" shall mean for any date of determination the period of the four most recently ended consecutive fiscal quarters of the Consolidated Companies.

"**Tidelands Lease**" shall mean that certain Public Trust Tidelands Lease, dated August 15, 1994, by and between the Secretary of State, with the approval of the Governor, for and on behalf of the State of Mississippi, as landlord, and BTN, Inc., as successor-in-interest to Mississippi-I Gaming, L.P., as has been amended from time to time.

"**Title Company**" shall mean either First American Title Insurance Company or Penn Title Company or such other title insurance or abstract company as shall be designated by Collateral Agent (in consultation with Borrower).

"**Title Insurance Bring Down and Endorsements**" see Section 9.13.

"**Tranche**" shall mean (i) with respect to Lenders, each of the following classes of Lenders: (a) Lenders having Revolving Loans or Revolving Commitments, (b) Lenders having Term D Facility Loans or Term D Facility Commitments, and (c) Lenders having Incremental Loans, and (ii) with respect to Loans, each of the following classes of Loans: (a) Revolving Loans or Revolving Commitments, (b) Term D Facility Loans or Term D Facility Commitments and (c) Incremental Loans.

"**Transaction Documents**" shall mean the Acquisition Agreement, this Agreement (including the Original Credit Agreement and this amendment and restatement of the Original Credit Agreement), the Original Fee Letter, the New Fee Letter, the Engagement Letter, the Security Documents and in each case all documents related thereto and all exhibits, appendices, schedules and annexes to any thereof.

"**Tunica Casino**" shall mean the Gaming Facility known as "The Hollywood Casino Tunica" located in Tunica, Mississippi.

"**Type**" see Section 1.03.

"**UCC**" shall mean the Uniform Commercial Code as in effect in the applicable state or other jurisdiction.

"**Unrestricted Subsidiaries**" shall mean HWCC-Louisiana, Inc., HWCC-Shreveport, Inc., HCS I, Inc., HCS II, Inc., HCS-Golf Course, L.L.C., Hollywood Casino Shreveport and Shreveport Capital Corporation and their respective Subsidiaries; *provided* that if 85% or more of each series of the Target Subsidiary Bonds have been tendered pursuant to the Change of Control Offers or the Alternate Target Subsidiary Bond Offers, or repurchased or redeemed, then following consummation of such offers, repurchases or redemptions pursuant to which at least 85% of each series of Target Subsidiary Bonds have been tendered, repurchased or redeemed, Hollywood Casino Shreveport, Shreveport Capital Corporation, HWCC-Shreveport, Inc., HWCC-Louisiana, Inc., HCS I, Inc., HCS II, Inc., HCS-Golf Course, L.L.C. shall cease to be Unrestricted Subsidiaries; *provided*, that, immediately prior to becoming a Restricted Subsidiary, such entities shall deliver an Officer's Certificate certifying as to such entities', compliance with Sections 8.10 and 8.11.

"**Unutilized R/C Commitment**" shall mean, for any Revolving Lender, at any time, the excess of such Lender's Revolving Commitment at such time over the sum of (i) the aggregate outstanding principal amount of Revolving Loans made by such Lender and (ii) such Lender's R/C Percentage of the aggregate amount of L/C Liabilities at such time.

"**Vessel**" shall mean the gaming vessels and barges listed on *Schedule 8.14(b)* to the Original Credit Agreement and the fixtures and equipment located thereon or any Replacement Vessel.

"**Vessel Certificate of Ownership**" see Section 9.13.

"**Voting Stock**" shall mean, with respect to any person, the capital stock (including any and all shares, interests (including partnership, membership and other equity interests), participations, rights in, or other equivalents (however designated and whether voting or nonvoting) of, such capital stock, and any and all rights, warrants or options exchangeable for or convertible into such capital stock) of such person that ordinarily has voting power for the election of directors (or persons performing similar functions) of such person, whether at all times or only as long as no senior class of Equity Interests has such voting power by reason of any contingency.

"**Weighted Average Life to Maturity**" shall mean, on any date and with respect to the Revolving Commitments, or the Term Loans, an amount equal to (i) the sum, for each scheduled repayment of Term Loans to be made after such date, or each scheduled reduction of Revolving Commitments to be made after such date, of the amount of such scheduled repayment or reduction multiplied by the number of days from such date to the date of such scheduled prepayment or reduction divided by (ii) the aggregate principal amount of such Term Loans or such Revolving Commitments, as the case may be.

"**Wholly Owned Subsidiary**" shall mean, with respect to any person, any corporation, partnership or other entity of which all of the Equity Interests (other than, in the case of a corporation, directors' qualifying shares or nominee shares required under applicable law) are directly or indirectly owned or controlled by such person and/or one or more Wholly Owned Subsidiaries of such person. Unless the context clearly requires otherwise, all references to any Wholly Owned Subsidiary shall mean a Wholly Owned Subsidiary of Borrower.

"**Withdrawal Liability**" shall mean liability by an ERISA Entity to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part 1 of Subtitle E of Title IV of ERISA.

"**Working Capital**" shall mean an amount determined for Borrower and its Restricted Subsidiaries equal to the sum of all current assets (other than cash and Cash Equivalents) less the sum of all current liabilities (other than the current portion of long-term Indebtedness).

SECTION 1.02. Accounting Terms and Determinations. Except as otherwise provided in this Agreement, all computations and determinations as to accounting or financial matters (including

financial covenants) shall be made in accordance with GAAP as in effect on the Closing Date consistently applied for all applicable periods, and all accounting or financial terms shall have the meanings ascribed to such terms by GAAP. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Credit Document, and Borrower notifies Administrative Agent that Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if Administrative Agent notifies Borrower that the Majority Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith. If at any time any change in GAAP would affect the computation of any financial ratio or requirement set forth in any Credit Document, and Borrower, Administrative Agent or Majority Lenders shall so request, Administrative Agent, Lenders and Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP (subject to the approval of Majority Lenders, not to be unreasonably withheld).

SECTION 1.03. Classes and Types of Loans. Loans hereunder are distinguished by "Class" and by "Type." The "Class" of a Loan (or of a Commitment to make a Loan) refers to whether such Loan is a Revolving Loan, Term D Facility Loan, Incremental Loan or Swingline Loan, each of which constitutes a Class. The "Type" of a Loan refers to whether such Loan is an ABR Loan or a LIBOR Loan, each of which constitutes a Type. Loans may be identified by both Class and Type.

SECTION 1.04. Rules of Construction. (a) In each Credit Document, unless the context clearly requires otherwise (or such other Credit Document clearly provides otherwise), references to (i) the plural include the singular, the singular include the plural and the part include the whole; (ii) persons include their respective permitted successors and assigns or, in the case of governmental persons, persons succeeding to the relevant functions of such persons; (iii) agreements (including this Agreement), promissory notes and other contractual instruments include subsequent amendments, assignments, and other modifications thereto, but only to the extent such amendments, assignments or other modifications thereto are not prohibited by their terms or the terms of any Credit Document; (iv) statutes and related regulations include any amendments of the same and any successor statutes and regulations; (v) unless otherwise expressly provided, any reference to any action of any Creditor by way of consent, approval or waiver shall be deemed modified by the phrase "in its/their sole reasonable discretion"; and (vi) time shall be a reference to New York City time. Where any provision herein refers to action to be taken by any person, or which such person is prohibited from taking, such provision shall be applicable whether such action is taken directly or indirectly by such person.

(b) In each Credit Document, unless the context clearly requires otherwise (or such other Credit Document clearly provides otherwise), (i) "**amend**" shall mean "amend, restate, amend and restate, supplement or modify"; and "**amended**," "**amending**" and "**amendment**" shall have meanings correlative to the foregoing; (ii) in the computation of periods of time from a specified date to a later specified date, "**from**" shall mean "from and including"; "**to**" and "**until**" shall mean "to but excluding"; and "**through**" shall mean "to and including"; (iii) "**hereof**," "**herein**" and "**hereunder**" (and similar terms) in any Credit Document refer to such Credit Document as a whole and not to any particular provision of such Credit Document; (iv) "**including**" (and similar terms) shall mean "including without limitation" (and similarly for similar terms); (v) "**or**" has the inclusive meaning represented by the phrase "and/or"; (vi) "**satisfactory to**" any Creditor shall mean in form, scope and substance and on terms and conditions satisfactory to such Creditor; (vii) references to "**the date hereof**" shall mean the Effective Date; (viii) "**asset**" and "**Property**" shall have the same meaning and effect and refer to all tangible and intangible assets and property, whether real, personal or mixed and

of every type and description; and (ix) a "**fiscal year**" or a "**fiscal quarter**" is a reference to a fiscal year or fiscal quarter of Borrower.

(c) In this Agreement unless the context clearly requires otherwise, any reference to (i) an Annex, Exhibit or Schedule is to an Annex, Exhibit or Schedule, as the case may be, attached to this Agreement and constituting a part hereof, and (ii) a Section or other subdivision is to a Section or such other subdivision of this Agreement.

(d) This Agreement and the other Credit Documents are the result of negotiations among and have been reviewed by counsel to Agents, Borrower and the other parties, and are the products of all parties. Accordingly, they shall not be construed against the Lenders or Agents merely because of Agents' or Lenders' involvement in their preparation.

SECTION 1.05. Effectiveness of Amendment and Restatement of Original Credit Agreement. (a) This amendment and restatement of the Original Credit Agreement contemplated hereby shall become effective on the Effective Date, and thereafter shall be binding upon and inure to the benefit of the parties hereto and the parties to the Original Credit Agreement and their respective successors and assigns. Until this Agreement becomes effective, the Original Credit Agreement shall remain in full force and effect and shall not be affected hereby. After the Effective Date, all Obligations of Borrower and the Subsidiary Guarantors under the Original Credit Agreement shall become Obligations of Borrower and the Subsidiary Guarantors hereunder, continuously secured by the Liens granted under the Security Documents, and the provisions of the Original Credit Agreement shall be superseded by the provisions hereof. Except as otherwise expressly stated hereunder, the term of this Agreement is for all purposes deemed to have commenced on the Effective Date. Unless omitted or

modified in connection with this Agreement, all schedules and exhibits, as amended prior to the Effective Date, shall not be amended or omitted and shall remain as annexed to the Original Credit Agreement.

(b) Each Term B Facility Lender (as defined under the Original Credit Agreement) (an "**Existing Term B Lender**") that executes and delivers a signature page to this amendment and restatement of the Original Credit Agreement will be deemed to have agreed to have committed pursuant to, and subject to the terms and conditions of, this Agreement to convert its Term B Facility Loans (as defined under the Original Credit Agreement), after giving effect to the optional prepayment of Term B Facility Loans contemplated by Section 7.01(f) (such Term B Facility Loans, after giving effect to all such optional prepayments thereof, the "**Existing Term B Loans**") into Term D Facility Loans on the Effective Date in a like principal amount. By electing to so convert, each Existing Term B Lender agrees to all other provisions of this amendment and restatement of the Original Credit Agreement and that the conversion of its Term B Facility Loan into a Term D Facility Loan is merely a mechanic to effectuate a reduction in the Applicable Margin applicable to its Loans.

(c) All accrued and unpaid interest on the Existing Term B Loans to be converted as contemplated by Section 1.05(b) as of the Effective Date shall accrue on the Term D Facility Loans following the Effective Date and be paid when interest is first due on the Term D Facility Loans. Notwithstanding anything to the contrary contained herein, the conversion of Existing Term B Loans into Term D Facility Loans shall not be deemed to be a prepayment or conversion of Loans for purposes of Article V.

ARTICLE II

CREDITS

SECTION 2.01. Loans.

(a) **Revolving Loans.** Each Revolving Lender severally agrees, on the terms and conditions of this Agreement, to make revolving loans (the "**Revolving Loans**") to Borrower in Dollars during

the Revolving Availability Period in an aggregate principal amount at any one time outstanding not exceeding the amount of the Revolving Commitment of such Lender as in effect from time to time *minus* the aggregate principal amount of the then outstanding Swingline Loans held by such Lender; *provided, however,* that in no event shall the sum of the aggregate principal amount of (without duplication) all Revolving Loans and Swingline Loans then outstanding, *plus* the aggregate amount of all L/C Liabilities at any time exceed the aggregate amount of the Revolving Commitments as in effect at such time. Subject to the terms and conditions of this Agreement, during such period Borrower may borrow, repay and reborrow the amount of the Revolving Commitments by means of ABR Loans and LIBOR Loans.

(b) **Term D Facility Loans; Conversion of Existing Term B Loans.** Each Term D Facility Lender severally agrees, on the terms and conditions of this Agreement, to make a term loan ("**Term D Facility Loans**") to Borrower in Dollars on the Effective Date in an aggregate principal amount equal to the Term D Facility Commitment of such Lender. In connection with making of Term D Facility Loans pursuant to this Section 2.01(b), any Existing Term B Lender who has agreed to become a Term D Facility Lender shall make all of such Lender's Term D Facility Loans to be made as contemplated by Section 1.05(b) on the Effective Date by converting all of the outstanding principal amount of the Existing Term B Loans held by such Lender into Term D Facility Loans in a principal amount equal to the amount of Existing Term B Loans so converted (each such Existing Term B Loans to the extent it is to be converted, a "**Converted Term Loan**"). On the Effective Date, the Converted Term Loans shall be converted for all purposes of this Agreement into Term D Facility Loans, and Administrative Agent shall record in the Register the aggregate amounts of Converted Term Loans converted into Term D Facility Loans.

(c) [Reserved]

(d) [Reserved]

(e) **Incremental Loans.** Borrower and the Lenders (and any other Eligible Person in the event the Lenders do not wish to provide the full amount of the Incremental Loans) may, up to two times during the period from and including the Closing Date to but excluding the Incremental Loan Maturity Date, agree that all or any of such Lenders (and such other Eligible Persons) who wish to become an Incremental Loan Lender shall become Incremental Loan Lenders or increase the principal amount of their Incremental Loans by executing and delivering to Administrative Agent an Incremental Loan Activation Notice specifying (i) the respective Incremental Loan Amount of such Incremental Lenders; *provided, however,* that the aggregate amount of all Incremental Loan Amounts in any Incremental Loan Activation Notice shall not exceed $125.0 million, (ii) the applicable Incremental Loan Effective Date, (iii) the applicable Incremental Loan Maturity Date, (iv) the amortization schedule for the applicable Incremental Loans, (v) whether such Incremental Loan Lenders may elect to decline prepayments as specified in Section 2.10(b)(i) and (vi) the Applicable Margin for the Incremental Loans to be made pursuant to such Incremental Loan Activation Notice, and which shall be otherwise duly completed. Each Incremental Loan Lender that is a signatory to an Incremental Loan Activation Notice severally agrees, on the terms and conditions of this Agreement, to make an Incremental Loan to Borrower on the Incremental Loan Effective Date specified in such Incremental Loan Activation Notice in a principal amount not to exceed the amount of the Incremental Loan Amount of such Incremental Loan Lender specified in such Incremental Loan Activation Notice. Subject to the terms and conditions of this Agreement, Borrower may convert Incremental Loans of one Type into Incremental Loans of another Type (as provided in Section 2.09) or continue Incremental Loans of one Type as Incremental Loans of the same Type (as provided in Section 2.09). Notwithstanding anything in this Agreement expressed or implied to the contrary, nothing in this Section 2.01(e) shall be construed to obligate any Lender to execute an Incremental Loan Activation Notice or require consent from Lenders to the making of Incremental Loans. Notwithstanding the foregoing,

the aggregate amount of Incremental Loans shall not exceed $225.0 million. Notwithstanding anything to the contrary contained herein, Borrower and Lead Arrangers may execute such amendments and/or amendments and restatements of any Credit Documents as may be necessary or advisable to effectuate the foregoing.

(f) **Limit on LIBOR Loans.** No more than fifteen separate Interest Periods in respect of LIBOR Loans may be outstanding at any one time.

(g) **Swingline Loans**.

(i) *Swingline Commitment.* Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Loans to Borrower from time to time during the Revolving Availability Period, in an aggregate principal amount at any time outstanding that will not result in (x) the aggregate principal amount of outstanding Swingline Loans exceeding $20.0 million or (y) the sum of the total Revolving Exposures exceeding the total Revolving Commitments; *provided* that the Swingline Lender shall not be required to make a Swingline Loan to refinance an outstanding Swingline Loan. Within the foregoing limits and subject to the terms and conditions set forth herein, Borrower may borrow, repay and reborrow Swingline Loans.

(ii) *Swingline Loans.* To request a Swingline Loan, Borrower shall notify Administrative Agent of such request by telephone (confirmed by telecopy), not later than 2:00 p.m., New York City time, on the day of a proposed Swingline Loan. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Loan. Administrative Agent will promptly advise the Swingline Lender of any such notice received from Borrower. The Swingline Lender shall make each Swingline Loan available to Borrower by means of a credit to the general deposit account of Borrower with the Swingline Lender by 3:00 p.m., New York City time, on the requested date of such Swingline Loan. Borrower shall not request a Swingline Loan if at the time of and immediately after giving effect to such request a Default or an Event of Default has occurred and is continuing. Swingline Loans shall be made in minimum amounts of $250,000 and integral multiples of $250,000 above such amount.

(iii) *Prepayment.* Borrower shall have the right at any time and from time to time to repay any Swingline Loan, in whole or in part, upon giving written or telecopy notice (or telephone notice promptly confirmed by written, or telecopy notice) to the Swingline Lender and to Administrative Agent before 12:00 (noon), New York City time on the date of repayment at the Swingline Lender's address for notices specified in the Swingline Lender's Administrative Questionnaire. All principal payments of Swingline Loans shall be accompanied by accrued interest on the principal amount being repaid to the date of payment.

(iv) *Participations.* The Swingline Lender may by written notice given to Administrative Agent not later than 12:00 noon, New York City time, on any Business Day require the Revolving Lenders to acquire participations on such Business Day in all or a portion of the Swingline Loans outstanding. Such notice shall specify the aggregate amount of Swingline Loans in which Revolving Lenders will participate. Promptly upon receipt of such notice, Administrative Agent will give notice thereof to each Revolving Lender, specifying in such notice such Lender's applicable percentage of such Swingline Loan or Loans. Each Revolving Lender hereby absolutely and unconditionally agrees, upon receipt of notice as provided above, to pay to Administrative Agent, for the account of the Swingline Lender, such Lender's R/C Percentage of such Swingline Loan or Loans. Each Revolving Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or an Event of Default or

reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever (*provided* that such payment shall not cause such Lender's Revolving Exposure to exceed such Lender's Revolving Commitment). Each Revolving Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 4.01 with respect to Loans made by such Lender (and Section 4.01 shall apply, *mutatis mutandis*, to the payment obligations of the Revolving Lenders), and Administrative Agent shall promptly pay to the Swingline Lender the amounts so received by it from the Revolving Lenders. Administrative Agent shall notify Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph, and thereafter payments in respect of such Swingline Loan shall be made to Administrative Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from Borrower (or other party on behalf of Borrower) in respect of a Swingline Loan after receipt by the Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to Administrative Agent; any such amounts received by Administrative Agent shall be promptly remitted by Administrative Agent to the Revolving Lenders that shall have made their payments pursuant to this paragraph and to the Swingline Lender, as their interests may appear. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve Borrower of any default in the payment thereof.

SECTION 2.02. Borrowings. Borrower shall give Administrative Agent notice of each borrowing hereunder as provided in Section 4.05 in the form of a Notice of Borrowing. Not later than 12:00 noon New York City time on the date specified for each borrowing hereunder, each Lender shall make available the amount of the Loan or Loans to be made by it on such date to Administrative Agent, at an account specified by Administrative Agent maintained at the Principal Office, in immediately available funds, for the account of Borrower, except to the extent such Lender elects to convert Existing Term B Loans into Term D Facility Loans pursuant to Section 2.01(b). Each borrowing of Revolving Loans shall be made by each Revolving Lender *pro rata* based on its R/C Percentage. The amounts so received by Administrative Agent shall, subject to the terms and conditions of this Agreement, be made available to Borrower by depositing the same, in immediately available funds, in an account of Borrower maintained with Administrative Agent at the Principal Office designated by Borrower.

SECTION 2.03. Letters of Credit. Subject to the terms and conditions hereof, the Revolving Commitment may be utilized, upon the request of Borrower, in addition to the Revolving Loans provided for by Section 2.01(a), for standby and commercial documentary letters of credit (herein collectively called "**Letters of Credit**") issued by L/C Lender for the account of any Credit Party (*provided* that Borrower shall be a co-applicant (and jointly and severally liable) with respect to each Letter of Credit issued for the account of any Subsidiary); *provided, however,* that in no event shall (i) the aggregate amount of all L/C Liabilities, *plus* the aggregate principal amount of the Revolving Loans and Swingline Loans then outstanding, exceed at any time the Revolving Commitments as in effect at such time, (ii) the sum of the aggregate principal amount of Revolving Loans then outstanding made by any Revolving Lender, *plus* such Lender's R/C Percentage of the aggregate amount of all L/C Liabilities exceed such Lender's Revolving Commitment as in effect at such time, (iii) the outstanding aggregate amount of all L/C Liabilities exceed $20.0 million, (iv) the face amount of any Letter of Credit be less than $100,000, (v) the expiration date of any Letter of Credit extend beyond the earlier of (x) the fifth Business Day preceding the R/C Maturity Date and (y) the date twelve months following the date of such issuance for standby Letters of Credit or 180 days after the date of such issuance for commercial documentary Letters of Credit, unless the Majority Revolving Lenders have approved such expiry date in writing (but never beyond the fifth Business Day prior to the R/C Maturity Date); *provided further, however,* that any standby Letter of Credit may be automatically extendible for periods of up to one year (but never beyond the fifth Business Day preceding the R/C

Maturity Date), (vi) L/C Lender issue any Letter of Credit after it has received notice from Borrower or the Majority Revolving Lenders stating that a Default exists until such time as L/C Lender shall have received written notice of (x) rescission of such notice from the Majority Revolving Lenders, (y) waiver or cure of such Default in accordance with this Agreement or (z) Administrative Agent's good faith determination that such Default has ceased to exist, or (vii) any letter of credit be issued in a currency other than Dollars nor at a tenor other than sight. The following additional provisions shall apply to Letters of Credit:

(a) Borrower shall give Administrative Agent and L/C Lender at least three Business Days' irrevocable prior notice (effective upon receipt by L/C Lender) pursuant to a Letter of Credit application reasonably satisfactory to L/C Lender specifying the date (which shall be no later than thirty days preceding the R/C Maturity Date) each Letter of Credit is to be issued and describing in reasonable detail the proposed terms of such Letter of Credit (including the beneficiary thereof) (including whether such Letter of Credit is to be a commercial Letter of Credit or a standby Letter of Credit). Upon receipt of any such notice, Administrative Agent shall advise L/C Lender of the contents thereof. Each Lender hereby authorizes L/C Lender to issue, and perform its obligations under, Letters of Credit. Letters of Credit shall be issued in accordance with the customary procedures of L/C Lender, which may include an application for Letters of Credit but which application shall not contain any operating or financial covenants or any provisions inconsistent with this Agreement. L/C Lender may refuse to issue any Letter of Credit the contents of which are not reasonably satisfactory to it. If there is any conflict between the procedures or any Letter of Credit application required by L/C Lender and this Agreement, this Agreement shall govern.

(b) On each day during the period commencing with the issuance by L/C Lender of any Letter of Credit and until such Letter of Credit shall have expired or been terminated, the Revolving Commitment of each Revolving Lender shall be deemed to be utilized for all purposes hereof in an amount equal to such Lender's R/C Percentage of the then undrawn face amount of such Letter of Credit plus the amount of any unreimbursed drawings thereunder. Each Revolving Lender (other than L/C Lender) severally agrees that, upon the issuance of any Letter of Credit hereunder, it shall automatically acquire a participation in L/C Lender's obligation to fund drawings and rights under such Letter of Credit in an amount equal to such Lender's R/C Percentage of such obligations and rights, and each Revolving Lender (other than L/C Lender) thereby shall absolutely, unconditionally and irrevocably assume, as primary obligor and not as surety, and shall be unconditionally obligated to L/C Lender to pay and discharge when due, its R/C Percentage of L/C Lender's obligation to fund drawings under such Letter of Credit. L/C Lender shall be deemed to hold a L/C Liability in an amount equal to its retained interest in the related Letter of Credit after giving effect to such acquisition by the Revolving Lenders other than L/C Lender of their participation interests.

(c) In the event that L/C Lender has determined to honor a drawing under a Letter of Credit, L/C Lender shall promptly notify Borrower (through Administrative Agent) of the amount paid by L/C Lender and the date on which payment is to be made to such beneficiary. Borrower hereby unconditionally agrees to pay and reimburse L/C Lender for the amount of payment under such Letter of Credit, together with interest thereon at the Alternate Base Rate *plus* the Applicable Margin applicable to Revolving Loans from the date payment was made to such beneficiary to the date on which payment is due, such payment to be made not later than the first Business Day after the date on which Borrower receives such notice from L/C Lender (or the second Business Day thereafter if such notice is received on a date that is not a Business Day or after 2:00 p.m. New York City time on a Business Day). Any such payment due from Borrower and not paid on the required date shall thereafter bear interest at rates specified in Section 3.02(b) until paid.

(d) Promptly upon its receipt of a notice referred to in clause (c) of this Section 2.03, Borrower shall advise L/C Lender and Administrative Agent whether or not Borrower intends to borrow hereunder to finance its obligation to reimburse L/C Lender for the amount of the related demand for payment and, if it does so intend, submit a notice of such borrowing to Administrative Agent as provided in Section 4.05. In the event that Borrower fails to either submit a notice of borrowing to Administrative Agent or to reimburse L/C Lender for a demand for payment under a Letter of Credit by the next Business Day after the date of such notice, Administrative Agent shall give each Revolving Lender prompt notice of the amount of the demand for payment, specifying such Lender's R/C Percentage of the amount of the related demand for payment and requesting payment of such amount.

(e) Each Revolving Lender (other than L/C Lender) shall pay to Administrative Agent for account of L/C Lender at the Principal Office in Dollars and in immediately available funds, the amount of such Lender's R/C Percentage of any payment under a Letter of Credit upon not less than one Business Day's actual notice by Administrative Agent as described in clause (d) above to such Revolving Lender requesting such payment and specifying such amount. Subject to the proviso to the last paragraph of this Section 2.03, each such Revolving Lender's obligation to make such payments to Administrative Agent for the account of L/C Lender under this clause (e), and L/C Lender's right to receive the same, shall be absolute and unconditional and shall not be affected by any circumstance whatsoever, including (i) the failure of any other Revolving Lender to make its payment under this clause (e), (ii) the financial condition of Borrower or the existence of any Default or (iii) the termination of the Commitments. Each such payment to L/C Lender shall be made without any offset, abatement, withholding or reduction whatsoever.

(f) Upon the making of each payment by a Revolving Lender to L/C Lender pursuant to clause (e) above in respect of any Letter of Credit, such Lender shall, automatically and without any further action on the part of Administrative Agent, L/C Lender or such Lender, acquire (i) a participation in an amount equal to such payment in the Reimbursement Obligation owing to L/C Lender by Borrower hereunder and under the L/C Documents relating to such Letter of Credit and (ii) a participation in a percentage equal to such Lender's R/C Percentage in any interest or other amounts (other than cost reimbursements) payable by Borrower hereunder and under such L/C Documents in respect of such Reimbursement Obligation. If L/C Lender receives directly from or for the account of Borrower, any payment in respect of any Reimbursement Obligation or any such interest or other amounts (including by way of setoff or application of proceeds of any collateral security) L/C Lender shall promptly pay to Administrative Agent for the account of each Revolving Lender which has satisfied its obligations under clause (e) above, such Revolving Lender's R/C Percentage of such payment, each such payment by L/C Lender to be made in Dollars. In the event any payment received by L/C Lender and so paid to the Revolving Lenders hereunder is rescinded or must otherwise be returned by L/C Lender, each Revolving Lender shall, upon the request of L/C Lender (through Administrative Agent), repay to L/C Lender (through Administrative Agent) the amount of such payment paid to such Lender, with interest at the rate specified in clause (i) of this Section 2.03.

(g) Borrower shall pay to Administrative Agent for the account of L/C Lender in respect of each Letter of Credit, a letter of credit commission in an amount (not less than $500) equal to (x) the rate *per annum* equal to the Applicable Margin for Revolving Loans that are LIBOR Loans in effect from time to time, multiplied by (y) the daily average undrawn face amount of such Letter of Credit for the period from and including the date of issuance of such Letter of Credit (i) in the case of a Letter of Credit which expires in accordance with its terms, to and including such expiration date and (ii) in the case of a Letter of Credit which is drawn in full or is otherwise terminated other than on the stated expiration date of such Letter of Credit, to but excluding the date such Letter of Credit is drawn in full or is terminated, such fee to be non-refundable and to

be paid in arrears quarterly, on each Quarterly Date, and on the earlier of the R/C Maturity Date, the date of the termination of the Revolving Commitment, the date of such termination, expiration or the Business Day subsequent to notice of a drawing in full. L/C Lender authorizes Administrative Agent to pay to each Revolving Lender, but only to the extent actually received from Borrower, an amount equal to such Lender's R/C Percentage of all letter of credit commissions referred to in the first sentence of this clause (g). In addition, Borrower shall pay to Administrative Agent for account of L/C Lender only in respect of each Letter of Credit a letter of credit issuance fee in an amount equal to 0.25% *per annum* multiplied by the original face amount from the issue date through the expiry date of such Letter of Credit (but in no event less than $500 per Letter of Credit) payable quarterly in arrears, such amount to be non-refundable and payable on each Quarterly Date after issuance of such Letter of Credit, *plus* all charges, costs and expenses in the amounts customarily charged by L/C Lender from time to time in like circumstances with respect to the issuance, amendment or transfer of each Letter of Credit and drawings and other transactions relating thereto.

(h) Upon the issuance of a standby Letter of Credit, L/C Lender shall deliver (through Administrative Agent) to each Revolving Lender a notice describing such standby Letter of Credit, and promptly following the end of each 2nd and 4th Quarter, L/C Lender shall deliver (through Administrative Agent) to each Revolving Lender and Borrower a notice describing the aggregate amount of all Letters of Credit outstanding at the end of such 2nd and 4th Quarter. Upon the request of any Revolving Lender from time to time, L/C Lender shall deliver any other information reasonably requested by such Lender with respect to each Letter of Credit then outstanding.

(i) To the extent that any Revolving Lender fails to pay an amount required to be paid pursuant to clause (e) or (f) of this Section 2.03 on the due date therefor, such Lender shall pay interest to L/C Lender (through Administrative Agent) on such amount from and including such due date to but excluding the date such payment is made at a rate *per annum* equal to the Federal Funds Rate (as in effect from time to time).

(j) The issuance by L/C Lender of any modification or supplement to any Letter of Credit hereunder that would extend the expiry date or increase the face amount thereof shall be subject to the same conditions applicable under this Section 2.03 to the issuance of new Letters of Credit, and no such modification or supplement shall be issued hereunder unless either (x) the respective Letter of Credit affected thereby would have complied with such conditions had it originally been issued hereunder in such modified or supplemented form or (y) the Majority Revolving Lenders (or all of the Revolving Lenders to the extent required by Section 13.04) shall have consented thereto.

(k) Notwithstanding the foregoing, L/C Lender shall not be under any obligation to issue any Letter of Credit if at the time of such issuance, any order, judgment or decree of any Governmental Authority or arbitrator shall purport by its terms to enjoin or restrain L/C Lender from issuing such Letter of Credit or any Requirement of Law applicable to L/C Lender or any request or directive (whether or not having the force of law) from any Governmental Authority shall prohibit the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such L/C Lender with respect to such Letter of Credit any restriction or reserve or capital requirement (for which L/C Lender is not otherwise compensated) not in effect on the Closing Date. At any time that L/C Lender shall not be under any obligation to issue Letters of Credit pursuant to this paragraph (k), L/C Lender may be replaced by Borrower with another Lender reasonably acceptable to Lead Arrangers upon notice to L/C Lender and Administrative Agent and acceptance of such appointment by such successor L/C Lender. Upon any such replacement, Administrative Agent shall notify the Lenders of any such replacement of L/C Lender and the replacement L/C Lender shall agree to be bound by the applicable provisions of

this Agreement. At the time any such replacement shall become effective, Borrower shall pay all unpaid fees accrued for the account of the replaced L/C Lender pursuant to Section 2.03(g). From and after the effective date of any such replacement, (i) the successor L/C Lender shall have all the rights and obligations of L/C Lender under this Agreement with respect to Letters of Credit to be issued thereafter and (ii) references herein to the term "L/C Lender" shall be deemed to refer to such successor or to any previous L/C Lender, or to such successor and all previous L/C Lenders, as the context shall require. After the replacement of an L/C Lender hereunder, the replaced L/C Lender shall remain a party hereto and shall continue to have all the rights and obligations of an L/C Lender under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit. The obligations of Borrower under this Agreement and any L/C Document to reimburse L/C Lender for a drawing under a Letter of Credit, and to repay any drawing under a Letter of Credit converted into Revolving Loans or Swingline Loans, shall be unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement and each such other L/C Document under all circumstances, including the following: (i) any lack of validity or enforceability of this Agreement or any L/C Document; (ii) the existence of any claim, setoff, defense or other right that Borrower may have at any time against any beneficiary or any transferee of any Letter of Credit (or any person for whom any such beneficiary or any such transferee may be acting), L/C Lender or any other person, whether in connection with this Agreement, the transactions contemplated hereby or by the L/C Documents or any unrelated transaction; (iii) any draft, demand, certificate or other document presented under any Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under any Letter of Credit; or any defense based upon the failure of any drawing under a Letter of Credit to conform to the terms of the Letter of Credit or any non-application or misapplication by the beneficiary of the proceeds of such drawing; or (iv) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, Borrower or a Subsidiary Guarantor; *provided, however*, that neither Borrower nor any Revolving Lender shall be obligated to reimburse L/C Lender for any wrongful payment finally determined by a court of competent jurisdiction to have been made by L/C Lender as a result of acts or omissions constituting willful misconduct or gross negligence on the part of L/C Lender. To the extent that any provision of any L/C Document is inconsistent with the provisions of this Section 2.03, the provisions of this Section 2.03 shall control.

Reference is made to the L/C Lender's letter of credit number SM418794P dated October 23, 2001, issued for the account of Borrower and Charles Town Gaming LLC and for the benefit of County Commission of Jefferson County and having a current face amount of $645,547 ("**Existing Letter of Credit**"). Borrower, Administrative Agent and Revolving Lenders hereby agree that as of Closing Date such Existing Letter of Credit shall be Letter of Credit as if originally issued under this Agreement, and that the fees and other provisions set forth in this Section 2.03 shall be applicable to such Existing Letter of Credit as of the Closing Date. Any letter of credit annual fees or commissions previously paid to L/C Lender by Borrower on account of the Existing Letter of Credit for the period after the Closing Date shall be credited to the issuance fee payable only to L/C Lender described in clause (g) above.

SECTION 2.04. Termination and Reductions of Commitment.

(a) (i) [Reserved]

(ii) The aggregate amount of Term D Facility Commitments shall be automatically and permanently reduced to zero immediately following the Effective Date.

(iii) [Reserved].

(iv) The aggregate amount of the Revolving Commitments, the L/C Commitments and the Swingline Commitments shall be automatically and permanently reduced to zero on the R/C Maturity Date.

(v) The aggregate amount of the Revolving Commitments shall be permanently reduced on the date any required prepayments described in Section 2.10(a) are required to be made in the amount specified in Section 2.10(b)(ii).

(b) Borrower shall have the right at any time or from time to time (without premium or penalty except breakage costs (if any) pursuant to Section 5.05)) (i) so long as no Revolving Loans, Swingline Loans or L/C Liabilities will be outstanding as of the date specified for termination (after giving effect to all transactions occurring on such date), to terminate the Revolving Commitments in their entirety, and (ii) to reduce the aggregate amount of the Unutilized R/C Commitments (which shall be *pro rata* among Revolving Lenders); *provided*, *however*, that (x) Borrower shall give notice of each such termination or reduction as provided in Section 4.05, and (y) each partial reduction shall be in an aggregate amount at least equal to $1.0 million (or a larger multiple of $1.0 million) or, if less, the remaining Unutilized R/C Commitments.

(c) [Reserved].

(d) Any Commitment once terminated or reduced may not be reinstated.

SECTION 2.05. Fees. (a) Borrower shall pay to Administrative Agent for the account of each Lender a commitment fee on the daily average amount of such Lender's Unutilized R/C Commitments, for the period from and including the Closing Date to but not including the earlier of the date such Revolving Commitment is terminated or expires and the R/C Maturity Date (for purposes of computing commitment fees with respect to Revolving Commitments, a Revolving Commitment of a Lender shall be deemed to be used to the extent of the outstanding Revolving Loans and L/C Exposure of such Lender (and the Swingline Exposure of such Lender shall be disregarded for such purpose)) at a rate equal to the Applicable Fee Percentage. Any accrued commitment fee under this Section 2.05(a) shall be payable in arrears on each Quarterly Date and on the earlier of the date the Revolving Commitments are terminated or expire and the R/C Maturity Date.

(b) Borrower shall pay to Administrative Agent for its own account the annual administrative fee pursuant to the Administrative Agent's Fee Letter.

SECTION 2.06. Lending Offices. The Loans of each Type made by each Lender shall be made and maintained at such Lender's Applicable Lending Office for Loans of such Type.

SECTION 2.07. Several Obligations of Lenders. The failure of any Lender to make any Loan to be made by it on the date specified therefor shall not relieve any other Lender of its obligation to make its Loan on such date, but neither any Lender nor Administrative Agent shall be responsible for the failure of any other Lender to make a Loan to be made by such other Lender, and no Lender shall have any obligation to Administrative Agent or any other Lender for the failure by such Lender to make any Loan required to be made by such Lender. No Revolving Lender will be responsible for failure of any other Lender to fund its participation in Letters of Credit.

SECTION 2.08. Notes; Register. (a) At the request of any Lender, its Loans of a particular Class shall be evidenced by a promissory note, dated the Closing Date or the Effective Date, as applicable, payable to such Lender (or its nominee) and otherwise duly completed, substantially in the form of *Exhibits A-1*, *A-2* and *A-4* for such Lender's Revolving Loans, Term D Facility Loans, and Incremental Loans, respectively.

(b) The date, amount, Type, interest rate and duration of the Interest Period (if applicable) of each Loan of each Class made by each Lender to Borrower and each payment made on account of the principal thereof, shall be recorded by such Lender (or its nominee) on its books and, prior

to any transfer of any Note evidencing the Loans of such Class held by it, endorsed by such Lender (or its nominee) on the schedule attached to such Note or any continuation thereof; *provided*, *however*, that the failure of such Lender (or its nominee) to make any such recordation or endorsement or any error in such recordation or endorsement shall not affect the obligations of Borrower to make a payment when due of any amount owing hereunder or under such Note.

(c) Borrower hereby designates Administrative Agent to serve as its agent, solely for purposes of this Section 2.08, to maintain a register (the "**Register**") on which it will record the name and address of each Lender, the Commitment from time to time of each of the Lenders, the principal amount of the Loans made by each of the Lenders and each repayment in respect of the principal amount of the Loans of each Lender. Failure to make any such recordation or any error in such recordation shall not affect Borrower's obligations in respect of such Loans. The entries in the Register shall be prima facie evidence of the information noted therein (absent manifest error), and the parties hereto shall treat each person whose name is recorded in the Register as the owner of a Loan or other obligation hereunder as the owner thereof for all purposes of the Credit Documents, notwithstanding any notice to the contrary. The Register shall be available for inspection by Borrower or any Lender at any reasonable time and from time to time upon reasonable prior notice. No assignment shall be effective unless recorded in the Register.

SECTION 2.09. Optional Prepayments and Conversions or Continuations of Loans. (a) Subject to Section 4.04, Borrower shall have the right to prepay Loans, or to Convert Loans of one Type into Loans of another Type or to Continue Loans of one Type as Loans of the same Type, at any time or from time

to time. Borrower shall give Administrative Agent notice of each such prepayment, Conversion or Continuation as provided in Section 4.05 (and, upon the date specified in any such notice of prepayment, the amount to be prepaid shall become due and payable hereunder). Each notice of Conversion or Continuation shall be substantially in the form of *Exhibit D*. If LIBOR Loans are prepaid or Converted other than on the last day of an Interest Period therefor, Borrower shall at such time pay all expenses and costs required by Section 5.05. Notwithstanding the foregoing, and without limiting the rights and remedies of the Lenders under Article XI, in the event that any Event of Default shall have occurred and be continuing, Administrative Agent may (and at the request of the Majority Lenders shall) suspend the right of Borrower to Convert any Loan into a LIBOR Loan, or to Continue any Loan as a LIBOR Loan, in which event all Loans shall be Converted (on the last day(s) of the respective Interest Periods therefor) or Continued, as the case may be, as ABR Loans. Swingline Loans may not be converted or continued.

(b) **Application.** (i) Any partial optional prepayment of Term D Facility Loans shall be allocated *pro rata* based on the aggregate principal amount held by each Term D Facility Lender.

(ii) [Reserved]

(iii) In addition to the foregoing, and *provided* that the Consolidated Total Leverage Ratio is less than 3.00 to 1.00, Borrower shall have the right to elect to offer to prepay the Loans *pro rata* to the Term D Facility Loans then outstanding and apply any amounts not accepted for such prepayment to repurchase Permitted Subordinated Indebtedness and/or Borrower Outstanding Bonds in accordance with Section 10.10(v). If Borrower makes such an election, it shall provide notice thereof to Administrative Agent, who shall promptly, and in any event within one Business Day of receipt, provide such notice to the holders of the Term D Facility Loans. Any such notice shall specify the aggregate amount offered to prepay the Term D Facility Loans. Each holder of a Term D Facility Loan may elect, in its sole discretion, to accept such prepayment offer with respect to an amount equal to or less than an amount equal to the aggregate amount so offered to prepay Term D Facility Loans times a fraction, the numerator of which is the principal amount of Term D Facility Loans owed to such holder and the denominator of which is the principal amount of Term D Facility Loans outstanding.

Any acceptance of such offer must be evidenced by written notice delivered to Administrative Agent within five Business Days of receipt of the offer for prepayment, specifying an amount of such prepayment offer accepted by such holder, if any. Failure to give such notice will constitute an election not to accept such offer. Any portion of such prepayment offer so accepted will be used to prepay the Term D Facility Loans held by the applicable holders within ten Business Days of the date of receipt of the offer to prepay. Any portion of such prepayment offer not so accepted may be used by Borrower and its Restricted Subsidiaries as provided in Section 10.10(v) to the extent permitted thereby.

SECTION 2.10. Mandatory Prepayment and Commitment Reductions. (a) Borrower shall prepay the Loans (and/or reduce Commitments) as follows (each such prepayment (and/or Commitment reduction) to be effected in each case in the manner, order and to the extent specified in subsection (b) below of this Section 2.10):

(i) **Casualty Events.** Within three Business Days after Borrower or any Restricted Subsidiary receives any Net Available Proceeds from any Casualty Event (or notice of collection by Administrative Agent of the same), in an aggregate principal amount equal to 100% of such Net Available Proceeds; *provided, however,* that

(w) if no Default or Event of Default then exists or would arise therefrom, the Net Available Proceeds thereof shall not be required to be so applied on such date to the extent that Borrower has delivered an Officer's Certificate to Administrative Agent on or prior to such date stating that an amount equal to such proceeds shall be used to fund the acquisition of Property used or usable in the business of any Credit Party or repair, replace or restore the Property in accordance with the provisions of the applicable Security Document in respect of which such Casualty Event has occurred, in each case within 365 days following the date of the receipt of such Net Available Proceeds,

(x) to the extent such Casualty Event affects any of the Collateral or Property acquired to effect any repair, replacement or restoration of such Collateral, such proceeds shall be made subject to the Lien of the Security Documents in accordance with the provisions of Section 9.09,

(y) an amount equal to all such Net Available Proceeds (A) in excess of $1.0 million but less than or equal to $5.0 million in the aggregate for all such Casualty Events during any fiscal year, shall be deposited and maintained in a Controlled Account and may thereafter only be utilized to effect any repair, replacement or restoration permitted pursuant to this Section 2.10(a)(i) or to repay Revolving Loans (with no corresponding reduction in Revolving Commitments) and (B) in excess of $5.0 million in the aggregate for all such Casualty Events during any fiscal year, shall be held in the Collateral Account or used to repay Revolving Loans (with no corresponding reduction in Revolving Commitments), and shall be released therefrom only in accordance with the terms of the Security Agreement or be used to repay Revolving Loans (with no corresponding reduction in Revolving Commitments), and

(z) if all or any portion of such Net Available Proceeds not required to be applied to the prepayment of Loans pursuant to this Section 2.10(a)(i) is not so used within 365 days after the date of the receipt of such Net Available Proceeds, such remaining portion shall be applied on the last day of such period as specified in Section 2.10(b); *provided* that if any portion has not been so used within 365 days after such date and any Credit Party is diligently pursuing the repair, replacement or restoration of Property or the acquisition of Property, then such application of such remaining portion shall not be required for so long as such repair, replacement or restoration is being diligently pursued.

(ii) **Equity Issuance.** Within three Business Days after receipt of Net Available Proceeds from any Equity Issuance on or after the Closing Date, in an aggregate principal amount equal to 50% of the Net Available Proceeds of such Equity Issuance if and to the extent the Consolidated Total Leverage Ratio is equal to or greater than 4.0 to 1.0 (calculated as of the most recent Test Date, after giving pro forma effect to

such Equity Issuance and the use of proceeds therefrom (including prepayments pursuant to this Section 2.10)); *provided, however,* that any such Net Available Proceeds from any Equity Issuance which are used to consummate Permitted Acquisitions pursuant to Section 10.05(j) shall not be subject to the provisions of this Section 2.10(a)(ii).

(iii) **Debt Issuance.** Within three Business Days after any Debt Issuance on or after the Closing Date, in an aggregate principal amount equal to 100% of the Net Available Proceeds of such Debt Issuance (it being understood that applications pursuant to this Section 2.10(a)(iii) shall not be duplicative of Section 2.10(a)(iv) below).

(iv) **Asset Sales.** Within three Business Day after receipt by Borrower or any of its Restricted Subsidiaries of any Net Available Proceeds from any Asset Sale, in an aggregate principal amount equal to 100% of the Net Available Proceeds from such Asset Sale (it being understood that applications pursuant to this Section 2.10(a)(iv) shall not be duplicative of Section 2.10(a)(iii) above); *provided, however,* that

(w) the Net Available Proceeds from any Asset Sale permitted by Section 10.05 shall not be required to be applied as provided above on such date if (1) no Default or Event of Default then exists or would arise therefrom, and (2) Borrower delivers an Officer's Certificate to Administrative Agent on or prior to such date stating that an amount equal to such Net Available Proceeds shall be reinvested, directly or indirectly, in capital assets (which may be pursuant to an acquisition of Equity Interests of a person that directly or indirectly owns such capital assets) otherwise permitted under this Agreement of (A) if such Asset Sale was effected by any Credit Party, any Credit Party, and (B) if such Asset Sale was effected by any other Company, any Company, in each case within 365 days following the date of such Asset Sale (which certificate shall set forth the estimates of the proceeds to be so expended),

(x) to the extent such Net Available Proceeds are from an Asset Sale of Collateral, the Net Available Proceeds shall be used within such 365 day period to acquire Property made subject to the Lien of the Security Documents in accordance with the provisions of Section 9.09,

(y) pending application of all such Net Available Proceeds (including Net Available Proceeds from Asset Sales of Collateral) in accordance with the Officer's Certificate referred to in clause (w) above or in accordance with clause (z) below, all such Net Available Proceeds (A) in excess of $1.0 million but less than or equal to $5.0 million in the aggregate for all such Asset Sales during any fiscal year shall be deposited and maintained in a Controlled Account and may thereafter only be utilized to reinvest in capital assets as contemplated by the Officer's Certificate referred to in clause (w) above (and, in the case of any Net Available Proceeds from an Asset Sale of Collateral, in compliance with clause (x) above) or to repay Revolving Loans (with no corresponding reduction in Revolving Commitments) and (B) in excess of $5.0 million in the aggregate for all such Asset Sales during any fiscal year, shall be held in the Collateral Account and may thereafter only be utilized to reinvest in capital assets as contemplated by the Officer's Certificate referred to in clause (w) above (and, in the case of any Net Available Proceeds from an Asset Sale of Collateral, in compliance with clause (x) above) or to repay Revolving Loans (with no corresponding reduction in Revolving Commitments)

provided, however, that available borrowings under the Revolving Facility shall at no time be less than the amount of Net Available Proceeds utilized to Repay Revolving Loans under this clause (y), and

(z) if all or any portion of such Net Available Proceeds is not reinvested in capital assets in accordance with the Officer's Certificate referred to in clause (w) above (and, in the case of any Net Available Proceeds from an Asset Sale of Collateral, in compliance with clause (y) above) within such 365-day period, such remaining portion shall be applied on the last day of such period as specified in Section 2.10(b) (it being understood that the foregoing shall in no way affect the obligation of any Company to obtain the consent of the Majority Lenders if required pursuant to this Agreement to effect any Asset Sale).

(v) **Excess Cash Flow.** On a date not later than 100 days after each December 31 (each such December 31, an "**Excess Cash Flow Measurement Date**"), beginning with the fiscal year ended December 31, 2003, (i) if the Consolidated Total Leverage Ratio as of the Excess Cash Flow Measurement Date is greater than or equal to 4.5 to 1.0, an amount equal to 75% of Excess Cash Flow for the Excess Cash Flow Period ending on such Excess Cash Flow Measurement Date, (ii) if the Consolidated Total Leverage Ratio as of the Excess Cash Flow Measurement Date is less than 4.5 to 1.0 but equal to or greater than 3.5 to 1.0, an amount equal to 50% of Excess Cash Flow for the Excess Cash Flow Period ending on such Excess Cash Flow Measurement Date or (iii) if the Consolidated Total Leverage Ratio as of the Excess Cash Flow Measurement Date is less than 3.5 to 1.0, an amount equal to 0% of Excess Cash Flow for the Excess Cash Flow Period ending on such Excess Cash Flow Measurement Date.

(vi) **Other Required Prepayments.** If the terms of any agreement, instrument or indenture pursuant to which any Indebtedness (other than the Obligations) *pari passu* with or junior in right of payment to the Loans is outstanding (or pursuant to which such Indebtedness is guaranteed) require prepayment of such Indebtedness out of the Net Available Proceeds of any Asset Sale unless such Net Available Proceeds are used to prepay other Indebtedness, then, to the extent not otherwise required by this Section 2.10(a), if Borrower and its Restricted Subsidiaries shall not have reinvested the Net Available Proceeds thereof as permitted by Section 2.10(a)(iv) within the time frame permitted thereby (but prior to the date required to be applied to such Indebtedness), the Loans shall be repaid in an amount not less than the minimum amount that would be required to be prepaid not later than the latest time as and upon such terms so that such other Indebtedness will not be required to be prepaid pursuant to the terms of the agreement, indenture or instrument or guarantee governing such other Indebtedness.

(b) **Application.** The amount of any required prepayments described in Section 2.10(a) shall be applied to prepay Loans and/or reduce Commitments as follows:

(i) *First*, the amount of the required prepayment shall be applied to the reduction of Amortization Payments on the Term Loans required by Section 3.01(b) *pro rata* among the Term Facilities based upon the remaining unpaid aggregate principal amounts thereof and, in each case, *pro rata* to the remaining Amortization Payments;

(ii) *Second*, after such time as no Term Loans remain outstanding, with an amount equal to the remaining amount of any such required prepayment that would have been applied to the Term Loans, Borrower shall, first, repay all outstanding Swingline Loans, *second*, prepay

outstanding Revolving Loans and, *third*, provide cover for L/C Liabilities as specified in Section 2.10(d), in an aggregate amount equal to such remaining portion (*provided* that such prepayments shall not reduce the Revolving Commitments); and

(iii) *Third*, after application of prepayments in accordance with clauses (i) and (ii) above, Borrower shall be permitted to retain any such remaining excess.

Notwithstanding the foregoing, if the amount of any prepayment of Loans required under this Section 2.10 shall be in excess of the amount of the ABR Loans at the time outstanding, only the portion of the amount of such prepayment as is equal to the amount of such outstanding ABR Loans shall be immediately prepaid and, at the election of Borrower, the balance of such required prepayment shall be either (i) deposited in the Collateral Account and applied to the prepayment of LIBOR Loans on the last day of the then next-expiring Interest Period for LIBOR Loans (with all interest accruing thereon for the account of Borrower) or (ii) prepaid immediately, together with any amounts owing to the Lenders under Section 5.05. Notwithstanding any such deposit in the Collateral Account, interest shall continue to accrue on such Loans until prepayment.

(c) **Revolving Credit Extension Reductions.** Until the R/C Maturity Date, Borrower shall from time to time immediately prepay the Revolving Loans (and/or provide cover for L/C Liabilities as specified in Section 2.10(d)) in such amounts as shall be necessary so that at all times the aggregate outstanding amount of the Revolving Loans and the Swingline Loans, *plus* the aggregate outstanding L/C Liabilities shall not exceed the Revolving Commitments as in effect at such time, such amount to be applied, *first*, to Revolving Loans outstanding and *second*, as cover for L/C Liabilities outstanding as specified in Section 2.10(d).

(d) **Cover for L/C Liabilities.** In the event that Borrower shall be required pursuant to this Section 2.10 to provide cover for L/C Liabilities, Borrower shall effect the same by paying to Administrative Agent immediately available funds in an amount equal to the required amount, which funds shall be retained by Administrative Agent in the Collateral Account (as provided in the Security Agreement as collateral security in the first instance for the L/C Liabilities) until such time as all Letters of Credit shall have been terminated and all of the L/C Liabilities paid in full.

SECTION 2.11. Replacement of Lenders. (a) Borrower shall have the right, if no Default then exists, to replace any Lender (the "**Replaced Lender**") with one or more other Eligible Persons reasonably acceptable to Lead Arrangers (collectively, the "**Replacement Lender**") if (x) such Lender is charging Borrower increased costs pursuant to Section 5.01 or 5.06 or such Lender becomes incapable of making LIBOR Loans as provided in Section 5.03 when other Lenders are generally able to do so and/or (y) as provided in Section 13.04(ii), such Lender refuses to consent to certain proposed amendments, waivers or modifications with respect to this Agreement; *provided, however,* that (i) at the time of any replacement pursuant to this Section 2.11, the Replacement Lender shall enter into one or more assignment agreements (and with all fees payable pursuant to Section 13.06 to be paid by the Replacement Lender) pursuant to which the Replacement Lender shall acquire all of the Commitments and outstanding Loans of, and in each case L/C Interests by, the Replaced Lender and, in connection therewith, shall pay to (x) the Replaced Lender, an amount equal to the sum of (A) the principal of, and all accrued interest on, all outstanding Loans of the Replaced Lender, (B) all Reimbursement Obligations owing to such Replaced Lender, together with all then unpaid interest with respect thereto at such time, and (C) all accrued, but theretofore unpaid, fees owing to the Replaced Lender pursuant to Section 2.05, and (y) L/C Lender an amount equal to such Replaced Lender's R/C Percentage of any Reimbursement Obligations (which at such time remains a Reimbursement Obligation) to the extent such amount was not theretofore funded by such Replaced Lender, and (ii) all obligations of Borrower owing to the Replaced Lender (other than those specifically described in clause (i) above in respect of which the assignment purchase price has been, or is concurrently being, paid, but including any amounts which would be paid to a Lender pursuant to Section 5.05 if Borrower were prepaying a LIBOR Loan) shall be paid in full to such Replaced Lender concurrently with such replacement. Upon the execution of the respective assignment agreement, the payment of amounts referred to in clauses (i) and (ii) above and, if so requested by the Replacement Lender, delivery to the Replacement Lender of Notes executed by Borrower, the Replacement Lender shall become a Lender hereunder and the

Replaced Lender shall cease to constitute a Lender hereunder and be released of all its obligations as a Lender, except with respect to indemnification provisions applicable to the Replaced Lender under this Agreement, which shall survive as to such Replaced Lender.

(b) If Borrower receives a notice from any applicable Gaming Authority that a Lender is not qualified to make Loans to Borrower or to hold the securities of a casino licensee under applicable Gaming Laws (and such Lender is notified by Borrower and Lead Arrangers in writing of such disqualification), Borrower shall have the right to replace such Lender with a Replacement Lender or prepay the Loans held by such Lender, even if a Default exists. Any such prepayment shall be deemed an optional prepayment, as set forth in Section 2.09 and shall not be required to be made on a *pro rata* basis with respect to Loans of the same Tranche as the Loans held by such Lender. Notice to such Lender shall be given at least ten (10) days before the required date of transfer or prepayment (unless a shorter period is required under applicable law), as the case may be, and shall be accompanied by evidence demonstrating that such transfer or redemption is required pursuant to Gaming Laws. Upon receipt of a notice in accordance with the foregoing, the Replaced Lender shall cooperate with Borrower in effectuating the required transfer or prepayment within the time period set forth in such notice, not to be less than the minimum notice period set forth in the foregoing sentence (unless a shorter period is required under applicable law). Further, if the transfer or prepayment is triggered by notice from the Gaming Authority that the Lender is disqualified, commencing on the date the Gaming Authority serves the disqualification notice upon Borrower: (i) such Lender shall no longer receive any interest on the Loans; (ii) such Lender shall no longer exercise, directly or through any trustee or nominee, any right conferred by the Loans; and (iii) such Lender shall not receive any remuneration in any form from Borrower for services or otherwise in respect of the Loans.

ARTICLE III

PAYMENTS OF PRINCIPAL AND INTEREST

SECTION 3.01. Repayment of Loans.

(a) **Revolving Credit Loans.** Borrower hereby promises to pay (i) to Administrative Agent for the account of each Revolving Lender the entire outstanding principal amount of such Revolving Lender's Revolving Loans made to Borrower, and each Revolving Loan shall mature, on the R/C Maturity Date and (ii) to Swingline Lender the then unpaid principal amount of each Swingline Loan on the earlier of the R/C Maturity Date and the first date after such Swingline Loan is made that is the 15th or last day of a calendar month and is at least two Business Days after such Swingline Loan is made; *provided* that on each date that a Revolving Borrowing is made, Borrower shall repay all Swingline Loans that were outstanding on the date such Borrowing was requested.

(b) **Term D Facility Loans.** Borrower hereby promises to pay to Administrative Agent for the account of the Lenders in repayment of the principal of the Term Loans specified in *Annex C*, the amount of the respective Term Loan specified in *Annex C* under the column entitled "Term D Facility Loans" on the dates set forth on *Annex C* (subject to adjustment for any prepayments made under Section 2.09 or Section 2.10 to the extent actually made).

(c) **Incremental Loans.** The Incremental Loans, if any, of each Incremental Lender shall mature in installments as specified in the Incremental Loan Activation Notice pursuant to which such Incremental Loans were made; *provided* that, in the event that any Incremental Loan is a Term Loan, prior to the date that is six months prior to the Term D Final Maturity Date then in effect, the amounts of such installments for any twelve consecutive months shall not exceed 1% of the aggregate principal amount of such Incremental Loans on the date such Loans were first made.

SECTION 3.02. Interest. (a) Borrower hereby promises to pay to Administrative Agent for the account of each Lender interest on the unpaid principal amount of each Loan made or maintained by such Lender to Borrower for the period from and including the date of such Loan to but excluding the date such Loan shall be paid in full at the following *rates per annum:*

(i) during such periods as such Loan (including each Swingline Loan) is an ABR Loan, the Alternate Base Rate (as in effect from time to time), plus the Applicable Margin,

(ii) during such periods as such Loan is a LIBOR Loan, for each Interest Period relating thereto, the LIBO Rate for such Loan for such Interest Period, *plus* the Applicable Margin, and

(iii) all unpaid interest on Term B Facility Loans through the Effective Date shall accrue from and after the Effective Date on the Term D Facility Loans into which they were converted and shall be paid on such date as would otherwise have been required.

(b) Upon the occurrence and during the existence of an Event of Default, (i) the unpaid principal amount of each Loan not paid when due shall bear interest at a rate *per annum* equal at all times to 2% *per annum* above the rate *per annum* required to be paid on such Loan pursuant to subsections (a)(i) and (a)(ii) above, as applicable, and (ii) all Obligations not paid when due other than Loans shall bear interest at the rate which is 2% in excess of the rate otherwise applicable to ABR Loans which are Revolving Loans from time to time. Interest which accrues under this paragraph shall be payable on demand.

(c) Accrued interest on each Loan shall be payable (i) in the case of an ABR Loan, quarterly on the Quarterly Dates, (ii) in the case of a LIBOR Loan, on the last day of each Interest Period therefor and, if such Interest Period is longer than three months, at three-month intervals following the first day of such Interest Period and (iii) in the case of any LIBOR Loan, upon the payment or prepayment thereof or the Conversion of such Loan to a Loan of another Type (but only on the principal amount so paid, prepaid or Converted), except that interest payable at the rate set forth in Section 3.02(b) shall be payable from time to time on demand. Promptly after the determination of any interest rate provided for herein or any change therein, Administrative Agent shall give notice thereof to the Lenders to which such interest is payable and to Borrower.

(d) In the event that any Incremental Loan is a Term Loan and pursuant to an Incremental Loan Activation Notice, any Net Yield for the related Incremental Loans is in excess of 25 basis points above the Applicable Margin set forth for Term D Facility Loans in Annex B attached hereto, then the Applicable Margin for outstanding Term D Facility Loans shall automatically be increased to any extent required so that the Applicable Margin with respect thereto is 25 basis points less than the Net Yield for such Incremental Loans without any action or consent of Borrower, Administrative Agent or any Lender. "**Net Yield**" for purposes of Incremental Loans, if such Incremental Loans are term loans, shall mean the sum of (a) the Applicable Margin applicable to such Incremental Loans at the Incremental Loan Effective Date plus (b) any original issue discount offered to Incremental Loan Lenders amortized equally over the period from the Incremental Loan Effective Date to the Incremental Loan Maturity Date; *provided*, that such original issue discount shall not be amortized over a period of greater than three years.

ARTICLE IV

PAYMENTS; PRO RATA TREATMENT; COMPUTATIONS; ETC.

SECTION 4.01. Payments. (a) All payments of principal, interest, Reimbursement Obligations and other amounts to be made by Borrower under this Agreement and the Notes, and, except to the extent otherwise provided therein, all payments to be made by the Credit Parties under any other Credit Document, shall be made in Dollars, in immediately available funds, without deduction, set-off or counterclaim, to Administrative Agent at its account at the Principal Office, not later than

12:00 p.m. New York City time on the date on which such payment shall become due (each such payment made after such time on such due date to be deemed to have been made on the next succeeding Business Day).

(b) Borrower shall, at the time of making each payment under this Agreement or any Note for the account of any Lender, specify (in accordance with Sections 2.09 and 2.10, if applicable) to Administrative Agent (which shall so notify the intended recipient(s) thereof) or, in the case of Swingline Loans, to the Swingline Lender, the Class and Type of Loans, Reimbursement Obligations or other amounts payable by Borrower hereunder to which such payment is to be applied (and in the event that Borrower fails to so specify, or if an Event of Default has occurred and is continuing, Administrative Agent may distribute such payment to the Lenders for application to the Obligations under the Credit Documents in such manner as it or the Majority Lenders, subject to Sections 2.09, 2.10 and 4.02, may determine to be appropriate).

(c) Except to the extent otherwise provided in the second sentence of Section 2.03(g), each payment received by Administrative Agent or by L/C Lender (through Administrative Agent) under this Agreement or any Note for the account of any Lender shall be paid by Administrative Agent or by L/C Lender (through Administrative Agent), as the case may be, to such Lender, in immediately available funds, (x) if the payment was actually received by Administrative Agent or by L/C Lender (through Administrative Agent), as the case may be, prior to 12:00 p.m. (New York City time) on any day, on such day and (y) if the payment was actually received by Administrative Agent or by L/C Lender (through Administrative Agent), as the case may be,

after 12:00 p.m. (New York City time) on any day, by 1:00 p.m. (New York City time) on the following Business Day (it being understood that to the extent that any such payment is not made in full by Administrative Agent or by L/C Lender (through Administrative Agent), as the case may be, Administrative Agent shall pay to such Lender, upon demand, interest at the Federal Funds Rate from the date such amount was required to be paid to such Lender pursuant to the foregoing clauses until the date Administrative Agent pays such Lender the full amount).

(d) If the due date of any payment under this Agreement or any Note would otherwise fall on a day that is not a Business Day, such date shall be extended to the next succeeding Business Day, and interest shall be payable for any principal so extended for the period of such extension at the rate then borne by such principal.

SECTION 4.02. Pro Rata Treatment. Except to the extent otherwise provided herein: (a) each borrowing of Loans of a particular Class from the Lenders under Section 2.01 shall be made from the relevant Lenders, each payment of commitment fees under Section 2.05 in respect of Commitments of a particular Class shall be made for account of the relevant Lenders, and each termination or reduction of the amount of the Commitments of a particular Class under Section 2.04 shall be applied to the respective Commitments of such Class of the relevant Lenders *pro rata* according to the amounts of their respective Commitments of such Class; (b) except as otherwise provided in Section 5.04, LIBOR Loans of any Class having the same Interest Period shall be allocated *pro rata* among the relevant Lenders according to the amounts of their respective Revolving Commitments and Term Loan Commitments (in the case of the making of Loans) or their respective Revolving Loans and Term Loans (in the case of Conversions and Continuations of Loans); (c) except as otherwise provided in Section 2.10(b), each payment or prepayment of principal of Revolving Loans or of any particular Class of Term Loans shall be made for the account of the relevant Lenders *pro rata* in accordance with the respective unpaid outstanding principal amounts of the Loans of such Class held by them; and (d) except as otherwise provided in Section 2.10(b), each payment of interest on Revolving Loans and Term Loans shall be made for account of the relevant Lenders *pro rata* in accordance with the amounts of interest on such Loans then due and payable to the respective Lenders.

SECTION 4.03. Computations. Interest on LIBOR Loans, commitment fees and Letter of Credit fees shall be computed on the basis of a year of 360 days and actual days elapsed (including the

first day but excluding the last day) occurring in the period for which such amounts are payable and interest on ABR Loans and Reimbursement Obligations shall be computed on the basis of a year of 365 or 366 days, as the case may be, and actual days elapsed (including the first day but excluding the last day) occurring in the period for which such amounts are payable. Notwithstanding the foregoing, for each day that the Alternate Base Rate is calculated by reference to the Federal Funds Rate, interest on ABR Loans and Reimbursement Obligations shall be computed on the basis of a year of 360 days and actual days elapsed (including the first day but excluding the last day).

SECTION 4.04. Minimum Amounts. Except for mandatory prepayments made pursuant to Section 2.10 and Conversions or prepayments made pursuant to Section 5.04, each Borrowing, Conversion and partial prepayment of principal of Loans shall be in an amount at least equal to $1.0 million with respect to ABR Loans and $1.0 million with respect to LIBOR Loans and in multiples of $100,000 in excess thereof (borrowings, Conversions or prepayments of or into Loans of different Types or, in the case of LIBOR Loans, having different Interest Periods at the same time hereunder to be deemed separate borrowings, Conversions and prepayments for purposes of the foregoing, one for each Type or Interest Period). Anything in this Agreement to the contrary notwithstanding, the aggregate principal amount of LIBOR Loans having the same Interest Period shall be in an amount at least equal to $250,000 and in multiples of $100,000 in excess thereof and, if any LIBOR Loans or portions thereof would otherwise be in a lesser principal amount for any period, such Loans or portions, as the case may be, shall be ABR Loans during such period.

SECTION 4.05. Certain Notices. Notices by Borrower to Administrative Agent (or, in the case of repayment of Swingline Loans, to Swingline Lender) of terminations or reductions of the Commitments, of Borrowings, Conversions, Continuations and optional prepayments of Loans and of Classes of Loans, of Types of Loans and of the duration of Interest Periods shall be irrevocable and shall be effective only if received by Administrative Agent (or, in the case of Swingline Loans, Swingline Lender) by telephone not later than 1:00 p.m. New York City time (promptly followed by written notice via telecopier) on at least the number of Business Days prior to the date of the relevant termination, reduction, Borrowing, Conversion, Continuation or prepayment or the first day of such Interest Period specified in the table below.

NOTICE PERIODS

Notice	Number of Business Days Prior
Termination or reduction of Commitments	2
Borrowing or optional prepayment of, or Conversions into, ABR Loans	1
Borrowing or optional prepayment of, Conversions into, Continuations as, or duration of Interest Periods for, LIBOR Loans	3
Borrowing or Repayment of Swingline Loans	same day

Each such notice of termination or reduction shall specify the amount and the Class of the Commitments to be terminated or reduced. Each such notice of Borrowing, Conversion, Continuation or prepayment shall specify the Class of Loans to be borrowed, Converted, Continued or prepaid and the amount (subject to Section 4.04) and Type of each Loan to be borrowed, Converted, Continued or prepaid and the date of borrowing, Conversion, Continuation or prepayment (which shall be a Business Day). Each such notice of the duration of an Interest Period shall specify the Loans to which such Interest Period is to relate. Administrative Agent shall promptly notify the Lenders of the contents of each such notice. In the event that Borrower fails to select the Type of Loan, or the duration of any Interest Period for any LIBOR Loan, within the time period and otherwise as provided in this Section 4.05, such Loan (if outstanding as a LIBOR Loan) will be automatically Converted into an

ABR Loan on the last day of the then current Interest Period for such Loan or (if outstanding as an ABR Loan) will remain as, or (if not then outstanding) will be made as, an ABR Loan.

SECTION 4.06. Non-Receipt of Funds by Administrative Agent. Unless Administrative Agent shall have received written notice from a Lender or Borrower (the "**Payor**") prior to the date on which the Payor is to make payment to Administrative Agent of (in the case of a Lender) the proceeds of a Loan to be made by such Lender hereunder or a payment to Administrative Agent for the account of one or more of the Lenders hereunder (such payment being herein called the "**Required Payment**"), which notice shall be effective upon receipt, that the Payor does not intend to make the Required Payment to Administrative Agent, Administrative Agent may assume that the Required Payment has been made and may, in reliance upon such assumption (but shall not be required to), make the amount thereof available to the intended recipient(s) on such date; and, if the Payor has not in fact made the Required Payment to Administrative Agent, the recipient(s) of such payment shall, on demand, repay to Administrative Agent the amount so made available together with interest thereon in respect of each day during the period commencing on the date (the "**Advance Date**") such amount was so made available by Administrative Agent until the date Administrative Agent recovers such amount at a rate *per annum* equal to the Federal Funds Rate for such day and, if such recipient(s) shall fail promptly to make such payment, Administrative Agent shall be entitled to recover such amount, on demand, from the Payor, together with interest as aforesaid; *provided, however,* that if neither the recipient(s) nor the Payor shall return the Required Payment to Administrative Agent within three Business Days of the date such demand was made, then, retroactively to the Advance Date, the Payor and the recipient(s) shall each be obligated to pay interest on the Required Payment as follows (without double recovery):

(i) if the Required Payment shall represent a payment to be made by Borrower to the Lenders, Borrower and the recipient(s) shall each be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment at the rate set forth in Section 3.02(b) (without duplication of the obligation of Borrower under Section 3.02 to pay interest on the Required Payment at the rate set forth in Section 3.02(b)), it being understood that the return by the recipient(s) of the Required Payment to Administrative Agent shall not limit such obligation of Borrower under Section 3.02 to pay interest at the rate set forth in Section 3.02(b) in respect of the Required Payment; and

(ii) if the Required Payment shall represent proceeds of a Loan to be made by the Lenders to Borrower, the Payor, or Borrower, shall each be obligated retroactively to the Advance Date to pay interest in respect of the Required Payment pursuant to Section 3.02, it being understood that the return by Borrower of the Required Payment to Administrative Agent shall not limit any claim Borrower may have against the Payor in respect of such Required Payment.

SECTION 4.07. Right of Setoff, Sharing of Payments; Etc. (a) If any Event of Default shall have occurred and be continuing, each Credit Party agrees that, in addition to (and without limitation of) any right of setoff, banker's lien or counterclaim a Lender may otherwise have, each Lender shall be entitled, at its option (to the fullest extent permitted by law), to set off and apply any deposit (general or special, time or demand, provisional or final), or other indebtedness, held by it for the credit or account of such Credit Party at any of its offices, in Dollars or in any other currency, against any principal of or interest on any of such Lender's Loans, Reimbursement Obligations or any other amount payable to such Lender hereunder that is not paid when due (regardless of whether such deposit or other indebtedness is then due to such Credit Party), in which case it shall promptly notify such Credit Party and Administrative Agent thereof; *provided, however,* that such Lender's failure to give such notice shall not affect the validity thereof.

(b) Each of the Lenders agrees that, if it should receive (other than pursuant to Article V or the Administrative Agent's Fee Letter) any amount hereunder (whether by voluntary payment, by realization upon security, by the exercise of the right of setoff or banker's lien, by counterclaim or

cross action, by the enforcement of any right under the Credit Documents (including any guarantee), or otherwise) which is applicable to the payment of the principal of, or interest on, the Loans, Reimbursement Obligations or fees, the sum of which with respect to the related sum or sums received by other Lenders is in a greater proportion than the total of such amounts then owed and due to such Lender bears to the total of such amounts then owed and due to all of the Lenders immediately prior to such receipt, then such Lender receiving such excess payment shall purchase for cash without recourse or warranty from the other Lenders an interest in the Obligations of the respective Credit Party to such Lenders in such amount as shall result in a proportional participation by all of the Lenders in such amount; *provided, however,* that if all or any portion of such excess amount is thereafter recovered from such Lender, such purchase shall be rescinded and the purchase price restored to the extent of such recovery, but without interest. Borrower consents to the foregoing arrangements.

(c) Borrower agrees that any Lender so purchasing such a participation may exercise all rights of setoff, banker's lien, counterclaim or similar rights with respect to such participation as fully as if such Lender were a direct holder of Loans or other amounts (as the case may be) owing to such Lender in the amount of such participation.

(d) Nothing contained herein shall require any Lender to exercise any such right or shall affect the right of any Lender to exercise, and retain the benefits of exercising, any such right with respect to any other Indebtedness or obligation of any Credit Party. If, under any applicable bankruptcy, insolvency or other similar law, any Lender receives a secured claim in lieu of a setoff to which this Section 4.07 applies, such Lender shall, to the extent practicable, exercise its rights in respect of such secured claim in a manner consistent with the rights of the Lenders entitled under this Section 4.07 to share in the benefits of any recovery on such secured claim.

ARTICLE V

YIELD PROTECTION, ETC.

SECTION 5.01. Additional Costs. (a) If the adoption of, or any change in, in each case after the Closing Date, any Requirement of Law or in the interpretation or application thereof or compliance by any Lender with any request or directive (whether or not having the force of law) from any central bank or other Governmental Authority or the NAIC made subsequent to the Closing Date (other than such adoptions or changes as may relate to the certain Lenders' indirect ownership of Borrower and its Restricted Subsidiaries):

(i) shall subject any Lender or L/C Lender to any tax of any kind whatsoever with respect to this Agreement, any Note, any Letter of Credit or any Lender's participation therein, any L/C Document or any Loan made by it or change the basis of taxation of payments to such Lender in respect thereof by any Governmental Authority (except for taxes covered by or expressly excluded from coverage by, and expressly subject to, Section 5.06, Excluded Taxes, changes in the rate of tax on the overall net income or net profits of such Lender or its Applicable Lending Office, or any affiliate thereof or franchise taxes or similar taxes imposed with respect to or in lieu of its net income or net profits by any Governmental Authority);

(ii) shall impose, modify or hold applicable any reserve, special deposit, compulsory loan or similar requirement (including any Reserve Requirement) against assets held by, deposits or other liabilities in or for the account of, advances, loans or other extensions of credit by, or any

other acquisition of funds by, any office of such Lender or L/C Lender which is not otherwise included in the determination of the LIBO Rate hereunder; or

(iii) shall impose on such Lender or L/C Lender any other condition (excluding taxes);

and the result of any of the foregoing is to increase the cost to such Lender or L/C Lender, by an amount which such Lender or L/C Lender deems to be material, of making, converting into, continuing or maintaining LIBOR Loans or issuing or participating in Letters of Credit, then, in any such case, Borrower shall, within 10 days of written demand therefor, pay such Lender or L/C Lender any additional amounts necessary to compensate such Lender or L/C Lender on a net after-tax basis (taking into account any additional tax costs or tax benefits) for such increased cost. If any Lender or L/C Lender becomes entitled to claim any additional amounts pursuant to this subsection, it shall promptly notify Borrower, through Administrative Agent, of the event by reason of which it has become so entitled. A certificate as to any additional amounts setting forth the calculation of such additional amounts pursuant to this Section 5.01 submitted by such Lender or L/C Lender, through Administrative Agent, to Borrower shall be conclusive in the absence of clearly demonstrable error. Without limiting the survival of any other covenant hereunder, this Section 5.01 shall survive the termination of this Agreement and the payment of the Notes and all other Obligations payable hereunder.

(b) In the event that any Lender or L/C Lender shall have determined that the adoption after the Closing Date of any law, rule, regulation or guideline regarding capital adequacy (or any change after the Closing Date therein or in the interpretation or application thereof) or compliance by any Lender or L/C Lender or any corporation controlling such Lender or L/C Lender with any request or directive regarding capital adequacy (whether or not having the force of law) from any central bank or other Governmental Authority or the NAIC, in each case, made subsequent to the Closing Date, including, without limitation, the issuance after the Closing Date of any final rule, regulation or guideline, does or shall have the effect of reducing the rate of return on such Lender's or L/C Lender's or such corporation's capital as a consequence of its obligations hereunder or under any Letter of Credit to a level below that which such Lender or L/C Lender or such corporation could have achieved but for such adoption, change or compliance (taking into consideration such Lender's or L/C Lender's or such corporation's policies with respect to capital adequacy) by an amount deemed by such Lender or L/C Lender to be material, then from time to time, after submission by such Lender or L/C Lender to Borrower (with a copy to Administrative Agent) of a written request therefor (setting forth in reasonable detail the amount payable to the affected Lender or L/C Lender and the basis for such request), Borrower shall promptly pay to such Lender or L/C Lender such additional amount or amounts as will compensate such Lender or L/C Lender on a net after-tax basis for such reduction.

(c) Failure or delay on the part of any Lender or the L/C Lender to demand compensation pursuant to this Section 5.01 shall not constitute a waiver of such Lender's or the L/C Lender's right to demand such compensation; *provided* that Borrower shall not be required to compensate a Lender or the L/C Lender pursuant to this Section 5.01 for any increased costs or reductions incurred more than 90 days prior to the date that such Lender or the L/C Lender, as the case may be, notifies Borrower of the change in law giving rise to such increased costs or reductions and of such Lender's or the L/C Lender's intention to claim compensation therefor; *provided*, *further*, that if the change in law giving rise to such increased costs or reductions is retroactive, then the 90-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 5.02. Inability To Determine Interest Rate. If prior to the first day of any Interest Period: (a) Administrative Agent shall have determined (which determination shall be conclusive and binding upon Borrower) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the LIBO Base Rate for such Interest Period, or (b) Administrative Agent shall have received notice from Majority Lenders that Dollar deposits are not available in the relevant amount and for the relevant Interest Period available to the Majority Lenders in their relevant market, Administrative Agent shall give telecopy or telephonic notice thereof to Borrower and the Lenders as soon as practicable thereafter. If such notice is given (x) any LIBOR Loans requested to be made on the first day of such Interest Period shall be made as ABR Loans,

(y) any Loans that were to have been Converted on the first day of such Interest Period to LIBOR Loans shall be Converted to or Continued as ABR Loans and (z) any outstanding LIBOR Loans shall be Converted, on the first day of such Interest Period, to ABR Loans. Until such notice has been withdrawn by Administrative Agent, no further LIBOR Loans shall be made or Continued as such, nor shall Borrower have the right to Convert Loans to, LIBOR Loans.

SECTION 5.03. Illegality. Notwithstanding any other provision of this Agreement, in the event that any change after the Closing Date in any Requirement of Law or in the interpretation or application thereof shall make it unlawful for any Lender or L/C Lender or its Applicable Lending Office to honor its obligation to make or maintain LIBOR Loans or issue Letters of Credit hereunder (and, in the sole opinion of such Lender or L/C Lender, the designation of a different Applicable Lending Office would either not avoid such unlawfulness or would be disadvantageous to such Lender or L/C Lender), then such Lender or L/C Lender shall promptly notify Borrower thereof (with a copy to Administrative Agent) and such Lender's or L/C Lender's obligation to make or Continue, or to Convert Loans of any other Type into, LIBOR Loans or issue Letters of Credit shall be suspended until such time as such Lender or L/C Lender may again make and maintain LIBOR Loans or issue Letters of Credit (in which case the provisions of Section 5.04 shall be applicable).

SECTION 5.04. Treatment of Affected Loans. If the obligation of any Lender to make LIBOR Loans or to Continue, or to Convert ABR Loans into, LIBOR Loans shall be suspended pursuant to Section 5.03, such Lender's LIBOR Loans shall be automatically Converted into ABR Loans on the last day(s) of the then current Interest Period(s) for such LIBOR Loans (or on such earlier date as such Lender may specify to Borrower with a copy to Administrative Agent as is required by law) and, unless and until such Lender gives notice as provided below that the circumstances specified in Section 5.03 which gave rise to such Conversion no longer exist:

(i) to the extent that such Lender's LIBOR Loans have been so Converted, all payments and prepayments of principal which would otherwise be applied to such Lender's LIBOR Loans shall be applied instead to its ABR Loans; and

(ii) all Loans which would otherwise be made or Continued by such Lender as LIBOR Loans shall be made or Continued instead as ABR Loans and all ABR Loans of such Lender which would otherwise be Converted into LIBOR Loans shall remain as ABR Loans.

If such Lender gives notice to Borrower with a copy to Administrative Agent that the circumstances specified in Section 5.03 which gave rise to the Conversion of such Lender's LIBOR Loans pursuant to this Section 5.04 no longer exist (which such Lender agrees to do promptly upon such circumstances ceasing to exist) at a time when LIBOR Loans are outstanding, such Lender's ABR Loans shall be automatically Converted, on the first day(s) of the next succeeding Interest

Period(s) for such outstanding LIBOR Loans, to the extent necessary so that, after giving effect thereto, all Loans held by the Lenders holding LIBOR Loans and by such Lender are held *pro rata* (as to principal amounts, Types and Interest Periods) in accordance with their respective Commitments.

SECTION 5.05. Compensation. (a) Borrower agrees to indemnify each Lender and to hold each Lender harmless from any loss or expense which such Lender may sustain or incur as a consequence of (1) default by Borrower in payment when due of the principal amount of or interest on any LIBOR Loan, (2) default by Borrower in making a borrowing of, Conversion into or Continuation of LIBOR Loans after Borrower has given a notice requesting the same in accordance with the provisions of this Agreement, (3) default by Borrower or in making any prepayment after Borrower has given a notice thereof in accordance with the provisions of this Agreement, or (4) the Conversion or the making of a payment or a prepayment of LIBOR Loans on a day which is not the last day of an Interest Period with respect thereto, including in each case, any such loss (but excluding any lost profit or loss of margin) or expense arising from the reemployment of funds obtained by it or from fees payable to terminate the deposits from which such funds were obtained.

(b) For the purpose of calculation of all amounts payable to a Lender under this Section 5.05, each Lender shall be deemed to have actually funded its relevant LIBOR Loan through the purchase of a deposit bearing interest at the LIBO Rate in an amount equal to the amount of the LIBOR Loan and having a maturity comparable to the relevant Interest Period; *provided, however,* that each Lender may fund each of its LIBOR Loans in any manner it sees fit, and the foregoing assumption shall be utilized only for the calculation of amounts payable under this subsection. Any Lender requesting compensation pursuant to this Section 5.05 will furnish to Administrative Agent and Borrower a certificate setting forth the basis and amount of such request and such certificate, absent manifest error, shall be conclusive. Without limiting the survival of any other covenant hereunder, this covenant shall survive the termination of this Agreement and the payment of the Notes and all other amounts payable hereunder.

SECTION 5.06. Net Payments. (a) Except as provided in Section 5.06(b), all payments made by any Credit Party hereunder or under any Note or any Guarantee will be made without setoff, counterclaim or other defense. Except as provided in Section 5.06(b), all such payments will be made free and clear of, and without deduction or withholding for, any present or future Taxes now or hereafter imposed by any Governmental Authority or by any political subdivision or taxing authority thereof or therein with respect to such payments (but excluding any Excluded Tax) (all such Taxes (other than Excluded Taxes) being referred to collectively as "**Covered Taxes**"). If any Covered Taxes are so levied or imposed, each Credit Party agrees on a joint and several basis to pay the full amount of such Covered Taxes, and such additional amounts as may be necessary so that every payment of all amounts due under this Agreement, the Guarantees or under any Note, after withholding or deduction for or on account of any Covered Taxes, will not be less than the amount provided for herein or in such Note; *provided* that no such additional amount shall be required to be paid to any Lender under this Section 5.06 to the extent such additional amount relates to a portion of any sums paid or payable to such Lender under any Note or Guarantee with respect to which such Lender does not act for its own account unless the beneficial owner would otherwise be entitled to such additional amount. Each Credit Party will furnish to Administrative Agent within 45 days after the date the payment of any Covered Taxes is due pursuant to applicable law documentation reasonably satisfactory to such Lender evidencing such payment by such Credit Party. The Credit Parties agree to jointly and severally indemnify and hold harmless each Lender, and reimburse such Lender upon its written request, for the amount of any Covered Taxes so levied or imposed and paid by such Lender.

(b) Each Lender that is not a United States person (as such term is defined in Section 7701(a)(30) of the Code) (a "**Non-U.S. Lender**") agrees to deliver to Borrower and Administrative Agent on or prior to the Closing Date or, in the case of a Lender that is an assignee or transferee of an interest under this Agreement pursuant to Section 13.06 (unless the assigned or transferee Lender was already a Lender hereunder immediately prior to such assignment or transfer and was in compliance with this Section 5.06(b) as of the date of such assignment or transfer), on the date of such assignment or transfer to such Lender, (i) two accurate and complete original signed copies of Internal Revenue Service Form W-8ECI or W-8BEN (or successor forms) certifying to such Lender's entitlement to a complete exemption from United States withholding tax with respect to payments to be made under this Agreement and under any Note or any Guarantee (or, with respect to any assignee Lender, at least as extensive as the assigning Lender), or (ii) if the Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code and cannot deliver either Internal Revenue Service Form W-8ECI or W-8BEN pursuant to clause (i) above, (x) a certificate substantially in the form of *Exhibit F* (any such certificate, a "**Foreign Lender Certificate**") and (y) two accurate and complete original signed copies of Internal Revenue Service Form W-8 (or successor form) certifying to such Lender's entitlement to a complete exemption from United States withholding tax with respect to payments to be made under this Agreement and under any Note (or, with respect to any assignee Lender, at least as extensive as the assigning Lender). Each Non-U.S.

Lender, to the extent it does not act or ceases to act for its own account with respect to any portion of any sums paid or payable to such Lender under any Note or Guarantee, shall deliver to Administrative Agent and to Borrower, on or prior to the Closing Date (in the case of each Lender listed on the signature pages hereof), on or prior to the date of the Assignment Agreement pursuant to which it becomes a Lender (in the case of each other Lender), or on such later date when such Lender ceases to act for its own account with respect to any portion of such sums paid or payable, and at such other times as may be necessary in the determination of Borrower or Administrative Agent, (i) two original copies of the forms or statements required to be provided by such Lender under this Section 5.06(b), properly completed and duly executed by such Lender, to establish the portion of any such sums paid or payable with respect to which such Lender acts for its own account and is not subject to United States withholding tax, and (ii) two original copies of Internal Revenue Service Form W-8IMY (or any successor forms) properly completed and duly executed by such Lender, together with any information, if any, such Lender chooses to transmit with such form, and any other certificate or statement of exemption required under the Code or the regulations issued thereunder, to establish that such Lender is not acting for its own account with respect to a portion of any such sums paid or payable to such Lender. In addition, each Lender agrees that from time to time after the Closing Date, when a lapse in time or change in circumstances renders the previous certification obsolete or inaccurate in any material respect, it will deliver to Borrower and Administrative Agent two new accurate and complete original signed copies of Internal Revenue Service Form W-8ECI or W-8BEN, or Form W-8 and a Foreign Lender Certificate, as the case may be, and such other forms as may be required in order to confirm or establish the entitlement of such Lender to a continued exemption from or reduction in United States withholding tax with respect to payments under this Agreement and any Note or any Guarantee, or it shall immediately notify Borrower and Administrative Agent of its inability to deliver any such Form or Certificate, in which case such Lender shall not be required to deliver any such form or certificate pursuant to this Section 5.06(b) for so long as such payments may be made free from United States withholding tax. Notwithstanding the foregoing, no Lender shall be required to deliver any such form or certificate if a change in treaty, law or regulation has occurred prior to the date on which such delivery would otherwise be required that renders any such form or certificate inapplicable or would prevent the Lender from duly completing and delivering any such form or certificate with respect to it and such Lender so advises Borrower. No Credit Party shall be required to indemnify any Non-U.S. Lender, or to pay any additional amounts to any Non-U.S. Lender, in respect of any Covered Taxes to the extent that the obligation to pay such Covered Taxes would not have arisen but for a failure by such Non-U.S. Lender to comply with the provisions of this Section 5.06(b). Notwithstanding anything to the contrary contained in this Section 5.06, Borrower agrees to pay additional amounts and to indemnify each Lender in the manner set forth in Section 5.06(a) (without regard to the identity of the jurisdiction requiring the deduction or withholding) in respect of any amounts deducted or

withheld by it as described in the immediately preceding sentence as a result of any changes after the Closing Date in any applicable law, treaty, governmental rule, regulation, guideline or order, or in the interpretation thereof, relating to the deducting or withholding of Covered Taxes.

(c) In addition, Borrower agrees to pay any present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies which arise from any payment made hereunder or under the Notes or from the execution, delivery, filing, recordation or registration of, or otherwise with respect to, this Agreement or the Notes (hereinafter referred to as "**Other Taxes**").

(d) Any Lender claiming any additional amounts payable pursuant to this Section 5.06 agrees to use (at the Credit Parties' expense) reasonable efforts (consistent with its internal policy and legal and regulatory restrictions) to change the jurisdiction of its Applicable Lending Office if the making of such change would avoid the need for, or in the opinion of such Lender materially

reduce the amount of, any such additional amounts that may thereafter accrue and would not, in the sole judgment of such Lender, be otherwise disadvantageous to such Lender.

(e) If (i) Administrative Agent or any Lender receives a cash refund in respect of an overpayment of Taxes from a Governmental Authority or a tax credit with respect to, and actually resulting from, an amount of Taxes actually paid to or on behalf of Administrative Agent or such Lender by Borrower (a "**Tax Benefit**") and (ii) Administrative Agent or such Lender determines in its reasonable opinion that such Tax Benefit has been correctly paid or credited by such Governmental Authority or otherwise gives rise to a claim of credit that is actually claimed, and will not be required to be repaid to such Governmental Authority or otherwise disallowed, then Administrative Agent or such Lender shall use its reasonable efforts to notify Borrower of such Tax Benefit and to forward the proceeds of such Tax Benefit (or relevant portion thereof) to Borrower as reduced by any expense or liability incurred by Administrative Agent or such Lender in connection with obtaining such Tax Benefit.

ARTICLE VI

GUARANTEES

SECTION 6.01. The Guarantees. The Subsidiary Guarantors hereby jointly and severally guarantee as primary obligors and not as sureties to each Creditor and their respective successors and assigns the prompt payment in full when due (whether at stated maturity, by acceleration or otherwise) of the principal of and interest (including any interest, fees, costs or charges that would accrue but for the provisions of the Bankruptcy Code after any bankruptcy or insolvency petition under the Bankruptcy Code) on the Loans made by the Lenders to, and the Notes held by each Lender of, Borrower, and all other Obligations from time to time owing to the Creditors by any Credit Party under any Credit Document or Swap Contract entered into with a Lender or an Affiliate of a Lender and relating to the Loans, in each case strictly in accordance with the terms thereof but in the case of Swap Contracts not if such Lender or Affiliate provides notice to Borrower that it does not want such Swap Contract to be secured (such obligations being herein collectively called the "**Guaranteed Obligations**"). The Subsidiary Guarantors hereby jointly and severally agree that if Borrower or other Subsidiary Guarantor(s) shall fail to pay in full when due (whether at stated maturity, by acceleration or otherwise) any of the Guaranteed Obligations, such Subsidiary Guarantors will promptly pay the same, without any demand or notice whatsoever, and that in the case of any extension of time of payment or renewal of any of the Guaranteed Obligations, the same will be promptly paid in full when due (whether at extended maturity, by acceleration or otherwise) in accordance with the terms of such extension or renewal.

SECTION 6.02. Obligations Unconditional. The obligations of the Subsidiary Guarantors under Section 6.01 shall constitute a guaranty of payment and are absolute, irrevocable and unconditional, joint and several, irrespective of the value, genuineness, validity, regularity or enforceability of the Guaranteed Obligations of Borrower under this Agreement, the Notes or any other agreement or instrument referred to herein or therein, or any substitution, release or exchange of any other guarantee of or security for any of the Guaranteed Obligations, and, to the fullest extent permitted by applicable law, irrespective of any other circumstance whatsoever that might otherwise constitute a legal or equitable discharge or defense of a surety or Subsidiary Guarantor (except for payment in full). Without limiting the generality of the foregoing, it is agreed that the occurrence of any one or more of the following shall not alter or impair the liability of the Subsidiary Guarantors hereunder which shall remain absolute, irrevocable and unconditional under any and all circumstances as described above:

(i) at any time or from time to time, without notice to the Subsidiary Guarantors, the time for any performance of or compliance with any of the Guaranteed Obligations shall be extended, or such performance or compliance shall be waived;

(ii) any of the acts mentioned in any of the provisions of this Agreement or the Notes or any other agreement or instrument referred to herein or therein shall be done or omitted;

(iii) the maturity of any of the Guaranteed Obligations shall be accelerated, or any of the Guaranteed Obligations shall be amended in any respect, or any right under the Credit Documents or any other agreement or instrument referred to herein or therein shall be amended or waived in any respect or any other guarantee of any of the Guaranteed Obligations or any security therefor shall be released or exchanged in whole or in part or otherwise dealt with;

(iv) any Lien or security interest granted to, or in favor of, L/C Lender or any Lender or Agent as security for any of the Guaranteed Obligations shall fail to be perfected; or

(v) the release of any other Subsidiary Guarantor.

The Subsidiary Guarantors hereby expressly waive diligence, presentment, demand of payment, protest and all notices whatsoever, and any requirement that any Creditor thereof exhaust any right, power or remedy or proceed against Borrower under this Agreement or the Notes or any other agreement or instrument referred to herein or therein, or against any other person under any other guarantee of, or security for, any of the Guaranteed Obligations. The Subsidiary Guarantors waive any and all notice of the creation, renewal, extension, waiver, termination or accrual of any of the Guaranteed Obligations and notice of or proof of reliance by any Creditor thereof upon this guarantee or acceptance of this guarantee, and the Guaranteed Obligations, and any of them, shall conclusively be deemed to have been created, contracted or incurred in reliance upon this guarantee, and all dealings between Borrower and the Creditors shall likewise be

conclusively presumed to have been had or consummated in reliance upon this guarantee. This guarantee shall be construed as a continuing, absolute, irrevocable and unconditional guarantee of payment without regard to any right of offset with respect to the Guaranteed Obligations at any time or from time to time held by the Creditors, and the obligations and liabilities of the Subsidiary Guarantors hereunder shall not be conditioned or contingent upon the pursuit by the Creditors or any other person at any time of any right or remedy against Borrower or against any other person which may be or become liable in respect of all or any part of the Guaranteed Obligations or against any collateral security or guarantee therefor or right of offset with respect thereto. This guarantee shall remain in full force and effect and be binding in accordance with and to the extent of its terms upon the Subsidiary Guarantors and the successors and assigns thereof, and shall inure to the benefit of the Lenders, and their respective successors and assigns, notwithstanding that from time to time during the term of this Agreement there may be no Guaranteed Obligations outstanding.

SECTION 6.03. Reinstatement. The obligations of the Subsidiary Guarantors under this Article VI shall be automatically reinstated if and to the extent that for any reason any payment by or on behalf of Borrower or other Credit Party in respect of the Guaranteed Obligations is rescinded or must be otherwise restored by any holder of any of the Guaranteed Obligations, whether as a result of any proceedings in bankruptcy or reorganization or otherwise. The Subsidiary Guarantors jointly and severally agree that they will indemnify each Creditor on demand for all reasonable costs and expenses (including reasonable fees of counsel) incurred by such Creditor in connection with such rescission or restoration, including any such costs and expenses incurred in defending against any claim alleging that such payment constituted a preference, fraudulent transfer or similar payment under any bankruptcy, insolvency or similar law, other than any costs or expenses resulting from the gross negligence or bad faith of such Creditor.

SECTION 6.04. Subrogation; Subordination. Each Subsidiary Guarantor hereby agrees that until the indefeasible payment and satisfaction in full in cash of all Guaranteed Obligations and the expiration and termination of the Commitments of the Lenders under this Agreement it shall not exercise any right or remedy arising by reason of any performance by it of its guarantee in Section 6.01,

whether by subrogation or otherwise, against Borrower or any other Subsidiary Guarantor of any of the Guaranteed Obligations or any security for any of the Guaranteed Obligations. The payment of any amounts due with respect to any indebtedness of Borrower or any other Subsidiary Guarantor now or hereafter owing to any Subsidiary Guarantor or Borrower by reason of any payment by such Subsidiary Guarantor under the Guarantee in this Article VI is hereby subordinated to the prior indefeasible payment in full in cash of the Guaranteed Obligations. Each Subsidiary Guarantor agrees that it will not demand, sue for or otherwise attempt to collect any such indebtedness of Borrower to such Subsidiary Guarantor until the Obligations shall have been indefeasibly paid in full in cash. If, notwithstanding the foregoing sentence, any Subsidiary Guarantor shall prior to the indefeasible payment in full in cash of the Guaranteed Obligations collect, enforce or receive any amounts in respect of such indebtedness, such amounts shall be collected, enforced and received by such Subsidiary Guarantor as trustee for Creditors and be paid over to Administrative Agent on account of the Guaranteed Obligations without affecting in any manner the liability of such Subsidiary Guarantor under the other provisions of the guaranty contained herein.

SECTION 6.05. Remedies. The Subsidiary Guarantors jointly and severally agree that, as between the Subsidiary Guarantors and the Lenders, the obligations of Borrower under this Agreement and the Notes may be declared to be forthwith due and payable as provided in Article XI (and shall be deemed to have become automatically due and payable in the circumstances provided in said Article XI) for purposes of Section 6.01, notwithstanding any stay, injunction or other prohibition preventing such declaration (or such obligations from becoming automatically due and payable) as against Borrower and that, in the event of such declaration (or such obligations being deemed to have become automatically due and payable), such obligations (whether or not due and payable by Borrower) shall forthwith become due and payable by the Subsidiary Guarantors for purposes of Section 6.01.

SECTION 6.06. Instrument for the Payment of Money. Each Subsidiary Guarantor hereby acknowledges that the guarantee in this Article VI, as set forth in Section 6.01, constitutes an instrument for the payment of money, and consents and agrees that any Lender or Agent, at its sole option, in the event of a dispute by such Subsidiary Guarantor in the payment of any moneys due hereunder, shall have the right to bring a motion-action under New York CPLR Section 3213.

SECTION 6.07. Continuing Guarantee. The guarantee in this Article VI is a continuing guarantee of payment, and shall apply to all Guaranteed Obligations whenever arising.

SECTION 6.08. General Limitation on Guarantee Obligations. In any action or proceeding involving any state corporate law, or any state, federal or foreign bankruptcy, insolvency, reorganization or other law affecting the rights of creditors generally, if the obligations of any Subsidiary Guarantor under Section 6.01 would otherwise be held or determined to be void, voidable, invalid or unenforceable, or subordinated to the claims of any other creditors, on account of the amount of its liability under Section 6.01, then, notwithstanding any other provision to the contrary, the amount of such liability shall, without any further action by such Subsidiary Guarantor, any Creditor or any other person, be automatically limited and reduced to the highest amount that is valid and enforceable and not subordinated to the claims of other creditors as determined in such action or proceeding.

ARTICLE VII

CONDITIONS PRECEDENT

SECTION 7.01. Effective Date. The amendments to the Original Credit Agreement effected hereby and the obligations of the applicable Term Loan Lenders to make the conversions contemplated hereby shall not become effective until the date (the "**Effective Date**") on which each of the following

conditions and the conditions in Section 7.02 are satisfied (or waived in accordance with the terms hereof):

(a) Administrative Agent (or its counsel) shall have received from the Majority Lenders (as defined in the Original Credit Agreement) and each Lender in respect of Existing Term B Loans either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of each Credit Party, the authorization of the New Transactions and any other legal matters relating to the Credit Parties, the Credit Documents or the New Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(c) Administrative Agent shall have received a certificate, dated the Effective Date and signed by the President, a Vice President or a Financial Officer of Borrower, confirming compliance with the conditions set forth in paragraphs (e), (g) and (h) of this Section 7.01 and (i)(a) and (b) of Section 7.02.

(d) Administrative Agent shall have received payment of all fees and other amounts due and payable on or prior to the Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses (including reasonable fees, charges and disbursements of counsel) required to be reimbursed or paid by a Credit Party hereunder, under the New Fee Letter or under any other Credit Document.

(e) All material consents and approvals required to be obtained from any Governmental Authority or other person in connection with the New Transactions shall have been obtained, and all applicable waiting periods and appeal periods shall have expired and there shall be no governmental or judicial action, actual or threatened, that could reasonably be expected to restrain, prevent or impose burdensome conditions on the New Transactions and the other transactions contemplated hereby.

(f) Borrower shall have received gross cash proceeds from the issuance of the New Subordinated Notes in a Rule 144A offering, in an amount of not less than $196,992,000 and shall have used all of the net proceeds thereof ($196,600,000), along with cash on hand, to optionally prepay Term B Facility Loans and all outstanding Obligations in respect of the Term A Facility Loans (as defined in the Original Credit Agreement).

(g) There shall be no litigation or administrative proceeding that has had or is reasonably likely to have a material adverse effect on the ability of the parties to consummate the New Transactions or the other transactions contemplated hereby.

(h) The consummation of the New Transactions shall not (a) violate any applicable law, statute, rule or regulation in any material respect or (b) conflict with, or result in a default or event of default under, any material indenture or other material agreement of Borrower or any of its Restricted Subsidiaries.

(i) To the extent deemed necessary or appropriate by Administrative Agent, each Security Document shall have been amended to provide the benefits thereof to the Term D Facility Loans and the obligations of the Credit Parties in connection therewith on the same basis as such benefits were provided to the Term B Facility Loans prior to the Effective Date and, in connection therewith, the Administrative Agent shall have received counterparts of

such amendments (which shall be in form and substance reasonably acceptable to Administrative Agent) duly authorized, executed and acknowledged (to the extent necessary or appropriate) by the Credit Party intended to be a party thereto as well as such further evidence as may be reasonably requested by it to evidence that the Liens granted to Collateral Agent for the benefit of the First Priority Secured Parties under the Security Documents continue to constitute valid, enforceable and perfected Liens on Collateral that secures the Obligations under this Agreement after the Effective Date (including the Obligations comprised of the Term D Facility Loans), in each case, are subject to no Liens on the Collateral encumbered by the applicable Security Documents other than those Liens permitted to exist on such Collateral pursuant to such applicable Security Document.

(j) Administrative Agent shall have received (i) an opinion of Skadden, Arps, Slate, Meagher & Flom LLP, special counsel to the Credit Parties, and (ii) opinions of regulatory counsel to the Credit Parties and of local counsel in certain jurisdictions where a Credit Party is organized and/or where Mortgaged Real Property is located, in each case to the extent and in such form as may be reasonably requested by Administrative Agent or its counsel.

Notwithstanding the foregoing, the amendments to the Original Credit Agreement that would be effected hereby and the obligations of the Lenders to make the Loans contemplated to be made on the Effective Date shall not become effective unless each of the foregoing conditions and the conditions set forth in Section 7.02 are satisfied (or waived pursuant to the terms hereof) at or prior to 5:00 p.m., New York City time, on December 15, 2003 (and, in the event such conditions are not so satisfied or waived, the Original Credit Agreement shall remain in effect without giving effect to any amendments thereto contemplated hereby). Administrative Agent shall notify Borrower and the Lenders of the Effective Date, and such notice shall be conclusive and binding.

SECTION 7.02. Conditions to Effective Date and Subsequent Extensions of Credit. The occurrence of the Effective Date and the obligation of the Lenders to make any Loan or otherwise extend any credit to Borrower upon the occasion of each Borrowing or other extension of credit (whether by making a Loan or issuing a Letter of Credit) hereunder (including the initial borrowing) is subject to the further conditions precedent that:

(i) **No Default or Event of Default; Representations and Warranties True.** Immediately prior to any of the Effective Date, the making of such Loan or any other extension of credit and also after giving pro forma effect thereto and to the intended use thereof;

(a) no Default or Event of Default (hereunder or, for purposes of determining the occurrence of the Effective Date, under the Original Credit Agreement) shall have occurred and be continuing;

(b) the representations and warranties (other than those relating to an earlier date) made by the Credit Parties in Article VIII and by each Credit Party in each of the other Credit Documents to which it is a party, shall continue to be accurate in all material respects on and as of the date of the making of such Loan or other extension of credit with the same force and effect as if made on and as of such date (except that any such representation or warranty qualified as to materiality shall continue to be accurate on and as of the date of the making of such Loan or other extension of credit with the same force and effect as if made on and as of such date); and

(c) the sum of the aggregate amount of the outstanding Revolving Loans and Swingline Loans, *plus* L/C Liabilities shall not exceed the Revolving Commitments then in effect.

(ii) **Notice of Borrowing.** Administrative Agent shall have received a Notice of Borrowing duly completed and complying with Section 4.05.

Each Notice of Borrowing or request for the issuance of a Letter of Credit delivered by Borrower hereunder shall constitute a certification by Borrower to the effect set forth in clauses (i)-(ii) above as of the date of such borrowing or issuance. Each notice submitted by Borrower hereunder for an extension of credit hereunder shall constitute a representation and warranty by Borrower, as of the date of such notice and as of the relevant borrowing date or date of issuance of a Letter of Credit, as applicable, that the applicable conditions in Section 7.01 and this Section 7.02 have been satisfied or waived in accordance with the terms hereof.

SECTION 7.03. [Reserved].

SECTION 7.04. Conditions to Incremental Loan Facility Borrowings. In addition to the conditions set forth in Section 7.02, the obligation of any Incremental Loan Lender to make any Loan in respect of the Incremental Loan Facility upon the execution of an Incremental Loan Activation Notice is subject to the further conditions precedent that Borrower has either received or anticipates upon use of the funds from the Incremental Loan Facility to receive gaming licenses from the Commonwealth of Pennsylvania to operate slot machines or video lottery terminals at any of its gaming facilities in the Commonwealth of Pennsylvania; *provided, however,* that Borrower uses the funds drawn under the Incremental Loan Facility solely to build out such slot and video lottery operations and/or related racing operations and to finance the cost of acquiring such gaming licenses from a Governmental Authority in the Commonwealth of Pennsylvania.

SECTION 7.05. Determinations Under Article VII. For purposes of determining compliance with the conditions specified in Sections 7.01, 7.02, and 7.04, each applicable Lender shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of Administrative Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that Borrower, by notice to the Lenders, designates as the proposed date of the extension of credit, specifying its objection thereto.

ARTICLE VIII

REPRESENTATIONS AND WARRANTIES

Each Credit Party represents and warrants to the Creditors that at and as of the Effective Date and at and as of each Funding Date (in each case immediately before and immediately after giving effect to the transactions to occur on such date (including, with respect to the Effective Date, the New Transactions)):

SECTION 8.01. Corporate Existence; Compliance with Law. (a) Each Company: (i) is a corporation, partnership, limited liability company or other entity duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (ii) has all requisite corporate or other power and authority, and has all governmental licenses, authorizations, consents and approvals necessary to own its Property and carry on its business as now being conducted; and (iii) is qualified to do business and is in good standing in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary; *except*, in the case of clauses (i), (ii) and (iii) where the failure thereof individually or in the aggregate would not have a Material Adverse Effect;

(b) Except for compliance with the National Flood Insurance Act of 1968 with respect to the Property at Casino Rouge, no Company or any of its Property is in violation of, nor will the continued operation of such Company's Property as currently conducted violate, any Requirement of Law (including, without limitation, any zoning or building ordinance, code or approval or permits or any restrictions of record or agreements affecting the Real Property) or is in default with respect to any judgment, writ, injunction, decree or order of any Governmental Authority, where such violations or defaults that would not reasonably be expected to have a Material Adverse Effect.

SECTION 8.02. Financial Condition; Etc. (a) Borrower has delivered to the Lenders (i) the audited consolidated balance sheet of Borrower and its Subsidiaries as of December 31, 2002, and the related statements of earnings, changes in stockholders' equity and cash flows for the fiscal year ended on date, together with reports thereon by BDO Seidman LLP, certified public accountants, and (ii) unaudited interim consolidated balance sheet of Borrower and its Subsidiaries and the related statements of earnings, changes in stockholders' equity and cash flows for each fiscal quarter ended after December 31, 2002. All of said financial statements, including in each case the related schedules and notes, are true, complete and correct in all material respects and have been prepared in accordance with GAAP consistently applied and present fairly in all material respects the financial position of Borrower and its Subsidiaries as of the respective dates of said balance sheets and the results of their operations for the respective periods covered thereby, subject (in the case of interim statements) to normal period-end audit adjustments and the absence of footnotes.

(b) Except as set forth in the financial statements or other information referred to in Section 8.02(a)(i), as of the Closing Date (other than expenses directly related to the Original Transactions), there are no material liabilities of any Credit Party of any kind required to be set forth on a balance sheet or in the notes thereto prepared in accordance with GAAP, whether accrued, contingent, absolute, determined, determinable or otherwise, and there is no existing condition, situation or set of circumstances which is reasonably likely to result in such a liability.

(c) Since December 31, 2001, there has been no Material Adverse Change.

SECTION 8.03. Litigation. There is no Proceeding (other than any (a) *qui tam* Proceeding, to which this Section is limited to the best of Borrower's knowledge, and (b) normal overseeing reviews of the Gaming Authorities) pending against, or to the knowledge of Borrower, threatened in writing against or affecting, Borrower or any of its Restricted Subsidiaries or any of its respective Properties before any Governmental Authority or private arbitrator that (i) has a reasonable likelihood of being adversely determined and that, if determined or resolved adversely to Borrower or any of its Subsidiaries, would have a Material Adverse Effect, (ii) challenges the validity or enforceability of any of the Credit Documents or (iii) under the Racketeering Influenced and Corrupt Organizations Act or any similar federal or state statute, in each case where such person is a defendant in a criminal indictment, provide for forfeiture of assets to any Governmental Authority as a criminal penalty.

SECTION 8.04. No Breach; No Default. (a) None of the execution, delivery and performance by any Credit Party of any Credit Document or Transaction Document to which it is a party nor the consummation of the transactions herein and therein contemplated (including the Original Transactions or the New Transactions) do or will (i) conflict with or result in a breach of, or require any consent (which has not been obtained and is in full force and effect) under, any Organic Document of any Credit Party or any applicable Requirement of Law (including, without limitation, any Gaming Law) or any order, writ, injunction or decree of any Governmental Authority binding on any Credit Party, or tortuously interfere with, result in a breach of, or require termination of, any term or provision of any Contractual Obligation of any Credit Party or (ii) constitute (with due notice or lapse of time or both) a default under any such Contractual Obligation, or (iii) result in the creation or imposition of any Lien (except for the Liens created pursuant to the Security Documents) upon any Property of any Credit Party pursuant to the terms of any such Contractual Obligation, except with respect to each of the foregoing which would not result in a Material Adverse Effect.

(b) No Default or Event of Default has occurred and is continuing.

SECTION 8.05. Action. Each Company has all necessary corporate power, authority and legal right to execute, deliver and perform its obligations under each Credit Document and Transaction Document to which it is a party and to consummate the transactions herein and therein contemplated; the execution, delivery and performance by each Company of each Credit Document and Transaction Document to which it is a party and the consummation of the transactions herein and therein

contemplated have been duly authorized by all necessary corporate, partnership, etc. action on its part; and this Agreement has been duly and validly executed and delivered by each Credit Party and constitutes, and each of the Notes and the other Credit Documents and Transaction Documents to which it is a party when executed and delivered by such Credit Party (in the case of the Notes, for value) will constitute, its legal, valid and binding obligation, enforceable against each Credit Party in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws of general applicability from time to time in effect affecting the enforcement of creditors' rights and remedies and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law).

SECTION 8.06. Approvals. No authorizations, approvals or consents of, and no filings or registrations with, any Governmental Authority or any securities exchange are necessary for the execution, delivery or performance by any Company of the Credit Documents and the Transaction Documents to which it is a party or for the legality, validity or enforceability hereof or thereof or for the consummation of the transactions herein and therein contemplated, except for: (i) filings and recordings in respect of the Liens created pursuant to the Security Documents, (ii) the filing of the MGC Loan Report with the Mississippi Gaming Commission within 30 days after the Closing Date, (iii) the filings referred to in Section 8.15, (iv) waiver by the Gaming Authorities of any qualification requirement on the part of the Lenders who do not otherwise qualify or are not banks or licensed lending institutions, (v) prior approval of the Original Transactions and the New Transactions by the Gaming Authorities (in each case to the extent required), and (vi) consents, authorizations and filings that have been obtained or made and are in full force and effect or the failure of which to obtain would not have a Material Adverse Effect.

SECTION 8.07. ERISA and Foreign Employee Benefit Matters. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, would result in a Material Adverse Effect. As of the Closing Date, no member of the ERISA Group maintains or contributes to any Pension Plan. Each ERISA Entity is in compliance with the presently applicable provisions of ERISA and the Code with respect to each Employee Benefit Plan (other than to the extent such failure to comply would not have a Material Adverse Effect). Except as disclosed on *Schedule 8.07* to the Original Credit Agreement, using actuarial assumptions and computation methods consistent with Part 1 of Subtitle E of Title IV of ERISA, the aggregate liabilities of any ERISA Entity to all Multiemployer Plans in the event of a complete withdrawal therefrom, as of the close of the most recent fiscal year of each such Multiemployer Plan that precedes the Closing Date, would not result in a Material Adverse Effect.

Each Foreign Plan is in compliance in all material respects with all laws, regulations and rules applicable thereto and the respective requirements of the governing documents for such Plan (other than to the extent such failure to comply would not have a Material Adverse Effect). The aggregate of the liabilities to provide all of the accrued benefits under any funded Foreign Plan (based on reasonable assumptions used by such Plan) does not as of the most recent valuation report (or as of the end of the most recent plan year if there is no recent valuation report) exceed the current fair market value of the assets held in the trust or other funding vehicle for such Foreign Plan by an amount that would have a Material Adverse Effect. Other than to the extent such failure to comply would not have a Material Adverse Effect, with respect to any unfunded Foreign Plan, reasonable reserves have been established in accordance with prudent business practice or where required by ordinary accounting practices in the jurisdiction in which such Plan is maintained. There are no actions, suits or claims (other than routine claims for benefits) pending or, to Borrower's knowledge, threatened against Borrower or any of its Restricted Subsidiaries or any ERISA Entity with respect to any Foreign Plan that would result in a Material Adverse Effect.

SECTION 8.08. Taxes. Except as set forth on *Schedule 8.08* to the Original Credit Agreement or as would not have a Material Adverse Effect, (i) all tax returns, statements, reports and forms or other documents (including estimated Tax or information returns and including any required, related or supporting information) (collectively, the "**Tax Returns**") required to be filed with any taxing authority by, or with respect to, Borrower and each of its Restricted Subsidiaries have been timely filed in accordance with all applicable laws; (ii) Borrower and each of its Restricted Subsidiaries has timely paid or made provision for payment of all Taxes shown as due and payable on Tax Returns that have been so filed or that are otherwise due and payable (other than Taxes which are being contested in good faith and for which adequate reserves in accordance with GAAP are reflected on other financial statements subsequently delivered hereunder; *provided, however*, that any contest of any Taxes relating to Collateral shall also satisfy the Contested Collateral Lien Conditions) and each Tax Return is complete in all material respects; and (iii) Borrower and each of its Restricted Subsidiaries has made adequate provision in accordance with GAAP for all Taxes payable by Borrower or such Restricted Subsidiary for which no Tax Return has yet been filed. Neither Borrower nor any of its Restricted Subsidiaries has received written notice of any proposed or pending tax assessment, audit or deficiency against Borrower or such Restricted Subsidiary that would in the aggregate have a Material Adverse Effect.

No extension of a statute of limitations relating to material Taxes is in effect with respect to Borrower or any of its Restricted Subsidiaries, and there are no material Tax sharing agreements or similar arrangements (including Tax indemnity arrangements) with respect to or involving Borrower or any of its Restricted Subsidiaries other than between or among Borrower and the Restricted Subsidiaries.

All deficiencies which have been asserted against Borrower or any of its Restricted Subsidiaries as a result of any Tax examination for each taxable year in respect of which an examination has been conducted have been fully paid or finally settled or are being contested in good faith, and no issue has been raised in any such examination which, by application of similar principles, reasonably can be expected to result in assertion of a material deficiency for any other year not

so examined which has not been reserved for in the consolidated financial statements heretofore delivered to Administrative Agent to the extent, if any, required by GAAP.

SECTION 8.09. Investment Company Act; Public Utility Holding Company Act; Other Restrictions. Neither Borrower nor any of its Restricted Subsidiaries is an "investment company," or a company "controlled" by an "investment company," within the meaning of the United States Investment Company Act of 1940, as amended. Neither Borrower nor any of its Restricted Subsidiaries is a "holding company," or an "affiliate" of a "holding company" or a "subsidiary company" of a "holding company," within the meaning of the United States Public Utility Holding Company Act of 1935, as amended. Neither Borrower nor any of its Restricted Subsidiaries is subject to regulation under any law or regulation which limits its ability to incur Indebtedness, other than Regulation X of the Board of Governors of the Federal Gaming Reserve System and the Gaming Law.

SECTION 8.10. Environmental Matters. Except as set forth on *Schedule 8.10* to the Original Credit Agreement or as would not, individually or in the aggregate, result in a Material Adverse Effect: (i) each of Borrower and its Restricted Subsidiaries and each of their businesses, operations and Real Property is and in the last five years has been in material compliance with, and each has no liability under Environmental Law; (ii) each of Borrower and its Restricted Subsidiaries has obtained all Permits material to, and required for, the conduct of their businesses and operations, and the ownership, operation and use of their assets, all as currently conducted, under Environmental Law, all such Permits are valid and in good standing and, under the currently effective business plans of Borrower and its Restricted Subsidiaries, no material expenditures or operational adjustments could reasonably be expected to be required during the next five years in order to renew or modify such Permits; (iii) there has been no Release or threatened Release of Hazardous Material on, at, under or

from any real property or facility presently or formerly owned, leased, operated or, to the knowledge of Borrower and its Restricted Subsidiaries, used for waste disposal by Borrower or any of its Restricted Subsidiaries, or any of their respective predecessors in interest that could reasonably be expected to result in liability to Borrower or any of its Restricted Subsidiaries under Environmental Law; (iv) there is no Environmental Action pending or, to the knowledge of Borrower and its Restricted Subsidiaries, threatened, against Borrower or any of its Restricted Subsidiaries or, relating to real property currently or formerly owned, leased, operated or, to the knowledge of Borrower and its Restricted Subsidiaries, used for waste disposal, by Borrower or any of its Restricted Subsidiaries or relating to the operations of Borrower or its Restricted Subsidiaries; (v) none of Borrower or any of its Restricted Subsidiaries is obligated to perform any action or otherwise incur any expense under Environmental Law pursuant to any legally binding order, decree, judgment or agreement by which it is bound or has assumed by contract or agreement, and none of Borrower or any of its Restricted Subsidiaries is conducting or financing any Response Action pursuant to any Environmental Law with respect to any location; and (vi) no circumstances exist that could reasonably be expected to (a) form the basis of an Environmental Action against Borrower or any of its Restricted Subsidiaries, or any of their Real Property, facilities or assets or (b) cause any such Real Property, facilities or assets to be subject to any restriction on ownership, occupancy, use or transferability under any Environmental Law; (vii) no real property or facility presently or formerly owned, operated or leased by Borrower or any of its Restricted Subsidiaries and, to the knowledge of Borrower and its Restricted Subsidiaries, no real property or facility presently or formerly used for waste disposal by Borrower or any of its Restricted Subsidiaries or owned, leased, operated or used for waste disposal by any of their respective predecessors in interests is (a) listed or proposed for listing on the National Priorities List promulgated pursuant to CERCLA or (b) included on any similar list maintained by any Governmental Authority including, without limitation, any such list relating to petroleum; (viii) no real property or facility presently or formerly owned, or presently leased or operated by Borrower or any of its Restricted Subsidiaries and, to the knowledge of Borrower and its Restricted Subsidiaries, no real property or facility formerly leased or operated by Borrower or any of its Restricted Subsidiaries is listed on the Comprehensive Environmental Response, Compensation, and Liability Information System promulgated pursuant to CERCLA as potentially requiring future Response Action; (ix) no Lien has been recorded or, to the knowledge of Borrower and its Restricted Subsidiaries, threatened under any Environmental Law with respect to any Real Property or other assets of Borrower or any of its Restricted Subsidiaries; and (x) the execution, delivery and performance of this Agreement and the consummation of the transactions contemplated hereby will not affect the validity or require the transfer of any Permit held by Borrower or any of its Restricted Subsidiaries under Environmental Law, and will not require any notification, registration, filing, reporting, disclosure, investigation, remediation or cleanup pursuant to any Governmental Real Property Disclosure Requirements with respect to each of Borrower and its Restricted Subsidiaries or any of their respective predecessors in interest.

SECTION 8.11. Environmental Investigations. As of the Closing Date, all material environmental audits or assessments in the possession, or custody of or prepared for or on behalf of Borrower or any of its Restricted Subsidiaries prior to the Closing Date relating (i) to the current or prior business or operations of Borrower or any of its Restricted Subsidiaries or any of their respective predecessors in interest or (ii) to any Property or real property now or previously owned, operated, leased or used for waste disposal by Borrower or any of its Restricted Subsidiaries or any of their respective predecessors in interest, have been made available to the Creditors.

SECTION 8.12. Use of Proceeds. (a) Borrower will use the proceeds of (i) Revolving Loans for general corporate purposes and (ii) Incremental Loans to fund the buildout of slot machine or video lottery operations and/or related racing operations (including the costs to acquire related licenses) at Borrower's facilities in the State of Pennsylvania upon receipt by Borrower of the requisite gaming licenses from the State of Pennsylvania to operate such slot machine operations.

(b) No Company is engaged principally, or as one of its important activities, in the business of extending credit for the purpose, whether immediate, incidental or ultimate, of buying or carrying Margin Stock and no part of the proceeds of any extension of credit hereunder will be used directly or indirectly and whether immediately, incidentally or ultimately to purchase or carry any Margin Stock or to extend credit to others for such purpose or to refund Indebtedness originally incurred for such purpose. Following application of the proceeds of each extension of credit hereunder, not more than 25 percent of the value of the assets (either of Borrower individually or of Consolidated Companies) will be Margin Stock. If requested by any Creditor, Borrower will furnish to Administrative Agent and each Lender a statement to the foregoing effect in conformity with the requirements of FR Form U-1 referred to in Regulation U.

SECTION 8.13. Subsidiaries. (a) The Subsidiaries listed on *Schedule 8.13(a)* to the Original Credit Agreement constitute all the Subsidiaries of Borrower as of the Closing Date after giving effect to the Hollywood Acquisition. *Schedule 8.13(a)* to the Original Credit Agreement sets forth as of the Closing Date and after giving effect to the Hollywood Acquisition the name and jurisdiction of incorporation or organization of each Subsidiary and, as to each such Subsidiary, the percentage and number of each class of Equity Interests owned by Borrower and its Subsidiaries. As of the Closing Date, each of Onward Development, LLC, Tennessee Downs, Inc. and HWCC-Argentina, Inc. are Immaterial Subsidiaries.

(b) Except as set forth on *Schedule 8.13(b)* to the Original Credit Agreement, as of the Closing Date, there are no outstanding subscriptions, options, warrants, calls, rights or other agreements or commitments (other than stock options granted to employees or directors and directors' qualifying shares) of any nature relating to any Equity Interests of Borrower or any of its Subsidiaries. As of the Closing Date, none of Borrower or any of its Subsidiaries has issued, or authorized the issuance of, any Disqualified Capital Stock.

SECTION 8.14. Ownership of Property; Liens. (a) Borrower and each of its Restricted Subsidiaries has good and marketable title to, or a validly subsisting, marketable and insurable (with respect to Real Property) leasehold interest in, all material assets and Property (including Mortgaged Real Property) (tangible and intangible) owned by it (except insofar as marketability may be limited by any laws or regulations of any Governmental Authority affecting such assets), and all such assets and Property are free and clear of all Liens except Permitted Liens and, with respect to Mortgaged Real Property, Prior Liens (as defined in the applicable Mortgage). Except as may be disclosed to the Lenders and/or Collateral Agent prior to the date of the applicable Borrowing) substantially all of the assets and Property owned by, leased to or used by Borrower and each of its Restricted Subsidiaries in its respective businesses are in good operating condition and repair in all material respects, ordinary wear and tear excepted, are free and clear of any known material defects except such defects as do not substantially interfere with the continued use thereof in the conduct of normal operations, and are reasonably able to serve the function for which they are currently being used, except in each case where the failure of such asset to meet such requirements would not result in a Material Adverse Effect. Neither any Credit Document, nor any transaction contemplated under any such document, will affect any right, title or interest of Borrower or any of its Restricted Subsidiaries in or to any of such assets in a manner that would result in a Material Adverse Effect. Borrower and each of its Restricted Subsidiaries (or, with respect to any Real Property leased by any Credit Party as tenant, the fee owner of such Real Property) holds all material licenses, certificates of occupancy or operation and similar certificates and clearances of municipal and other authorities necessary to own, lease and operate its properties in the manner and for the purposes currently operated by such party, except as would not result in a Material Adverse Effect. Each Mortgaged Real Property is suitable for its intended purposes and is served by such utilities as are necessary for the operation thereof, except as would not result in a Material Adverse Effect. To the knowledge of Borrower, there are no actual, threatened or alleged defaults of a material nature with respect to any leases of Real Property under which Borrower or any of its Restricted Subsidiaries is lessor or lessee.

(b) *Schedule 8.14(b)* to the Original Credit Agreement sets for a true, complete and correct list of each of the Vessels owned, used or occupied by Borrower or a Restricted Subsidiary as of the Closing Date, including the owner of the Vessel, the name of the Vessel, the official number of the Vessel and the location where such Vessel is docked or stored. Borrower or a Restricted Subsidiary owns all right, title and interest in and to each of the Vessels free of all Liens, except for Liens permitted pursuant to the applicable Ship Mortgage. Borrower or the applicable Restricted Subsidiary is a U.S. citizen entitled to own and operate the applicable Vessel in the U.S. coastwise trade under the laws of the United States of America.

SECTION 8.15. Security Interest; Absence of Financing Statements; Etc. (a) The Security Documents create, in favor of Collateral Agent for the benefit of the Secured Parties, as security for the Obligations, a valid and enforceable, and upon filing or recording of the filings listed in *Schedule 7* of the Perfection Certificate with the appropriate Governmental Authorities (including payment of applicable filing and recording taxes) and delivery of the applicable documents to Collateral Agent in accordance with the provisions of the applicable Security Documents, for the benefit of the Secured Parties, a perfected security interest in and Lien upon all of the Collateral (and the proceeds thereof), superior to and prior to the rights of all third persons and subject to no other Liens except such Liens as are expressly permitted by the applicable Security Document. No filings or recordings are required in order to perfect the security interests created under any Security Document except for filings or recordings required in connection with any such Security Document which shall have been made prior to, contemporaneously with or promptly after the execution and delivery thereof (unless otherwise agreed to by Administrative Agent).

(b) The provisions of each Ship Mortgage are effective to create, and will create upon filing and/or recording of such Ship Mortgage with the appropriate Governmental Authorities (including payment of applicable filing and recording taxes), in favor of Collateral Agent for the ratable benefit of the Secured Parties a legal, valid and enforceable preferred mortgage over the whole of the applicable Vessel as collateral security for the payment and performance of the Loans and the other Obligations, and each Ship Mortgage, upon filing and recording in the National Vessel Documentation Center of the United States Coast Guard, creates on behalf of the Secured Parties a preferred mortgage upon the applicable Vessel under Chapter 313 of Title 46 of the United States Code, free of all Liens other than Liens permitted pursuant to the applicable Ship Mortgage.

(c) Except for Permitted Liens, and, with respect to Mortgaged Real Property, Prior Liens (as defined in the applicable Mortgage), there is no currently effective financing statement, security agreement, chattel mortgage, real estate mortgage or other document filed or recorded with any filing records, registry, or other public office, that purports to cover, affect or give notice of any Lien on, or security interest in, any Property of Borrower or any of its Restricted Subsidiaries or rights thereunder, other than Liens to secure the Obligations.

(d) After giving effect to this amendment and restatement of the Original Credit Agreement and any necessary amendments to certain of the Security Documents, the Lenders will have valid, first priority Liens granted pursuant to the Credit Documents, and such Liens will continue unimpaired with the same priority to secure repayment of all Obligations, whether heretofore or hereafter incurred, subject, in each case, to Permitted Liens.

SECTION 8.16. Licenses and Permits. Borrower and each of its Restricted Subsidiaries hold all material governmental permits, licenses, authorizations, consents and approvals necessary for Borrower and its Restricted Subsidiaries to own, lease, and operate their respective Properties and to operate their respective businesses as now being conducted (collectively, the "**Permits**"), except for Permits the failure of which to obtain would not have a Material Adverse Effect. None of the Permits has been modified in any way that would have a Material Adverse Effect. All Permits are in full force and effect except where the failure to be in full force and effect would not have a Material Adverse Effect. Neither Borrower nor any of its Restricted Subsidiaries has received written notice that any Gaming

Authority has commenced proceedings to suspend, revoke or not renew any such Permits where such suspensions, revocations or failure to renew would have a Material Adverse Effect. No Gaming Authority currently has any grounds under any Gaming Law to revoke any such Permits where such revocation would have a Material Adverse Effect.

SECTION 8.17. True and Complete Disclosure. The information, reports, financial statements, exhibits and schedules furnished in writing by or on behalf of any Credit Party to any Creditor in connection with the Original Credit Agreement, the other Credit Documents or included or delivered pursuant thereto, but in each case excluding all projections, whether prior to or after the date of the Original Credit Agreement, when taken as a whole, do not, as of the

date such information was furnished, contain any untrue statement of material fact or omit to state a material fact necessary in order to make the statements herein or therein, in light of the circumstances under which they were made, not materially misleading. The projections and pro forma financial information furnished at any time by any Credit Party to any Creditor pursuant to this Agreement have been prepared in good faith based on assumptions believed by Borrower to be reasonable at the time made, it being recognized by the Lenders that such financial information as it relates to future events is not to be viewed as fact and that actual results during the period or periods covered by such financial information may differ from the projected results set forth therein by a material amount and no Credit Party, however, makes any representation as to the ability of any Company to achieve the results set forth in any such projections. There is no fact known to Borrower or any of its Restricted Subsidiaries that would have a Material Adverse Effect that has not been expressly disclosed herein, in the other Credit Documents, in the Confidential Information Memorandum or in any other documents, certificates and written statements furnished to Lead Arrangers, the Agents and the Lenders for use in connection with the transactions contemplated hereby and by the other Credit Documents. Each Credit Party understands that all such statements, representations and warranties shall be deemed to have been relied upon by the Lenders as a material inducement to make each extension of credit hereunder.

SECTION 8.18. Contracts. Neither Borrower nor any of its Restricted Subsidiaries is in default under any material contract or agreement to which it is a party or by which it is bound, nor, to Borrower's knowledge, does any condition exist that, with notice or lapse of time or both, would constitute such a default, excluding in any case such defaults that would not have a Material Adverse Effect.

SECTION 8.19. Solvency. As of the Effective Date and each Funding Date immediately prior to and immediately following the consummation of the New Transactions and the extensions of credit to occur on such date Borrower (on a consolidated basis with its Restricted Subsidiaries) are and will be Solvent (after giving effect to Section 6.08).

SECTION 8.20. Labor Matters. There is (i) no unfair labor practice complaint pending against any Credit Party or, to the best knowledge of Borrower, threatened against any Credit Party, before the National Labor Relations Board or any other Governmental Authority, and no grievance or arbitration proceeding arising out of or under any collective bargaining agreement is so pending against any Credit Party or, to the best knowledge of Borrower after due inquiry, threatened against any Credit Party, (ii) no strike, labor dispute, slowdown or stoppage pending against any Credit Party or, to the best knowledge of Borrower, threatened against any Credit Party and (iii) to the best knowledge of Borrower, no union representation question existing with respect to the employees of any Credit Party and, to the best knowledge of Borrower, no union organizing activities are taking place, except such as would not, with respect to any matter specified in clause (i), (h) or (iii) above, individually or in the aggregate, have a Material Adverse Effect.

SECTION 8.21. Subordinated Debt. The Obligations are senior debt with respect to all Indebtedness of Borrower or any of its Restricted Subsidiaries that is contractually subordinated in right of payment to any other Indebtedness of Borrower or any such Restricted Subsidiary and entitled

to the full benefits of all subordination provisions therein and such subordination provisions are in full force and effect.

SECTION 8.22. Intellectual Property. Borrower and each of its Restricted Subsidiaries owns or possesses adequate licenses or otherwise has the right to use all of the patents, patent applications, trademarks, trademark applications, service marks, service mark applications, trade names, copyrights, trade secrets, know-how and processes (collectively, "**Intellectual Property**") that are necessary for the operation of its business as presently conducted except where failure to own or have such right would not have a Material Adverse Effect. As of the Closing Date, no claim is pending or, to the knowledge of Borrower, threatened to the effect that Borrower or any of its Restricted Subsidiaries infringes or conflicts with the asserted rights of any other person under any material Intellectual Property and, as of the Closing Date, to the best knowledge of Borrower, there is no reasonable basis for any such claim (whether or not pending or threatened) except for such claims that would not in the aggregate have a Material Adverse Effect. As of the Closing Date, no claim is pending or, to the knowledge of Borrower, threatened to the effect that any such material Intellectual Property owned or licensed by Borrower or any of its Restricted Subsidiaries or which Borrower or any of its Restricted Subsidiaries otherwise has the right to use is invalid or unenforceable except for such claims that would not in the aggregate have a Material Adverse Effect.

As of the Closing Date, each Credit Party owns or has the right to use all Intellectual Property listed in *Schedules 11(a), 11(b)* and *11(c)* to the Perfection Certificate and the consummation of the transactions contemplated hereby will not alter or impair any such rights. All Intellectual Property owned by Borrower or any of its Restricted Subsidiaries is free and clear of all Liens except Permitted Liens.

SECTION 8.23. Existing Indebtedness. *Schedule 8.23(a)* to the Original Credit Agreement sets forth a true and complete list of all Indebtedness of Borrower and its Restricted Subsidiaries as of the Closing Date (after giving effect to the Original Transactions).

SECTION 8.24. Regulation H. Except for (i) Real Estate located in Biloxi, Mississippi and demised pursuant to the Tidelands Lease, doing business as Boomtown Casino, as amended, (ii) Real Property located in Bay St. Louis, Mississippi and described as the B, FI, FII, FIV, FV BSL and Lang Parcels in the title policy delivered to the Lenders pursuant to Section 7.01(xi) of the Original Credit Agreement, (iii) Real Property located in Baton Rouge, Louisiana and doing business as Casino Rouge, and (iv) Real Property located in Tunica, Mississippi and doing business as Tunica Casino, as of the Closing Date, no Mortgage encumbers improved real property which is located in an area that has been identified by the Secretary of Housing and Urban Development as an area having special flood hazards and in which flood insurance has been made available under the National Flood Insurance Act of 1968.

SECTION 8.25. Insurance. Borrower and each of its Restricted Subsidiaries is insured by insurers of recognized financial responsibility against such losses and risks and in such amounts as are prudent and customary in the businesses in which it is engaged; and, as of the Closing Date, none of Borrower or any of its Restricted Subsidiaries (i) has received notice from any insurer or agent of such insurer that substantial capital improvements or other material expenditures will have to be made in order to continue such insurance or (ii) has any reason to believe that it will not be able to renew its existing insurance coverage as and when such coverage expires or to obtain similar coverage from similar insurers at a cost that would not have a Material Adverse Effect.

SECTION 8.26. Real Estate. (a) *Schedule 8.26(a)* to the Original Credit Agreement sets forth a true, complete and correct list of all Real Property used or occupied by Borrower or any of its Restricted Subsidiaries as of the Closing Date, including a brief description thereof, including, in the case of leases, the street address (to the extent available) and landlord name. Borrower has delivered to Collateral Agent true, complete and correct copies of all such leases.

(b) Each parcel of Real Property and the current use thereof complies with all applicable Requirements of Law (including building and zoning ordinances and codes) and Borrower is not a non-conforming user of such Real Property, and any such Real Property that constitutes Mortgaged Real Property complies with all Insurance Requirements, except, in each such case, where noncompliance would not have a Material Adverse Effect.

(c) Except as set forth on Schedule 8.26(c) to the Original Credit Agreement, as of the Closing Date, to the best of Borrower's knowledge no Taking has been commenced or is contemplated with respect to all or any portion of the applicable Real Property or for the relocation of roadways providing access to such Real Property.

(d) Except as set forth on *Schedule 8.29(d)* to the Original Credit Agreement, as of the Closing Date, there are no current or, to the best knowledge of Borrower, pending or proposed special or other material assessments for public improvements, or otherwise affecting any Real Property in a material amount, nor are there any contemplated improvements to such Real Property (other than the construction work currently being conducted on the Charles Town Facility and the Bullwhackers Casino and construction work recently completed on the Aurora Casino), to the knowledge of Borrower, that may result in such special or other material assessments.

(e) As of the Closing Date, none of Borrower or any of its Restricted Subsidiaries has knowingly suffered, permitted or initiated the joint assessment of any parcel of Real Property with any other real property constituting a separate tax lot.

(f) Borrower and each of its Restricted Subsidiaries (or, with respect to Real Property leased by any Credit Party as tenant, the fee owner of such Real Property) has obtained all construction, building, occupancy and use permits, licenses, variances and certificates required by Requirements of Law to be obtained by such person and necessary to the use and operation of each parcel of Real Property, except as would not result in a Material Adverse Effect. The use being made of each parcel of Real Property is in conformity with the certificate of occupancy and/or such other permits, licenses, variances and certificates for such parcel of Real Property and any other restrictions, covenants or conditions affecting such parcel of Real Property, except where such nonconformity would not foreseeably materially impair or prohibit the use of any Real Property as now conducted.

(g) Except as set forth on *Schedule 8.26(g)* to the Original Credit Agreement, as of the Closing Date, each parcel of Real Property is free from structural defects and all building systems contained therein are in good working order and condition, ordinary wear and tear excepted, suitable for the purposes for which they are currently being used, except as would not result in a Material Adverse Effect.

(h) Except as set forth on *Schedule 8.26(h)(i)* to the Original Credit Agreement, as of the Closing Date, no person has any possessory interest in any Real Property or right to occupy any Real Property except Borrower or its Restricted Subsidiaries (other than the landlord with respect to any leased Real Property). Except as set forth on *Schedule 8.26(h)(ii)* to the Original Credit Agreement, as of the Closing Date, there are no outstanding options to purchase or rights of first refusal for the purchase of any Real Property affecting any Real Property that is owned by Borrower or a Restricted Subsidiary, except in favor of Borrower or a Restricted Subsidiary. Except as set forth on *Schedule 8.26(h)(iii)* to the Original Credit Agreement, and except for standard transfer restrictions contained in any Lease relating to such Real Property as of the Closing Date there are no outstanding restrictions on transferability affecting any Real Property.

(i) Except as set forth on *Schedule 8.26(i)* to the Original Credit Agreement, as of the Closing Date, each parcel of Real Property has adequate rights of access to public ways to permit the Real Property to be used for its current use and is served by installed, operating and adequate water, electric, gas, telephone, sewer, sanitary sewer and storm drain facilities. All public utilities

necessary to the continued use and enjoyment of each parcel of Real Property as used and enjoyed on the Closing Date are located in the public right-of-way abutting the premises or are furnished through recorded easements, and all such utilities are connected so as to serve such Real Property without passing over other property except for land of the utility company providing such utility service and except where permitted by easement. All roads necessary for the full utilization of each parcel of Real Property for its current purpose have been completed and dedicated to public use and accepted by all Governmental Authorities or are the subject of access easements for the benefit of such Real Property. Except for public streets and sidewalks and minor intrusions and/or encroachments shown on the Surveys, none of Borrower or any of its Restricted Subsidiaries uses or occupies any real property other than such Real Property in connection with the use and operation of any Real Property.

(j) Except as set forth on *Schedule 8.26(j)* to the Original Credit Agreement, as of the Closing Date, no building or structure constituting a parcel of Real Property or any appurtenance thereto or equipment thereon, or the use, operation or maintenance thereof, violates in a material respect any restrictive covenant of record applicable to such Real Property or intrudes and/or encroaches on any easement or on any property owned by others, which violation, intrusion or encroachment interferes with the use or would materially adversely affect the value of such building, structure or appurtenance or which encroachment or intrusion is necessary for the operation of the business at any parcel of Real Property. All buildings, structures, appurtenances and equipment necessary for the use of each parcel of Real Property for the purpose for which it is currently being used as of the Closing Date are located on the real property encumbered by such Mortgage.

(k) As of the Closing Date, each parcel of Real Property has reasonably adequate available parking to meet operating requirements and (with respect to Real Property located in the State of Pennsylvania) legal requirements.

(l) As of the Closing Date, no portion of the Real Property has suffered any material damage by fire or other casualty loss that has not heretofore been repaired and restored to its original condition.

(m) The Mortgaged Real Property includes every parcel of Real Property owned by Borrower or any of its Restricted Subsidiaries (other than (i) the premises leased pursuant to the Lease Agreement dated October 25, 1991 between Jerry Brown and Harold Gene Reagin, as lessor, and Penn Bullwhackers, Inc. successor in interest to HP Inc., successor in interest to HP Black Hawk, L.P., as lessee (the "**Option Parcel**") of the Bullwhackers Casino, which shall be delivered on a post-closing basis) and (ii) the landfill owned by Mill Creek Land, Inc. and located in Plains Township, Pennsylvania) having a fair market value in excess of $5.0 million, as well as every material interest in Real Property consisting of a lease that expressly permits the tenant to mortgage its lease and that expressly permits the tenant to mortgage its leasehold estate.

SECTION 8.27. Leases. (a) Both before and after giving effect to the Hollywood Acquisition, each of Borrower and its Restricted Subsidiaries has paid all material payments required to be made by it under leases of Real Property where any of the Collateral is or may be located from time to time including,

without limitation, the Ground Leases (other than any amount the validity of which is currently being contested in good faith by appropriate proceedings and with respect to which reserves in conformity with GAAP have been provided on the books of Borrower or such Restricted Subsidiary, as the case may be, and any amounts that are due but not yet delinquent); no landlord Lien has been filed as of the Closing Date, and, to the knowledge of Borrower, as of the Closing Date, no claim is being or threatened to be asserted, with respect to any such payments.

(b) As of the Closing Date, each of the material leases of Real Property listed on *Schedule 8.27(a)* to the Original Credit Agreement is in full force and effect and is legal, valid, binding and enforceable in accordance with its terms, except as such enforceability may be limited by (a) bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or similar laws of general applicability from time to time in effect affecting the enforcement of creditors' rights and remedies and (b) the application of general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law). As of the Closing Date, no such lease has been amended, modified or assigned in any materially adverse manner except as set forth on *Schedule 8.27(a)* to the Original Credit Agreement. Except as set forth on *Schedule 8.27(b)* to the Original Credit Agreement, to the best of Borrower's knowledge, there is not, as of the Closing Date, under any such lease any existing breach, default, event of default or event that, with or without notice or lapse of time or both, would constitute a breach, default or an event of default by Borrower or any other party to such lease.

(c) As of the Closing Date, with respect to each Ground Lease: (i) the applicable Estoppel substantially in the form attached here as *Exhibit Q* (x) has been obtained from the ground lessor and such Estoppel does not reveal any breach or default by any party thereto or any facts which would constitute a Material Adverse Effect, or (y) are listed on *Schedule 8.27(c)* to the Original Credit Agreement, which Estoppels have been obtained in accordance with the provisions of Section 9.13 of the Original Credit Agreement; and (ii) all necessary third party lease consents to the consummation of the Original Transactions contemplated by the Acquisition Agreement have been obtained.

(d) Except for the Ground Leases and the leases and other occupancy agreements set forth on *Schedule 8.26(h)(i)* to the Original Credit Agreement and *Schedule 8.27(a)* to the Original Credit Agreement, as of the Closing Date, none of the Mortgaged Real Property is subject to any lease, sublease, license or other agreement granting to any person any right to the use, occupancy or enjoyment of the Mortgaged Real Property or any portion thereof.

(e) As of the Closing Date, the interest of the tenant under the Ground Leases is vested in the applicable Credit Party as set forth on *Schedule 8.26(a)* to the Original Credit Agreement. If at any time after the Closing Date, Borrower or any Restricted Subsidiary obtains knowledge of a fee mortgage encumbering the fee interest underlying any other Ground Lease, Borrower will, and will cause each Restricted Subsidiary to, use its commercially reasonable efforts to obtain a duly executed and delivered Lender SNDA (as defined in the Original Credit Agreement) by the fee mortgagee.

SECTION 8.28. New Jersey Joint Venture. (a) The ownership structure of the New Jersey Joint Venture as of the Closing Date is as set forth on *Schedule 8.28(a)* to the Original Credit Agreement.

(b) There have been no amendments or other modifications of the Debt Service Maintenance Agreement as of the Closing Date. As of the Closing Date, the Credit Parties have made aggregate payments under the Debt Service Maintenance Agreement totaling $0 and the Credit Parties' total Debt Service Maintenance Obligations under and as defined in the Debt Service Maintenance Agreement equal to approximately $9,600,000.

SECTION 8.29. Mortgaged Real Property. Except as set forth on *Schedule 8.29* to the Original Credit Agreement, with respect to each Mortgaged Real Property, (a) there has been issued a valid and proper certificate of occupancy or other local equivalent, if any, for the use then being made of such Mortgaged Real Property and that there is no outstanding citation, notice of violation or similar notice indicating that the Mortgaged Real Property contains conditions which are not in compliance with local codes or ordinances relating to building or fire safety or structural soundness, (b) except as set forth on *Schedule 8.26(c)* to the Original Credit Agreement, as of the Closing Date, there has not occurred any

"Taking or Destruction" (as such terms are defined in the applicable Mortgage) of any Mortgaged Real Property and (c) except as set forth on *Schedule 8.26(j)* to the Original Credit Agreement, as of the Closing Date, there are no material disputes regarding boundary lines, location, encroachment or possession of such Mortgaged Real Property and Borrower has no knowledge of any state of facts existing which could give rise to any such claim; *provided, however,* that with respect to any Mortgaged Real Property in which Borrower or a Restricted Subsidiary has a leasehold estate, the foregoing certificates shall be to Borrower's knowledge only.

ARTICLE IX

AFFIRMATIVE COVENANTS

Each Credit Party, for itself and on behalf of its Restricted Subsidiaries, covenants and agrees with the Creditors that, so long as any Commitment, Loan or L/C Liability is outstanding and until payment in full of all amounts payable by Borrower hereunder (and each Credit Party covenants and agrees that it will cause its Restricted Subsidiaries to observe and perform the covenants herein set forth applicable to any such Restricted Subsidiary):

SECTION 9.01. Existence; Business Properties. (a) Borrower and each of its Restricted Subsidiaries shall do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence, except as otherwise expressly permitted under Section 10.05 or, in the case of any Restricted Subsidiary, where the failure to perform such obligations, individually or in the aggregate, would not result in a Material Adverse Effect.

(b) Borrower shall cause each of its Restricted Subsidiaries to (i) maintain financial statements, accounting records and other corporate records and other documents separate from its Unrestricted Subsidiaries, (ii) maintain its own bank accounts in its own name, separate from its Unrestricted Subsidiaries and (iii) not pay or become liable for the Indebtedness of its Unrestricted Subsidiaries.

(c) Borrower and each of its Restricted Subsidiaries shall do or cause to be done all things necessary to obtain, preserve, renew, extend and keep in full force and effect the rights, licenses, permits, franchises, authorizations, patents, copyrights, trademarks and trade names material to the conduct of its business except

where the failure to do so, individually or in the aggregate, would not result in a Material Adverse Effect; maintain and operate such business in substantially the manner in which it is presently conducted and operated except where the failure to do so, individually or in the aggregate, would not result in a Material Adverse Effect; comply with all applicable Requirements of Law (including any and all Gaming Laws and any and all zoning, building, ordinance, code or approval or any building permits or any restrictions of record or agreements affecting the Real Property) and decrees and orders of any Governmental Authority, whether now in effect or hereafter enacted, except where the failure to comply, individually or in the aggregate, would not result in a Material Adverse Effect; pay and perform its obligations under all material Leases, except where the failure to comply would not result in a Material Adverse Effect; and at all times maintain and preserve all property material to the conduct of such business and keep such property in good repair, working order and condition (ordinary wear and tear excepted) and from time to time make, or cause to be made, all needful repairs, renewals, additions, improvements and replacements (including those necessary as a result of a Casualty Event) thereto necessary in order that the business carried on in connection therewith may be properly conducted at all times; *provided, however,* that nothing in this Section 9.01(c) shall prevent (i) sales of assets, consolidations or mergers by or involving any Company in accordance with Section 10.05; (ii) the withdrawal by any Company of its qualification as a foreign corporation in any jurisdiction where such withdrawal, individually or in the aggregate, would not result in a Material Adverse Effect; or (iii) the abandonment by any Company of any rights, permits, authorizations, copyrights, trademarks, trade names, franchises, licenses and patents that such Company reasonably determines are not useful to its business.

(d) Borrower and each of its Restricted Subsidiaries shall keep itself fully licensed with all licenses required to operate such person's business under applicable law, maintain such person's qualification to participate in the gaming industry in the manner in existence on the Closing Date, except to the extent that the loss or relinquishment of such qualification, individually or in the aggregate, would not result in a Material Adverse Effect. Borrower will promptly furnish or cause to be furnished to Collateral Agent copies of all reports and correspondence it or any Restricted Subsidiary sends or receives relating to any loss or revocation (or threatened loss or revocation) of any qualification described in this paragraph.

SECTION 9.02. Insurance. (a) Borrower and each of its Restricted Subsidiaries shall maintain with financially sound and reputable insurance companies insurance on all its Property (including, without limitation, all inventory, equipment and vehicles) in at least such amounts and against at least such risks as are usually insured against in the same general area by companies engaged in the same or a similar business; and furnish to Administrative Agent with copies for each Secured Party, upon written request, full information as to the insurance carried; *provided* that in any event Borrower and each of its Restricted Subsidiaries will maintain to the extent available on commercially reasonable terms and subject to policy limitations and deductibles (i) property and casualty insurance on all Property on an all risks basis (including the perils of flood and quake, loss by fire, explosion and theft and such other risks and hazards as are covered by a standard extended coverage insurance policy), covering the repair or replacement cost of all such Property and consequential loss coverage for business interruption and extra expense (which shall include construction expenses and such other business interruption expenses as are otherwise generally available to similar businesses), (ii) public liability insurance, and (iii) building law and ordinance coverage in such amount as to address to the satisfaction of Administrative Agent any increased cost of construction, debris removal and/or demolition expenses incurred as a result of the application of any building law and/or ordinance. All such insurance with respect to Borrower and each of its Restricted Subsidiaries shall be provided by insurers or reinsurers which (x) in the case of United States insurers and reinsurers, have an A.M. Best policyholders rating of not less than A- with respect to primary insurance and B+ with respect to excess insurance and (y) in the case of non-United States insurers or reinsurers, the providers of at least 80% of such insurance have either an ISI policyholders rating of not less than A, an A.M. Best policyholders rating of not less than A- or a surplus of not less than $500,000,000 with respect to primary insurance, and an ISI policyholders rating of not less than BBB with respect to excess insurance, or, if the relevant insurance is not available from such insurers, such other insurers as Administrative Agent may approve in writing. All insurance shall (i) provide that no cancellation thereof shall be effective until at least 30 days after receipt by Administrative Agent of written notice thereof, (ii) if reasonably requested by Administrative Agent, include a breach of warranty clause, (iii) contain a "Replacement Cost Endorsement" with a waiver of depreciation and a waiver of subrogation against any Secured Party, (iv) contain a standard noncontributory mortgagee clause naming Administrative Agent (and/or such other party as may be designated by Administrative Agent) as the party to which all payments made by such insurance company shall be paid, and (v) be reasonably satisfactory in all other respects to Administrative Agent. Collateral Agent shall be named as an additional insured on all liability insurance policies of Borrower and each of its Restricted Subsidiaries and Collateral Agent shall be named as loss payee on all property insurance policies of each such person.

(b) Borrower and each of its Restricted Subsidiaries shall deliver to Administrative Agent on behalf of the Secured Parties, (i) on the Closing Date, a certificate dated such date showing the amount and types of insurance coverage as of such date, (ii) promptly following receipt of notice from any insurer, a copy of any notice of cancellation or material change in coverage from that existing on the Closing Date, (iii) forthwith, notice of any cancellation or nonrenewal of coverage by Borrower or any of its Restricted Subsidiaries, and (iv) promptly after such information is available to Borrower or any of its Restricted Subsidiaries, full information as to any claim for an amount in excess of $500,000

with respect to any property and casualty insurance policy maintained by Borrower or any of its Restricted Subsidiaries.

(c) In the event that the proceeds of any insurance claim are paid after Collateral Agent has exercised its right to foreclose after an Event of Default such proceeds shall be paid to Collateral Agent to satisfy any deficiency remaining after such foreclosure. Collateral Agent shall retain its interest in the policies required to be maintained pursuant to this Section 9.02 during any redemption period.

SECTION 9.03. Taxes. Borrower and each of its Restricted Subsidiaries shall timely file all Tax Returns required to be filed by it (which Tax Returns shall be accurate in all material respects) and pay and discharge promptly when due all taxes, assessments and governmental charges or levies imposed upon it or upon its income or profits or in respect of its property, before the same shall become delinquent or in default, as well as all lawful claims for labor, materials and supplies or otherwise that, if unpaid, might give rise to a Lien other than a Permitted Lien upon such properties or any part thereof; *provided, however,* that such payment and discharge shall not be required with respect to any such tax, assessment, charge, levy or claim so long as the validity or amount thereof shall be contested in good faith by appropriate proceedings and Borrower and each of its Restricted Subsidiaries shall have set aside on its books adequate reserves with respect thereto in accordance with GAAP and such contest operates to suspend collection of the contested obligation, tax, assessment or charge and enforcement of a Lien and, in the case of Collateral, Borrower and each of its Restricted Subsidiaries shall have otherwise complied with the provisions of the applicable Security Document in connection with such nonpayment.

SECTION 9.04. Financial Statements, Etc. Borrower shall deliver to Administrative Agent and each of the Lenders (and in the case of clause (f) only, the West Virginia Lottery Commission and the West Virginia Racing Commission):

(a) **Quarterly Financials.** As soon as available and in any event within 50 days after the end of each of the first three quarterly fiscal periods of each fiscal year beginning with the fiscal quarter ending March 31, 2003, consolidated statements of operations, cash flows and stockholders' equity of Consolidated Companies for such period and for the period from the beginning of the respective fiscal year to the end of such period, and the related consolidated balance sheet of Consolidated Companies as at the end of such period, setting forth in each case in comparative form (i) the corresponding consolidated statements of operations, cash flows and stockholders' equity for the corresponding period in the preceding fiscal year to the extent such financial statements are available and (ii) the corresponding budget or plan for such period, accompanied by a certificate of a Responsible Officer of Borrower, which certificate shall state that said consolidated financial statements fairly present in all material respects the consolidated financial condition, results of operations and cash flows of Consolidated Companies in accordance with GAAP, consistently applied, as at the end of, and for, such period (subject to normal year-end audit adjustments and except for the absence of footnotes);

(b) **Annual Financials.** As soon as available and in any event within 95 days after the end of each fiscal year beginning with the fiscal year ending December 31, 2002, consolidated and consolidating statements of operations, cash flows and stockholders' equity of Consolidated Companies for such year and the related consolidated and consolidating balance sheet of Consolidated Companies as at the end of such year, setting forth in each case in comparative form (i) the corresponding consolidated and consolidating information as of the end of and for the preceding fiscal year to the extent such financial statements are available and (ii) the corresponding budget or plan for such period, and, in the case of such consolidated financial statements, accompanied by an opinion, without a going concern or similar qualification or exception as to scope or other material qualification or exception, thereon of BDO Seidman LLP

or other independent certified public accountants of recognized national standing reasonably acceptable to Lead Arrangers, which opinion shall state that said consolidated financial statements fairly present in all material respects the consolidated financial condition, results of operations and cash flows of Consolidated Companies as at the end of, and for, such fiscal year in conformity with GAAP, consistently applied; Borrower shall supply such additional information and detail as to any item or items contained on any such statement that Lenders may reasonably require; all such information will be prepared in conformity with GAAP consistently applied;

(c) **Auditor's Certificate; Compliance Certificate.** (i) Concurrently with the delivery of the financial statements referred to in Section 9.04(b), a certificate (which certificate may be limited or eliminated to the extent required by accounting rules or guidelines) of the independent certified public accountants reporting on such financial statements stating that in making the examination necessary therefor no knowledge was obtained of any Event of Default relating to the Financial Maintenance Covenants, except as specified in such certificate; and

(ii) at the time it furnishes each set of financial statements pursuant to paragraph (a) or (b) above, (1) a certificate of a Responsible Officer of Borrower (I) to the effect that no Default has occurred and is continuing (or, if any Default has occurred and is continuing, describing the same in reasonable detail and describing the action that the Companies have taken and proposes to take with respect thereto) and (II) setting forth in reasonable detail the computations necessary to determine whether Borrower and its Restricted Subsidiaries are in compliance with Section 10.08 as of the end of the respective quarterly fiscal period or fiscal year, and (2) to the extent not previously disclosed to Administrative Agent, a listing of any state within the United States where any Credit Party keeps inventory or equipment and of any material licenses arising under the laws of the United States (or any jurisdiction therein) acquired by any Credit Party since the date of the most recent list delivered pursuant to this clause (2) (or, in the case of the first such list so delivered, since the Closing Date);

(d) **Other Financial Information.** Promptly upon filing, copies of all financial statements, proxy statements and reports which Borrower may make to or file with the SEC or any successor or analogous Governmental Authority;

(e) **Interest Rate Certificates.** From and after the Effective Date, together with the financial statements delivered pursuant to clause (a) or (b) of this Section 9.04, an Interest Rate Certificate;

(f) **Notice of Default.** Promptly after any Company knows that any Default has occurred, a notice of such Default, breach or violation describing the same in reasonable detail and a description of the action that the Companies have taken and propose to take with respect thereto;

(g) **Environmental Matters.** Written notice of any Environmental Claim and any notice from any person of (i) the occurrence of any Release of any Hazardous Material that is reportable by Borrower or any of its Restricted Subsidiaries under any Environmental Law which could reasonably be expected to materially affect Borrower or any of its Restricted Subsidiaries, any Mortgaged Real Property or the operations of Borrower or any of its Restricted Subsidiaries, (ii) the commencement of or the obligation to commence any remediation pursuant to or in accordance with any Environmental Law of any Hazardous Material at, on, under or within the Mortgaged Real Property or any part thereof which could reasonably be expected to materially affect Borrower or any of its Restricted Subsidiaries, any Mortgaged Real Property or the operations of Borrower or any of its Restricted Subsidiaries, (iii) any matters relating to Hazardous Materials or Environmental Laws that may materially impair, or threaten to materially impair, Lenders' security interest in the Mortgaged Real Property or any Credit Party's ability to perform any of its obligations under this Agreement when such performance is due or (iv) any other

condition, circumstance, occurrence or event arising under Environmental Law which would have, individually or in the aggregate, a Material Adverse Effect;

(h) **Annual Budgets.** Beginning with the fiscal year of Borrower commencing on January 1, 2003, as soon as practicable and in any event within 10 days after the approval thereof by the Board of Directors of Borrower (but not later than 90 days after the beginning of each fiscal year of Borrower), a consolidated plan and financial forecast for such fiscal year, including a forecasted consolidated balance sheet and forecasted consolidated statements of income and cash flows of Consolidated Companies for such fiscal year and for each quarter of such fiscal year, together with an Officer's Certificate containing an explanation of the assumptions on which such forecasts are based and stating that such plan and projections have been prepared using assumptions believed in good faith by management of Borrower to be reasonable at the time made;

(i) **Auditors' Reports.** Promptly upon receipt thereof, copies of all annual, interim or special reports issued to any Company by independent certified public accountants in connection with each annual, interim or special audit of such Company's books made by such accountants, including any management letter commenting on any Company's internal controls issued by such accountants to management in connection with their annual audit;

(j) **Lien Matters; Casualty and Damage to Collateral.** (A) Prompt written notice of (i) the incurrence of any Lien (other than a Permitted Lien) on, or claim asserted against any of the Collateral other than any Lien permitted to be incurred thereon pursuant to the applicable Security Documents, (ii) any Casualty Event or other insured damage to any material portion of the Collateral or the commencement of any Proceeding likely to result in a Casualty Event or (iii) the occurrence of any other event that in Borrower's judgment is reasonably likely to materially adversely affect the aggregate value of the Collateral;

(B) Furnish to Collateral Agent prompt written notice of any change (i) in any Credit Party's corporate name or in any trade name used to identify it in the conduct of its business or in the ownership of its properties, (ii) in the location of any Credit Party's chief executive office or its principal place of business, (iii) in any Credit Party's identity or corporate structure, (iv) in any Credit Party's organizational identification number or (v) in any Credit Party's jurisdiction of organization. Borrower agrees not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the UCC or otherwise that are required in order for Collateral Agent to continue at all times following such change to have a valid, legal security interest in all the Collateral. Borrower also agrees promptly to notify Collateral Agent if any material portion of the Collateral is subject to a Casualty Event; and

(C) Each year, at the time of delivery of annual financial statements with respect to the preceding fiscal year pursuant to Section 9.01(b) hereof, deliver to Administrative Agent a certificate of a financial officer of Borrower (i) setting forth the information required pursuant to *Schedules 1, 2, 3, 4, 5, 8, 9, 10, 11(a), 11(b), 12, 13* and *14* of the Perfection Certificate or confirming that there has been no change in such information since the date of the Perfection Certificate delivered on the Closing Date or the date of the most recent certificate delivered pursuant to this Section 9.04(j) and (ii) certifying that all UCC financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations, including all refilings, rerecordings and re-registrations, containing a description of the Collateral have been filed of record in each governmental, municipal or other appropriate office in each jurisdiction identified pursuant to clause (i) above to the extent necessary to protect and perfect the security interests and Liens under the Security Documents for a period of not less than 18 months after the date of such certificate (except as noted therein with respect to any continuation statements to be filed within such period);

(k) **Notice of Material Adverse Effect.** Written notice of the occurrence of any Material Adverse Effect or any event or condition that could result in any Material Adverse Effect;

(l) **Governmental Filings and Notices.** Promptly upon request by Administrative Agent, copies of any other material reports or documents that were filed by Borrower or any of its Restricted Subsidiaries with any Governmental Authority and copies of any and all material notices and other material communications from any Governmental Authority with respect to Borrower or any of its Restricted Subsidiaries;

(m) **ERISA Information.** Promptly upon the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, would reasonably be expected to result in liability to Borrower and its Restricted Subsidiaries in an aggregate amount exceeding $ 1.0 million, a written notice specifying the nature thereof, what action the Companies or other ERISA Entity have taken, are taking or propose to take with respect thereto, and, when known, any action taken or threatened by the Internal Revenue Service, Department of Labor, PBGC or Multiemployer Plan sponsor with respect thereto;

(n) **ERISA Filings, Etc.** Upon request by Administrative Agent, copies of: (i) each Schedule B (Actuarial Information) to the annual report (Form 5500 Series) filed by any Company or ERISA Entity with the Internal Revenue Service with respect to each Pension Plan; (ii) the most recent actuarial valuation report for each Pension Plan; (iii) all notices received by Borrower or any of its Restricted Subsidiaries or ERISA Entity from a Multiemployer Plan sponsor or any governmental agency concerning an ERISA Event; and (iv) such other documents or governmental reports or filings relating to any Employee Benefit Plan as Administrative Agent shall reasonably request; and

(o) **Miscellaneous.** Promptly, such financial and other information with respect to Borrower or any of its Restricted Subsidiaries, as any Creditor may from time to time reasonably request.

SECTION 9.05. Litigation, Etc. Borrower shall promptly give to Administrative Agent and each Lender notice of the institution of all Proceedings, and (except to the extent that any such notice would, in the reasonable opinion of Borrower, waive attorney client privilege) periodic updates (on at least a quarterly basis) as to any material development thereof, affecting Borrower or any of its Subsidiaries, except, in each case, Proceedings that would not have a Material Adverse Effect.

SECTION 9.06. Maintaining Records; Access to Properties and Inspections. Borrower and its Restricted Subsidiaries shall keep proper books of record and account in which full, true and correct entries in material conformity with GAAP and all material Requirements of Law are made of all dealings and transactions in relation to its business and activities. Borrower and its Restricted Subsidiaries will, subject to applicable Gaming Laws, permit any representatives designated by Administrative Agent or any Lender to visit and inspect the financial records and the property of Borrower or such Restricted Subsidiary at reasonable times, upon reasonable notice and as often as reasonably requested and to make extracts from and copies of such financial records, and permit any representatives designated by Administrative Agent or any Lender to discuss the affairs, finances and condition of such Restricted Subsidiaries with the officers thereof and independent accountants therefor; provided that, in the absence of a continuing Default or Event of Default, only one such inspection by the Lenders (in their capacity as Lenders) shall be permitted in any fiscal year (at the Lenders' expense).

SECTION 9.07. Use of Proceeds. Use the proceeds of the Loans and request the issuance of Letters of Credit only for the purposes set forth in Section 8.12.

SECTION 9.08. Compliance with Environmental Law. Borrower and its Subsidiaries shall (a) comply with Environmental Law, and will keep or cause all Real Property to be kept free of any Liens under Environmental Law, unless, in each case, failure to do so would not have a Material

Adverse Effect; (b) in the event of any Hazardous Material at, on, under or emanating from any Real Property which could result in liability under or a violation of any Environmental Law, in each case which would have a Material Adverse Effect, undertake, and/or cause any of their respective tenants or occupants to undertake, at no cost or expense to Administrative Agent or any Creditor, any action required pursuant to Environmental Law to mitigate and eliminate such condition; *provided, however,* that no Company shall be required to comply with any order or directive which is being contested in good faith and by proper proceedings so long as it has maintained adequate reserves with respect to such compliance to the extent required in accordance with GAAP; (c) promptly notify Administrative Agent of any event specified in clause (b) of this Section 9.08 and periodically thereafter keep Administrative Agent informed of any material actions taken in response to such event and the results thereof, and (d) at the written request of Administrative Agent, in its reasonable discretion, provide, at no cost or expense to Administrative Agent or any Creditor, an environmental site assessment (including, without limitation, the results of any soil or groundwater or other testing conducted at Administrative Agent's request) concerning any Real Property now or hereafter owned, leased or operated by Borrower or any of its Restricted Subsidiaries, conducted by an environmental consulting firm proposed by such Credit Party and approved by Administrative Agent in its reasonable discretion indicating the presence or absence of Hazardous Material and the potential cost of any required action in connection with any Hazardous Material on, at, under or emanating from such Real Property; *provided, however,* that such request may be made only if (i) there has occurred and is continuing an Event of Default, or (ii) circumstances exist that reasonably could be expected to form the basis of an Environmental Action against such Company or any such Real Property which would have a Material Adverse Effect; if Borrower or any of its Restricted Subsidiaries fails to provide the same within 60 days after such request was made (or in such longer period as may be approved by Administrative Agent, in its reasonable discretion), Administrative Agent may but is under no obligation to conduct the same, and Borrower or its Restricted Subsidiary shall grant and hereby grants to Administrative Agent and its agents access at reasonable times, and upon reasonable notice to Borrower, to such Real Property and specifically grants Administrative Agent an irrevocable non-exclusive license, subject to the rights of tenants, to undertake such an assessment, all at no cost or expense to Administrative Agent or any Creditor. Administrative Agent will use its reasonable best efforts to obtain from the firm conducting any such assessment usual and customary agreements to secure liability insurance and to treat its work as confidential and shall promptly provide Borrower with all documents relating to such assessment.

SECTION 9.09. Equal Security for Loans and Notes; Pledge or Mortgage of Real Property; Landlord Consents. (a) Subject to compliance with applicable Gaming Laws, if any Credit Party shall acquire any Property after the Closing Date, including, without limitation, pursuant to any Permitted Acquisition (other than any Property described in clause (b) or (c) of this Section 9.09 below), as to which Collateral Agent, for the benefit of the First Priority Secured Parties, does not have a perfected Lien and as to which the Security Documents are intended to cover, such Credit Party shall promptly (i) execute and deliver to Collateral Agent such amendments to the Security Documents or such other documents as Collateral Agent deems necessary or advisable in order to grant to Collateral Agent, for the benefit of First Priority Secured Parties, security interests in such Property and (ii) take all actions necessary or advisable to grant to Collateral Agent, for the benefit of the First Priority Secured Parties, a perfected security interest, subject to Liens permitted to be incurred pursuant to the applicable Security Documents, in such Property, including without limitation, the filing of UCC financing statements in such jurisdictions as may be required by the Security Documents or by applicable law or as may be requested by Collateral Agent.

(b) If, after the Closing Date, any Credit Party (i) acquires a fee interest in the Option Parcel or (ii) acquires, including, without limitation, pursuant to any Permitted Acquisition, or holds a fee interest with a fair market value of $5.0 million or more in any other Real Property (other than to the extent such Real Property was financed through the incurrence of any Purchase Money

Obligation permitted by Section 10.01(i) hereof), such Credit Party shall notify Collateral Agent and, if requested by Majority Lenders or Collateral Agent and subject to any applicable Gaming Laws, (i) take such actions and execute such documents as Collateral Agent shall reasonably require to confirm the Lien of an existing Mortgage, if applicable, or to create a new First Mortgage on such additional Real Property and (ii) cause to be delivered to Collateral Agent, for the benefit of the First Priority Secured Parties, all documents and instruments reasonably requested by Collateral Agent or as shall be necessary in the opinion of counsel to the Creditors to create on behalf of the First Priority Secured Parties a valid perfected mortgage Lien, subject only to Liens of the type described in clauses (i)-(v) of the definition of Permitted Collateral Liens (as defined in the applicable Mortgage), and such other Liens acceptable to Collateral Agent, in such Mortgaged Real Property (the "**Permitted Mortgage Liens**"), including, the following:

(1) a First Mortgage in favor of Collateral Agent, for the benefit of the First Priority Secured Parties, in form for recording in the recording office of each jurisdiction where such Mortgaged Real Property is situated, together with such other documentation as shall be required to create a valid mortgage Lien under applicable law, which First Mortgage and other documentation shall be reasonably satisfactory to Collateral Agent and shall be effective to create in favor of Collateral Agent for the benefit of the First Priority Secured Parties a Mortgage Lien on such Mortgaged Real Property subject to no Liens other than Permitted Mortgage Liens;

(2) commercially reasonable efforts to obtain such consents, lien waivers, approvals, estoppels, tenant subordination agreements or other instruments as necessary or as reasonably required by Collateral Agent to grant the Lien contemplated by the First Mortgage; and

(3) the following documents and instruments:

(i) a Survey;

(ii) policies or certificates of insurance as required by the applicable Mortgage;

(iii) judgment, tax and other lien searches in form reasonably satisfactory to Administrative Agent;

(iv) evidence acceptable to Collateral Agent of payment by Borrower of all title insurance premiums (if any), search and examination charges, survey costs, mortgage recording taxes and related charges required for the recording of the First Mortgages and issuance of the title insurance policies referred to in this Section 9.09;

(v) copies of all leases applicable thereto in which any Credit Party holds the landlord's interest; and

(vi) an Officer's Certificate that as of the date thereof there (A) has been issued and is in effect, to the extent required, a valid and proper certificate of occupancy of local or foreign equivalent (if any) for the use then being made of such Mortgaged Real Property, (B) except as otherwise disclosed to Collateral Agent, has not occurred any uncured material Casualty Event of such Mortgaged Real Property and (C) except as may be disclosed to Collateral Agent in the Survey of such Mortgaged Real Property delivered pursuant to subclause (3)(i) of this Section 9.09 above, are no material disputes regarding boundary lines, location, encroachment or possession of such Mortgaged Real Property and no state of facts existing which could reasonably be expected to give rise to any such claim;

(4) a policy (or commitment to issue a policy) of title insurance insuring (or committing to insure) the Lien of such First Mortgage on behalf of the First Priority Secured Parties as a valid mortgage lien subject to no Liens other than the Permitted Mortgage Liens, on the Real Property and fixtures described therein in such amount as Collateral Agent may reasonably require (not to exceed 100% of the fair market value thereof) which policy (or commitment) shall (i) be issued by the Title Company or another title insurance company reasonably acceptable to Collateral Agent, (ii) include such reinsurance arrangements (with provisions for direct access) as shall be reasonably acceptable to Collateral Agent, (iii) have been supplemented by such endorsements (or where such endorsements are not available, opinions (or reports) of special counsel or other professionals reasonably acceptable to Agents to the extent that such opinions (or reports) can be obtained at a cost which is reasonable with respect to the value of the Real Property subject so such First Mortgage as shall be reasonably requested by Collateral Agent, (iv) include such affidavits and instruments of indemnifications by the applicable Credit Party as shall be reasonably required to induce the Title Company to issue the policy or policies (or commitment) and endorsements contemplated in this paragraph (4), and (v) contain no exceptions to title other than exceptions for Permitted Mortgage Liens; and

(5) an opinion of local counsel, substantially in the form of *Exhibit G-2* to the Original Credit Agreement.

(c) If reasonably requested by Administrative Agent or any Creditors, Borrower shall obtain and provide to Administrative Agent at no cost or expense to Administrative Agent and as soon as practicable but in any event not later than 21 days prior to the closing date for such acquisition, environmental site assessment report, including, if necessary, a Phase I environmental site assessment from an environmental consulting firm reasonably acceptable to Administrative Agent with respect to any Real Property to be acquired by any Company. If any such environmental assessment indicates a reasonable likelihood of potential material liability under any Environmental Law associated with the acquisition of any such Real Property, then, if reasonably requested by Administrative Agent or any creditor, Borrower shall obtain and provide to Administrative Agent a Phase II environmental site assessment report addressing such potential material liability (including, without limitation, the results of soil and groundwater testing and the potential cost of any required Response Action) for such Real Property from an environmental consulting firm reasonably acceptable to Administrative Agent for such Real Property, at no cost or expense to Administrative Agent or any Creditor, not later than 7 days prior to the closing date for such acquisition.

(d) At its own expense, Borrower shall request, and use commercially reasonable efforts to obtain or cause to be obtained prior to entering into a lease of a facility in which any material Inventory will be located on or after the Closing Date, a consent, substantially in the form of *Exhibit M* or such other form as may be reasonably satisfactory to Collateral Agent, from each landlord of any such facility.

(e) The costs of all actions taken by the parties in connection with this Section 9.09, including reasonable costs of counsel for Administrative Agent, shall be paid by the Credit Parties promptly following written demand.

SECTION 9.10. Security Interests; Further Assurances. Each Credit Party shall, promptly, upon the reasonable request of Collateral Agent, and assuming the request does not violate any Gaming Law or, if necessary, is approved by the Gaming Authority, at Borrower's expense, execute, acknowledge and deliver, or cause the execution, acknowledgment and delivery of, and thereafter register, file or record, or cause to be registered, filed or recorded, in an appropriate governmental office, any document or instrument supplemental to or confirmatory of the Security Documents or otherwise deemed by

Collateral Agent reasonably necessary or desirable for the continued validity, perfection and priority of the Liens on the Collateral covered thereby subject to no Liens other than Liens permitted by the applicable Security Documents, or use commercially reasonable efforts to obtain any consents, including, without limitation, landlord or similar lien waivers and consents, as may be necessary or appropriate in connection therewith. Each Credit Party shall deliver or use its commercially reasonable efforts to cause to be delivered to Collateral Agent from time to time such other documentation, consents, authorizations, approvals and orders in form and substance reasonably satisfactory to Collateral Agent as Collateral Agent shall reasonably deem necessary to perfect or maintain the Liens on the Collateral pursuant to the Security Documents. Upon the exercise by Collateral Agent or the Lenders of any power, right, privilege or remedy pursuant to any Credit Document which requires any consent, approval, registration, qualification or authorization of any Governmental Authority, Borrower and each of its Restricted Subsidiaries shall execute and deliver all applications, certifications, instruments and other documents and papers that Collateral Agent or the Lenders may be so required to obtain. If Collateral Agent reasonably determines that it is required by applicable law or regulation to have appraisals prepared in respect of the Real Property of any Credit Party constituting Collateral, Borrower shall provide to Collateral Agent appraisals that satisfy the applicable requirements of the Real Estate Appraisal Reform Amendments of FIRREA and are in form and substance reasonably satisfactory to Administrative Agent.

SECTION 9.11. Interest Rate Protection Agreements. On or within 90 days after the Closing Date, not less than 50% of the aggregate principal amount of then outstanding Consolidated Indebtedness shall be either (x) fixed rate debt or (y) debt subject to Interest Rate Protection Agreements having terms and conditions reasonably satisfactory to Administrative Agent and with one or more Lenders or their respective Affiliates, including, without limitation, the Interest Rate Protection Agreement listed on *Schedule 9.11* to the Original Credit Agreement or (z) any combination of (x) and (y) above.

SECTION 9.12. Additional Credit Parties. Upon (x) any Credit Party creating or acquiring any Subsidiary that is a Restricted Subsidiary after the Closing Date in accordance with Section 10.13, (y) any Restricted Subsidiary of a Credit Party ceasing to be an Immaterial Subsidiary or (z) any Unrestricted Subsidiary of a Credit Party becoming a Restricted Subsidiary, such Credit Party shall, assuming and to the extent that it does not violate any Gaming Law or, if necessary, assuming it obtains the approval of the Gaming Authority, (i) cause each such Restricted Subsidiary (other than a Foreign Subsidiary) to execute and deliver all such agreements, guarantees, documents and certificates (including a Joinder Agreement and any amendments to the Credit Documents) as Administrative Agent may reasonably request and do such other acts and things as Administrative Agent may reasonably request in order to have such Restricted Subsidiary become a Subsidiary Guarantor and (ii) promptly (I) execute and deliver to Collateral Agent such amendments to or additional Security Documents as Collateral Agent deems necessary or advisable in order to grant to Collateral Agent for the benefit of the First Priority Secured Parties, a perfected security interest in the Equity Interests and debt securities of such new Subsidiary which are owned by any Credit Party and required to be pledged pursuant to the Security Agreement, (II) deliver to Collateral Agent the certificates representing such Equity Interests and debt securities, together with (A) in the case of such Equity Interests, undated stock powers endorsed in blank, and (B) in the case of such debt securities, endorsed in blank, in each case executed and delivered by a Responsible Officer of Borrower or such Subsidiary, as the case may be, (III) cause such new Restricted Subsidiary to take such actions necessary or advisable (including executing and delivering a Joinder Agreement) to grant to Collateral Agent for the benefit of the First Priority Secured Parties, a perfected security interest in the collateral described in the Security Agreement and all other Property of such Restricted Subsidiary in accordance with the provisions of Section 9.09 hereof with respect to such new Restricted Subsidiary, including the filing of UCC financing statements in such jurisdictions as may be required by the Security Agreement or by law or as may be reasonably requested by Collateral Agent, and (IV) deliver to Collateral Agent all legal

opinions reasonably requested relating to the matters described above, which opinions shall be in form and substance, and from counsel, reasonably satisfactory to Administrative Agent.

SECTION 9.13. Post Effective Date Obligations. Borrower shall and shall cause each of its Restricted Subsidiaries, as expeditiously as practicable, but in no event later than sixty (60) days after the Effective Date (unless extended by Administrative Agent in its sole discretion) to deliver to Administrative Agent (I) bring downs of the title insurance policies delivered in respect of First Mortgages and endorsements thereto disclosing no Liens other than Prior Liens (as defined in the applicable First Mortgage) and otherwise in form and substance reasonably acceptable to Collateral Agent (the items described in this clause (I), the "**Title Insurance Bring Down and Endorsements**") and (II) certificates of ownership issued by the National Vessel Documentation Center of the U.S. Coast Guard disclosing no Liens on any Vessel other than Liens permitted pursuant to the applicable Ship Mortgage (the items described in this clause (II), the "**Vessel Certificates of Ownership**")); *provided* that Administrative Agent shall have discretion to waive delivery of Title Insurance Bring Down and Endorsements and Vessel Certificates of Ownership to the extent it determines that the risks being addressed thereby are outweighed by the costs, such discretion being binding upon all Lenders. In the event that (i) the Title Insurance Bring Downs and Endorsements disclose any Liens on any Mortgaged Real Property other than Liens permitted by the applicable Mortgage or (ii) the Vessel Certificates of Ownership disclose any Liens on any Vessel other than Liens permitted by the applicable Ship Mortgage or (iii) any Lien searches raise a material question as to the relative priority of the Liens securing the Obligations, Borrower shall and shall cause each of its Restricted Subsidiaries to, as expeditiously as practicable, but in no event later than sixty (60) days after the Effective Date (unless extended by Administrative Agent in its sole discretion) cause such Liens to be released, terminated or satisfied pursuant to documentation reasonably satisfactory to the Administrative Agent.

ARTICLE X

NEGATIVE COVENANTS

Each Credit Party, for itself and on behalf of its Restricted Subsidiaries, covenants and agrees with the Creditors that, so long as any Commitment, Loan or L/C Liability is outstanding and until payment in full of all amounts payable by Borrower hereunder (and each Credit Party covenants and agrees that it will cause its Restricted Subsidiaries to observe and perform the covenants herein set forth applicable to any such Restricted Subsidiary):

SECTION 10.01. Indebtedness. Borrower and its Restricted Subsidiaries will not incur, create, assume or permit to exist, directly or indirectly, any Indebtedness, except:

(a) Indebtedness incurred pursuant to this Agreement and the other Credit Documents;

(b) Indebtedness actually outstanding on the Closing Date and listed on *Schedule 8.23(a)* to the Original Credit Agreement, and in the case of such Indebtedness any Permitted Refinancings thereof;

(c) Indebtedness under Interest Rate Protection Agreements entered into in compliance with Section 9.11;

(d) Indebtedness under Secured Interest Rate Protection Agreements and unsecured Interest Rate Protection Agreements entered into in compliance with the terms of this Agreement;

(e) intercompany Indebtedness of Borrower and the Restricted Subsidiaries outstanding to the extent permitted by Section 10.04(f);

(f) in addition to any Indebtedness permitted by the preceding paragraph (d), Indebtedness of any Subsidiary to Borrower or another Subsidiary constituting the purchase price in respect of

intercompany transfers of goods and services made in the ordinary course of business to the extent not constituting Indebtedness for borrowed money;

(g) Indebtedness in respect of workers' compensation claims, self-insurance obligations, performance bonds, surety appeal or similar bonds, completion guarantees and trade-related letters of credit provided by Borrower or any of its Restricted Subsidiaries in the ordinary course of its business;

(h) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business, *provided* that such Indebtedness is extinguished within five Business Days of its incurrence;

(i) Indebtedness (other than Indebtedness incurred pursuant to clause (b) above) in respect of Purchase Money Obligations and Capital Lease Obligations and refinancings or renewals thereof, in an aggregate principal amount not to exceed at any time outstanding $20.0 million at that time;

(j) Indebtedness arising in connection with endorsement of instruments for deposit in the ordinary course of business;

(k) guarantees by Borrower or Restricted Subsidiaries of Indebtedness otherwise permitted under this Agreement;

(l) Indebtedness of a person that becomes a Subsidiary of Borrower or any of its Restricted Subsidiaries after the Closing Date in connection with a Permitted Acquisition; *provided* that such Indebtedness existed at the time such person became a Subsidiary and was not created in anticipation or contemplation thereof, and Permitted Refinancings thereof;

(m) in the event that Hollywood Shreveport becomes a Restricted Subsidiary Indebtedness represented by up to 15% of the aggregate principal amount of the Target Subsidiary Bonds;

(n) so long as no Default or Event of Default has occurred and is continuing, Permitted Subordinated Indebtedness and Permitted Refinancings thereof the proceeds of which shall be used (i) to refinance the Term D Facility Loans, or (ii) to fund in whole or in part any Change of Control Offers or Alternate Target Subsidiary Bond Offers or to otherwise repurchase or redeem not less than 85% of the outstanding principal amount of each issue of Target Subsidiary Bonds; *provided, however,* that in the case of a repurchase or redemption of the Target Subsidiary Bonds that is not deemed a Change of Control Offer or Alternate Target Subsidiary Bond Offer, the net proceeds of such Indebtedness shall not exceed in aggregate principal amount the lesser of (x) 7.0x Shreveport EBITDA (inclusive of all related fees and expenses) for the previous twelve-month period or (y) $175.0 million; *provided, further,* that upon the incurrence of such Indebtedness under this clause (n) (other than under clause (i) hereof) Shreveport shall cease to be an Unrestricted Subsidiary;

(o) (x) the New Subordinated Notes and Permitted Refinancings thereof and (y) so long as no Default or Event of Default has occurred and is continuing, Permitted Subordinated Indebtedness and Permitted Refinancings thereof in an aggregate principal amount under this clause (y) not to exceed $300.0 million; and

(p) other unsecured Indebtedness of any Company or Disqualified Stock of Borrower not to exceed $25.0 million in aggregate principal amount at any time outstanding.

SECTION 10.02. Liens. Neither Borrower nor any Restricted Subsidiary shall create, incur, assume or permit to exist, directly or indirectly, any Lien on any Property now owned or hereafter

acquired by it or on any income or revenues or rights in respect of any thereof, except (the "**Permitted Liens**"):

(a) inchoate Liens for taxes, assessments or governmental charges or levies not yet due and payable or delinquent and Liens for taxes, assessments or governmental charges or levies, which (i) are being contested in good faith by appropriate proceedings for which adequate reserves have been established in accordance with GAAP, which proceedings (or orders entered in connection with such proceedings) have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien, or (ii) in the case of any such charge or claim that has or may become a Lien against any of the Collateral, such Lien and the contest thereof shall satisfy the Contested Collateral Lien Conditions;

(b) Liens in respect of property of Borrower or any Restricted Subsidiary imposed by law, which were incurred in the ordinary course of business and do not secure Indebtedness for borrowed money, such as carriers', warehousemen's, materialmen's, landlord's and mechanics' liens, maritime liens and other similar Liens arising in the ordinary course of business (i) for amounts not yet overdue or (ii) for amounts that are overdue and that are being contested in good faith by appropriate proceedings, so long as (A) adequate reserves have been established in accordance with GAAP, which proceedings (or orders entered in connection with such proceedings) have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien and (B) in the case of any such Lien that has or may become a Lien against any of the Collateral, such Lien and the contest thereof shall satisfy the Contested Collateral Lien Conditions;

(c) Liens in existence on the Closing Date and set forth on *Schedule 10.02* and Liens relating to any refinancing of the obligations secured by such Liens; *provided* that (i) the aggregate principal amount of the Indebtedness, if any, secured by such Liens does not increase; and (ii) such Liens do not encumber any Property other than the Property subject thereto on the Closing Date of Borrower or any Restricted Subsidiary;

(d) easements, rights-of-way, restrictions (including zoning restrictions), covenants, encroachments, protrusions and other similar charges or encumbrances, and minor title deficiencies on or with respect to any Real Property, in each case whether now or hereafter in existence, not (i) securing Indebtedness and (ii) individually or in the aggregate materially interfering with the conduct of the business of Borrower and its Restricted Subsidiaries at such Real Property;

(e) Liens arising out of judgments or awards not resulting in a Default and in respect of which such Borrower or such Restricted Subsidiary shall in good faith be prosecuting an appeal or proceedings for review in respect of which there shall be secured a subsisting stay of execution pending such appeal or proceedings; provided that the aggregate amount of all such judgments or awards (and any cash and the fair market value of any property subject to such Liens) does not exceed $10.0 million at any time outstanding; or the payment of which is covered in full by a bond or by third party insurance;

(f) Liens (other than any Lien imposed by ERISA) (i) imposed by law or deposits made in connection therewith in the ordinary course of business in connection with workers' compensation, unemployment insurance and other types of social security, (ii) incurred in the ordinary course of business to secure the performance of tenders, statutory obligations (other than excise taxes), surety, stay, customs and appeal bonds, statutory bonds, bids, leases, government contracts, trade contracts, performance and return of money bonds and other similar obligations (exclusive of obligations for the payment of borrowed money) or (iii) arising by virtue of deposits made in the ordinary course of business to secure liability for premiums to insurance carriers; provided that (x) with respect to clauses (i), (ii) and (iii) hereto such Liens are set amounts not yet due and payable or delinquent or, to the extent such amounts are so due and payable, such amounts are being contested in good faith by appropriate proceedings for which adequate reserves have been

established in accordance with GAAP, which proceedings for orders entered in connection with such proceedings have the effect of preventing the forfeiture or sale of the property or assets subject to any such Lien, (y) to the extent such Liens are not imposed by Law, such Liens shall in no event encumber any Property other than cash and Cash Equivalents and (z) in the case of any such Lien against any of the Collateral, such Lien and the contest thereof shall satisfy the Contested Collateral Lien Conditions and the aggregate amount of deposits at any time pursuant to clause (ii) and clause (iii) shall not exceed $ 1.0 million in the aggregate;

(g) Leases with respect to the assets or properties of Borrower or any Restricted Subsidiary, in each case entered into in the ordinary course of Borrower's or such Restricted Subsidiary's business so long as Borrower or such Restricted Subsidiary shall use its commercially reasonable efforts to cause each of the Leases entered into after the date hereof to be made subordinate in all respects to the Liens granted and evidenced by the Security Documents, and each of the Leases entered into after the date hereof do not, individually or in the aggregate, (i) interfere in any material respect with the

ordinary conduct of the business of Borrower or any Restricted Subsidiary or (ii) materially impair the use (for its intended purposes) or the value of the property subject thereto;

(h) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into by Borrower or any Restricted Subsidiary in the ordinary course of business in accordance with the past practices of Borrower or such Restricted Subsidiary;

(i) Liens arising pursuant to Purchase Money Obligations or Capital Lease Obligations incurred pursuant to Section 10.01(i); *provided* that (i) the Indebtedness secured by any such Lien (including refinancings thereof) does not exceed 100% of the cost of the property being acquired or leased at the time of the incurrence of such Indebtedness and (ii) any such Liens attach only to the property being financed pursuant to such Purchase Money Obligations or Capital Lease Obligations (and directly related assets) and do not encumber any other property of Borrower or any Restricted Subsidiary (it being understood that all Indebtedness to a single lender shall be considered to be a single Purchase Money Obligation, whether drawn at one time or from time to time);

(j) bankers' Liens, rights of setoff and other similar Liens existing solely with respect to cash and Cash Equivalents on deposit in one or more accounts maintained by Borrower or any Restricted Subsidiary, in each case granted in the ordinary course of business in favor of the bank or banks with which such accounts are maintained, securing amounts owing to such bank with respect to cash management and operating account arrangements, including those involving pooled accounts and netting arrangements; *provided* that in no case shall any such Liens secure (either directly or indirectly) the repayment of any Indebtedness;

(k) Liens on assets of a person existing at the time such person is acquired or merged with or into or consolidated with Borrower or any Restricted Subsidiary (and not created in connection with or in anticipation or contemplation thereof); *provided* that such Liens do not extend to assets not subject to such Liens at the time of acquisition (other than improvements thereon) and are no more favorable to the lienholders than the existing Lien;

(l) Liens incurred in the ordinary course of business of Borrower or any Restricted Subsidiary with respect to obligations (other than Indebtedness) that do not in the aggregate exceed $2.5 million at any time outstanding;

(m) licenses of Intellectual Property granted by Borrower or any Restricted Subsidiary in the ordinary course of business and not interfering in any material respect with the ordinary conduct of the business of such Company;

(n) Liens pursuant to the Security Documents;

(o) Permitted Vessel Liens;

(p) Liens arising under applicable Gaming Laws, *provided* that no such Lien constitutes a Lien securing repayment of Indebtedness;

(q) Liens to secure Indebtedness and other obligations permitted under Section 10.01(c) to the extent that the secured party under such Indebtedness and other obligations is, as of the date entered into, one or more of the Lenders or any Affiliate of any Lender; and

(r) Liens to secure Indebtedness permitted under Section 10.01(d); and

(s) Prior Liens as defined in the applicable Security Documents with respect to the Collateral encumbered by such Security Document;

provided, *however*, that (except as provided in clause (p) above) no Liens shall be permitted to exist, directly or indirectly, on any Securities Collateral (as defined in the Security Agreement).

SECTION 10.03. Sale and Leaseback Transactions. Neither Borrower nor any Restricted Subsidiary will enter into any arrangement, directly or indirectly, with any person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred unless (i) the sale of such property is permitted by Section 10.05 and (ii) any Liens arising in connection with its use of such property are permitted by Section 10.02.

SECTION 10.04. Investment, Loan and Advances. Neither Borrower nor any Restricted Subsidiary will directly or indirectly lend money or credit or make advances to any person, or purchase or acquire any stock, obligations or securities of, or any other interest in, or make any capital contribution to, any other person, or purchase or own a futures contract or otherwise become liable for the purchase or sale of currency or other commodities at a future date in the nature of a futures contract (all of the foregoing, collectively, "**Investments**"), except that the following shall be permitted:

(a) Borrower and its Restricted Subsidiaries may consummate the Original Transactions in accordance with the provisions of the Transaction Documents;

(b) Investments outstanding on the Closing Date and identified on *Schedule 10.04* to the Original Credit Agreement and any Investments received in respect thereof without the payment of additional consideration (other than Qualified Capital Stock);

(c) Investments in Cash Equivalents;

(d) Borrower and the Restricted Subsidiaries may (i) acquire and hold cash and Cash Equivalents, (ii) endorse negotiable instruments for collection in the ordinary course of business and (iii) make lease, utility and other similar deposits in the ordinary course of business;

(e) Borrower may enter into Interest Rate Protection Agreements and Secured Interest Rate Protection Agreements and unsecured Interest Rate Protection Agreements to the extent permitted by Section 10.01(c) and 10.01(d), respectively and may enter into and perform its obligations under Swap Contracts entered into in the ordinary course of business and so long as any such Swap Contract is not speculative in nature;

(f) any Subsidiary Guarantor may make intercompany loans to Borrower or any other Subsidiary Guarantor and Borrower may make intercompany loans and advances to any Subsidiary Guarantor; *provided* that any promissory notes evidencing such intercompany loans shall be pledged (and delivered) by Borrower or the respective Subsidiary that is the lender of such intercompany loan as Collateral pursuant to the Security Agreement, to the extent permitted under applicable Gaming Laws;

(g) Borrower and the Restricted Subsidiaries may sell or transfer assets to the extent permitted by Section 10.05;

(h) Investments (i) by Borrower in any Restricted Subsidiary, (ii) in Borrower by any Restricted Subsidiary and (iii) by a Restricted Subsidiary in another Restricted Subsidiary;

(i) Investments in securities of trade creditors or customers received pursuant to any plan of reorganization or similar arrangement upon the bankruptcy or insolvency of such trade creditors or customers or in settlement of delinquent or overdue accounts in the ordinary course of business;

(j) Investments made by Borrower or any Restricted Subsidiary as a result of consideration received in connection with an Asset Sale made in compliance with Section 10.05;

(k) Investments consisting of moving, entertainment and travel expenses, drawing accounts and similar expenditures made to officers, directors and employees made in the ordinary course of business not to exceed $500,000 at any time outstanding;

(l) Investments permitted as Capital Expenditures pursuant to Section 10.08(d);

(m) Investments permitted as Permitted Acquisitions pursuant to Section 10.05;

(n) extensions of trade credit (including to gaming customers) in the ordinary course of business;

(o) Investments in Hollywood Shreveport to enable the consummation of the Change of Control Offers or the Alternate Target Subsidiary Bond Offers or otherwise repurchase or redeem the Target Subsidiary Bonds; *provided,* that in the event of such Investments under this clause (o), Shreveport shall cease to be an Unrestricted Subsidiary; and

(p) in addition to Investments otherwise expressly permitted by this Section 10.04, Investments by Borrower or any of its Restricted Subsidiaries not to exceed, as of the date made, an aggregate amount equal to $100.0 million, no more than $50.0 million of which shall be from the incurrence of Indebtedness, no more than $50.0 million of which shall be from an Equity Issuance (exclusive of the fees and expenses incurred in connection with the issuance of such Indebtedness or such Equity Issuance), of which no more than $5.0 million may be Investments in Hollywood Shreveport for so long as Hollywood Shreveport remains an Unrestricted Subsidiary (*provided* that the amount of Investments made under this clause (p) shall equal the aggregate amount of such Investments *minus* the amounts received by Borrower and its Restricted Subsidiaries with respect to such Investments, including principal, interest, dividends, distributions, sale proceeds or other amounts).

SECTION 10.05. Mergers, Consolidations, Sales of Assets and Acquisitions. Neither Borrower nor any Restricted Subsidiary will wind up, liquidate or dissolve its affairs or enter into any transaction of merger or consolidation (other than solely to change the jurisdiction of incorporation (to the extent done in compliance with the applicable provisions of the Security Agreement)), or convey, sell, lease or sublease (as lessor or sublessor), transfer or otherwise dispose of (or agree to do any of the foregoing at any future time) all or any part of its business, property or assets, or purchase or otherwise acquire (in one or a series of related transactions) all or substantially all the business, property or fixed assets of, or stock or other evidence of beneficial ownership of, any person or any division or line of business of any person (or agree to do any of the foregoing at any future time), except for:

(a) Capital Expenditures by Borrower and the Restricted Subsidiaries shall be permitted to the extent permitted by Section 10.08(d);

(b) (i) Asset Sales of used, worn out, obsolete or surplus Property by Borrower and the Restricted Subsidiaries in the ordinary course of business and the abandonment or other Asset Sale of Intellectual Property that is, in the reasonable judgment of Borrower, no longer economically practicable to maintain or useful in the conduct of the business of Borrower and its Restricted Subsidiaries taken as a whole shall be permitted; *provided, however,* that in each case the

proceeds thereof shall be reinvested in the business of Borrower or a Restricted Subsidiary within one year of such Asset Sale, and (ii) sales which would otherwise constitute Asset Sales but for the dollar thresholds contained in the definition of Asset Sales shall be permitted;

(c) so long as no Default then exists or would arise therefrom, any Asset Sale for fair market value shall be permitted so long as the aggregate amount of assets sold pursuant to this clause (c) does not exceed an amount of assets responsible for in excess of 5% of Consolidated EBITDA in any fiscal year; *provided, however,* that the Net Available Proceeds therefrom shall be applied as specified in Section 2.10(a)(iv);

(d) Investments may be made to the extent permitted by Section 10.04;

(e) Borrower and the Restricted Subsidiaries may sell Cash Equivalents in the ordinary course of business;

(f) each of Borrower and the Restricted Subsidiaries may lease (as lessee or lessor) real or personal property and may guaranty such lease in the ordinary course of business;

(g) the Original Transactions shall be permitted as contemplated by the Transaction Documents and voluntary terminations of Swap Contracts shall be permitted;

(h) licenses and sublicenses by Borrower or any of Restricted Subsidiaries of software, Intellectual Property and other general intangibles in the ordinary course of business shall be permitted that do not materially interfere with the ordinary conduct of business of Borrower or any such Restricted Subsidiary;

(i) Permitted Acquisitions shall be permitted in an aggregate amount not to exceed (A) if at the time of the Permitted Acquisition and after giving pro forma effect thereto the Consolidated Senior Leverage Ratio is greater than 2.50 to 1.00, $75.0 million *plus* amounts permitted under clause (j) below, (B) if at the time of the Permitted Acquisition and after giving pro forma effect thereto, the Consolidated Senior Leverage Ratio is 2.50 to 1.00 or less, but greater than 2.00 to 1.00, $100.0 million *plus* amounts permitted under clause (j) below, and (C) if at the time of the Permitted Acquisition and after giving pro forma effect thereto the Consolidated Senior Leverage Ratio is 2.00 to 1.00 or less, $125.0 million plus amounts permitted under clause (j) below;

(j) in addition to amounts permitted above, Permitted Acquisitions financed with the net proceeds of a substantially concurrent issuance of Qualified Capital Stock of Borrower or with such Qualified Capital Stock as consideration therefor shall be permitted, in an aggregate amount not to exceed $100.0 million; and

(k) Borrower or any Subsidiary Guarantor may transfer property or lease to or acquire or lease property from Borrower or any other Subsidiary Guarantor and any Restricted Subsidiary may transfer property to or lease property to Borrower or any Subsidiary Guarantor and any Restricted Subsidiary may be merged into Borrower (as long as Borrower is the surviving corporation of such merger) or any Subsidiary Guarantor and any Immaterial Subsidiary may be liquidated, wound up or dissolved; *provided, however,* that the Lien on and security interest in such property granted in favor of Collateral Agent under the Security Documents shall be maintained in accordance with the provisions of Section 10.02.

To the extent the Majority Lenders waive the provisions of this Section 10.05 with respect to the sale of any Collateral, or any Collateral is sold as permitted by this Section 10.05, such Collateral (unless sold to Borrower or its Subsidiaries) shall be sold free and clear of the Liens created by the Security Documents, and Collateral Agent shall take all actions appropriate in order to effect the foregoing at the sole cost and expense of Borrower and without recourse or warranty by Collateral Agent (including the execution and delivery of appropriate UCC-3 termination statements and such other instruments and releases as may be necessary and appropriate to effect such release).

SECTION 10.06. Dividends. Neither Borrower nor any of its Restricted Subsidiaries shall, directly or indirectly, declare or make any Dividend Payment at any time, except, without duplication, (x) any Restricted Subsidiary of Borrower may declare and make Dividend Payments to Borrower or any Wholly Owned Subsidiary of Borrower which is a Restricted Subsidiary, (y) any Restricted Subsidiary of Borrower, if such Restricted Subsidiary is not a Wholly Owned Subsidiary, may declare and make Dividend Payments to its equityholders generally so long as Borrower or its respective Restricted Subsidiary that owns the equity interest or interests in the Subsidiary making such Dividend Payments receives at least its proportionate share thereof (based upon its relative equity interests in the Restricted Subsidiary making such Dividend Payment), and (z) Borrower and its Restricted Subsidiaries may consummate the Transaction in accordance with the provisions of the Transaction Documents.

SECTION 10.07. Transactions with Affiliates. Neither Borrower nor any of its Restricted Subsidiaries shall enter into any transaction, including, without limitation, any purchase, sale, lease or exchange of Property, the rendering of any service or the payment of any management, advisory or similar fees, with any Affiliate (other than Borrower or any Subsidiary Guarantor) unless such transaction is (a) otherwise permitted under this Agreement at the time entered into, (b) in the ordinary course of business of Borrower or such Restricted Subsidiary, as the case may be, and (c) upon fair and reasonable terms no less favorable to Borrower or such Restricted Subsidiary, as the case may be, than it would obtain in a comparable arm's length transaction with a person that is not an Affiliate; *provided, however,* that notwithstanding the foregoing, Borrower and its Restricted Subsidiaries (i) may enter into indemnification and employment agreements and arrangements with directors, officers and employees and the transactions discussed in Borrower's SEC filings prior to the Closing Date and (ii) make Investments and Dividend Payments permitted hereunder.

SECTION 10.08. Financial Covenants.

(a) **Maximum Consolidated Total Leverage Ratio.** The Consolidated Total Leverage Ratio shall not, as of any Test Date (commencing with the first complete fiscal quarter ending after the Closing Date) during any period set forth in the table below, exceed the ratio set forth opposite such period in the table below:

Period	Ratio
January 1, 2003 - March 31, 2003	5.25x
April 1, 2003 - June 30, 2003	5.25x
July 1, 2003 - September 30, 2003	5.25x
October 1, 2003 - December 31, 2003	5.00x
January 1, 2004 - March 31, 2004	5.00x
April 1, 2004 - June 30, 2004	5.00x
July 1, 2004 - September 30, 2004	5.00x
October 1, 2004 - December 31, 2004	4.75x
January 1, 2005 - March 31, 2005	4.75x
April 1, 2005 - June 30, 2005	4.75x
July 1, 2005 - September 30, 2005	4.75x
October 1, 2005 - December 31, 2005	4.50x
January 1, 2006 - March 31, 2006	4.50x
April 1, 2006 - June 30, 2006	4.50x
July 1, 2006 - September 30, 2006	4.50x
October 1, 2006 - December 31, 2006	4.25x
January 1, 2007 - March 31, 2007	4.25x
April 1, 2007 - June 30, 2007	4.25x
July 1, 2007 - September 30, 2007	4.25x
October 1, 2007 and thereafter	4.00x

(b) **Maximum Consolidated Senior Leverage Ratio.** The Consolidated Senior Leverage Ratio shall not, as of any Test Date (commencing with the first complete fiscal quarter ending after the Closing Date) during any period set forth in the table below, exceed the ratio set forth opposite such period in the table below:

Period	Ratio
January 1, 2003 - March 31, 2003	3.50x
April 1, 2003 - June 30, 2003	3.50x
July 1, 2003 - September 30, 2003	3.50x
October 1, 2003 - December 31, 2003	3.25x
January 1, 2004 - March 31, 2004	3.25x
April 1, 2004 - June 30, 2004	3.25x
July 1, 2004 - September 30, 2004	3.25x
October 1, 2004 - December 31, 2004	2.75x
January 1, 2005 - March 31, 2005	2.75x
April 1, 2005 - June 30, 2005	2.75x
July 1, 2005 - September 30, 2005	2.75x
October 1, 2005 - December 31, 2005	2.50x
January 1, 2006 - March 31, 2006	2.50x
April 1, 2006 - June 30, 2006	2.50x
July 1, 2006 - September 30, 2006	2.50x
October 1, 2006 and thereafter	2.00x

(c) **Minimum Fixed Charge Coverage Ratio.** The Fixed Charge Coverage Ratio shall not, as of any Test Date (commencing with the first complete fiscal quarter ending after the Closing Date) during any period set forth in the table below, be less than the ratio set forth opposite such period in the table below:

Period	Ratio
January 1, 2003 - March 31, 2003	1.20x
April 1, 2003 - June 30, 2002	1.20x
July 1, 2003 - September 30, 2003	1.20x
October 1, 2003 - December 31, 2003	1.20x
January 1, 2004 - March 31, 2004	1.20x
April 1, 2004 - June 30, 2004	1.20x
July 1, 2004 - September 30, 2004	1.20x
October 1, 2004 - December 31, 2004	1.25x
January 1, 2005 - March 31, 2005	1.25x
April 1, 2005 - June 30, 2005	1.25x
July 1, 2005 - September 30, 2005	1.25x
October 1, 2005 - December 31, 2005	1.35x
January 1, 2006 - March 31, 2006	1.35x
April 1, 2006 - June 30, 2006	1.35x
July 1, 2006 - September 30, 2006	1.35x
October 1, 2006 and thereafter	1.50x

(d) **Limitation on Capital Expenditures.** Borrower and its Restricted Subsidiaries shall not make or incur Capital Expenditures, except:

(i) Borrower and its Restricted Subsidiaries may make Maintenance Capital Expenditures in any fiscal year in an aggregate amount not to exceed 20% of Consolidated EBITDA for such fiscal year (the "**Maintenance CapEx Basket**"); *provided*, *however*, that an

amount equal to 50% of the unused portion of the Maintenance CapEx Basket in any fiscal year may be carried forward to the following fiscal year; and *provided*, *further*, *however*, that in any fiscal year credited with such carried forward amounts, Borrower shall attribute any Maintenance Capital Expenditures first to the Maintenance CapEx Basket until such time as the Maintenance CapEx Basket is exhausted, before any Maintenance Capital Expenditures may be attributed to any such carried forward amounts.

(ii) Borrower and its Restricted Subsidiaries may make Expansion Capital Expenditures in any fiscal year in an aggregate amount not to exceed the sum of (A) $33.0 million at the Charles Town Facility; *provided*, *however*, that any Expansion Capital Expenditure at the Charles Town Facility shall not extend past December 31, 2004, (B) $40.0 million for the purpose of purchasing the leased real property located at the Boomtown Casino, Casino Rouge and Bullwhackers Casino; *provided*, *however*, that to the extent that an agreement can not be reached with respect to the purchase of the leased real property located at Boomtown Casino, $24.0 million of such Expansion Capital Expenditures under this clause (B) may be used for the purpose of the relocation of the Boomtown Casino, (C) the amount of actual borrowings under the Incremental Loans, if any, *plus* $100.0 million from the issuance of Equity Interests and (D) $10.0 million per annum; *provided*, *however*, that unutilized amounts for such fiscal year may be carried forward to the following fiscal year; *provided*, *however*, any unutilized amounts carried forward shall only be used after the current year's amount has been utilized.

SECTION 10.09. Limitation on Modification of Indebtedness; Modifications of Certificate of Incorporation and Certain Other Agreements, Etc. Neither Borrower nor any of its Restricted Subsidiaries shall (i) amend or modify, or permit the amendment or modification of, any provision of material Indebtedness ("**Material Indebtedness**") or of any agreement (including any purchase agreement, indenture, loan agreement or security agreement) relating thereto other than any amendments or modifications to Indebtedness that do not in any way materially adversely affect the interests of the Lenders and are otherwise permitted under Section 10.01(b); (ii) amend or modify, or permit the amendment or modification of, any other Transaction Document, in each case

except for amendments or modifications which are not in any way adverse in any material respect to the interests of the Lenders; or (iii) amend, modify or change its articles of incorporation or other constitutive documents (including by the filing or modification of any certificate of designation) or bylaws, or any agreement entered into by it, with respect to its capital stock (including any shareholders' agreement), or enter into any new agreement with respect to its capital stock, other than any amendments, modifications, agreements or changes pursuant to this clause (iii) or any such new agreements pursuant to this clause (iii) which do not in any way materially adversely affect in any material respect the interests of the Lenders.

SECTION 10.10. Certain Payments of Indebtedness. (a) None of Borrower or any of its Restricted Subsidiaries will, nor will they permit any Restricted Subsidiary to, make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash, securities or other property) of or in respect of principal of or interest on any Indebtedness, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any Indebtedness, except with respect to:

(i) Indebtedness created under the Credit Documents;

(ii) payment of regularly scheduled interest and principal payments as and when due in respect of any Indebtedness;

(iii) refinancings of Indebtedness to the extent permitted by Section 10.01 and Indebtedness incurred pursuant to Section 10.01(p);

(iv) payment of secured Indebtedness out of the proceeds of any sale or transfer of the property or assets securing such Indebtedness;

(v) so long as the Consolidated Total Leverage Ratio is less than 3.00 to 1.00, payment of or repurchase, redemption, retirement, acquisition or cancellation of Borrower's and its Restricted Subsidiaries' Permitted Subordinated Indebtedness and/or Borrower Outstanding Bonds with all or any portion of the amounts by which Borrower offered to prepay the Term Loans (*pro rata* to the Term D Facility Loans then outstanding) in accordance with Section 2.09(b)(iii) but that were declined in accordance with such Section 2.09(b)(iii);

(vi) payment of Indebtedness owing to Borrower or any Subsidiary Guarantor

(vii) redemptions, repurchases or acquisitions of the Target Subsidiary Bonds;

(viii) Capital Lease Obligations, Purchase Money Obligations and interest rate swaps otherwise permitted under the Credit Documents; and

(ix) conversions of Permitted Subordinated Indebtedness in accordance with the terms of such Permitted Subordinated Indebtedness.

SECTION 10.11. Limitation on Certain Restrictions Affecting Subsidiaries. None of Borrower or any of its Restricted Subsidiaries shall, directly or indirectly, create any consensual encumbrance or restriction on the ability of any Restricted Subsidiary of Borrower to (a) pay dividends or make any other distributions on such Restricted Subsidiary's Equity Interests or any other interest or participation in its profits owned by Borrower or any of its Restricted Subsidiaries, or pay any Indebtedness or any other obligation owed to Borrower or any of its Restricted Subsidiaries, (b) make Investments in or to Borrower or any of its Restricted Subsidiaries, or (c) transfer any of its Property to Borrower or any of its Restricted Subsidiaries, *except* that each of the following shall be permitted (i) any such encumbrances or restrictions existing under or by reason of (x) applicable Law (including any Gaming Law and any regulations, order or decrees of any Gaming Authority) or (y) the Credit Documents, (ii) restrictions on the transfer of Property subject to a Permitted Lien permitted under Section 10.02, (iii) customary restrictions on subletting or assignment of any lease governing a leasehold interest of any Company, (iv) restrictions on the transfer of any Property subject to an Asset Sale permitted under this Agreement, (v) restrictions contained in existing Indebtedness, (vi) restrictions contained in Permitted Subordinated Indebtedness and Permitted Refinancings and other Indebtedness permitted under Section 10.01, and (vii) customary restrictions in joint venture arrangements.

SECTION 10.12. Limitation on the Issuance of Equity Interests. No Restricted Subsidiary of Borrower will issue any Equity Interest (including by way of sales of treasury stock) or any options or warrants to purchase, or securities convertible into, Equity Interests, except (i) for stock splits, stock dividends and additional Equity Interest issuances which do not decrease the percentage ownership of Borrower or any Restricted Subsidiary in any class of the Equity Interest of such Restricted Subsidiary; (ii) Restricted Subsidiaries of Borrower formed after the Closing Date pursuant to Section 10.13 may issue Equity Interests to Borrower or the respective Restricted Subsidiary of Borrower which is to own such stock; and (iii) the Restricted Subsidiaries may issue to Borrower and to other Restricted Subsidiaries of Borrower common stock that is Qualified Capital Stock. All Equity Interests issued to any Credit Party in accordance with this Section 10.12 shall, to the extent required by the Security Agreement, be delivered to Administrative Agent for pledge pursuant to the Security Agreement.

SECTION 10.13. Limitation on the Creation of Subsidiaries. Except as permitted by Section 10.04(g) and in connection with Acquisitions permitted hereunder, neither Borrower nor any Restricted Subsidiary shall establish, create or acquire any additional Subsidiaries without the prior written consent of Administrative Agent; *provided* that Borrower may establish or create one or more Subsidiaries of Borrower or one of its Subsidiaries without such consent so long as (i) 100% of the Equity Interest of any new Subsidiary (other than a Foreign Subsidiary) is upon the creation or

establishment of any such new Subsidiary pledged and delivered to Collateral Agent for the benefit of the Secured Parties (as defined in the Security Agreement) under the Security Agreement and (ii) upon the creation or establishment of any such new Subsidiary such Subsidiary (other than a Foreign Subsidiary) executes a Joinder Agreement and becomes a party to the applicable Security Documents in accordance with Section 9.12 and the other Credit Documents.

SECTION 10.14. Limitation on Lines of Business. Neither Borrower nor any Restricted Subsidiary shall directly or indirectly engage to any material extent in any line or lines of business activity other than the business of the type conducted or proposed to be conducted by the Companies as of the Closing Date (after giving effect to the Transactions) and any other businesses reasonably related or incidental thereto.

SECTION 10.15. Limitation on Accounting Changes; Limitation on Investment Company Status. Neither Borrower nor any Restricted Subsidiary shall (i) make or permit any change in accounting policies or reporting practices from those in effect for Borrower on the date hereof, except changes that would not result in a Material Adverse Effect, those required by the SEC or as required or permitted by GAAP, or (ii) change its fiscal year end (December 31 of each year). No Credit Party shall be or become an investment company subject to the registration requirements under the United States Investment Company Act of 1940, as amended.

ARTICLE XI

EVENTS OF DEFAULT

SECTION 11.01. Events of Default. If one or more of the following events (herein called "**Events of Default**") shall occur and be continuing:

(a) any representation or warranty made or deemed made pursuant to any Credit Document or the borrowings or issuances of Letters of Credit hereunder, or any representation, warranty, statement or information contained in any report, certificate, financial statement or other instrument furnished pursuant to any Credit Document, shall prove to have been false or misleading in any material respect when so made, deemed made or furnished;

(b) default shall be made in the payment of (i) any principal of any Loan or the reimbursement with respect to any Reimbursement Obligation when and as the same shall become due and payable (whether at the stated maturity upon prepayment or repayment or by acceleration thereof or otherwise) and (ii) any interest on any Loans when and as the same shall become due and payable, and such default shall continue unremedied for a period of three Business Days;

(c) default shall be made in the payment of any fee or any other amount (other than an amount referred to in (b) above) due under any Credit Document, when and as the same shall become due and payable, and such default shall continue unremedied for a period of five Business Days;

(d) default shall be made in the due observance or performance by Borrower or any of its Restricted Subsidiaries of any covenant, condition or agreement contained in Section 9.01(a), 9.04(f), 9.07 or in Article X;

(e) default shall be made in the due observance or performance by Borrower or any of its Restricted Subsidiaries of any covenant, condition or agreement contained in any Credit Document (other than those specified in (b), (c) or (d) above) and such default shall continue unremedied or shall not be waived for a period of 30 days after written notice thereof from Administrative Agent or any Lender to Borrower;

(f) Borrower or any of its Restricted Subsidiaries shall (i) fail to pay any principal or interest, regardless of amount, due in respect of any Indebtedness (other than the Obligations), when and as the same shall become due and payable (after giving effect to any applicable grace period), or (ii) fail to observe or perform any other term, covenant, condition or agreement contained in any agreement or instrument evidencing or governing any such Indebtedness or any event or condition occurs, if the effect of any failure or occurrence referred to in this clause (ii) is to cause, or to permit the holder or holders of such Indebtedness or a trustee on its or their behalf (with or without the giving of notice but giving effect to applicable grace periods) to cause, such Indebtedness to become due prior to its stated maturity; *provided* that it shall not constitute an Event of Default pursuant to this paragraph (f) unless the aggregate amount of all such Indebtedness referred to in clauses (i) and (ii) exceeds $10.0 million at any one time;

(g) an involuntary proceeding shall be commenced or an involuntary petition shall be filed in a court of competent jurisdiction seeking (i) relief in respect of Borrower or any of its Restricted Subsidiaries, or of a substantial part of the property or assets of Borrower or any of its Restricted Subsidiaries, under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal, state or foreign bankruptcy, insolvency, receivership or similar law; (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Borrower or any of its Restricted Subsidiaries or for a substantial part of the property or assets of Borrower or any of its Restricted Subsidiaries; or (iii) the winding-up or liquidation of Borrower or any of its Restricted Subsidiaries; and such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(h) Borrower or any of its Restricted Subsidiaries shall (i) voluntarily commence any proceeding or file any petition seeking relief under Title 11 of the United States Code, as now constituted or hereafter amended, or any other federal, state or foreign bankruptcy, insolvency, receivership or similar law; (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or the filing of any petition described in (g) above; (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Borrower or any of its Restricted Subsidiaries or for a substantial part of the property or assets of Borrower or any of its Restricted Subsidiaries; (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding; (v) make a general assignment for the benefit of creditors; (vi) become unable, admit in writing its inability or fail generally to pay its debts as they become due; (vii) take any action for the purpose of effecting any of the foregoing; or (viii) wind up or liquidate (except as permitted hereunder);

(i) one or more judgments for the payment of money in an aggregate amount in excess of $10.0 million (to the extent not covered by third party insurance) shall be rendered against Borrower or any of its Restricted Subsidiaries or any combination thereof and the same shall remain undischarged for a period of 60 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to levy upon assets or properties of Borrower or any of its Subsidiaries to enforce any such judgment;

(j) an ERISA Event shall have occurred that, when taken together with all other such ERISA Events, is reasonably likely to result in a liability of Borrower or any of its Subsidiaries in an aggregate amount exceeding $10.0 million;

(k) with respect to any Collateral, any security interest and Lien purported to be created by any Security Document shall cease to be in full force and effect, or shall cease to give Collateral Agent, for the benefit of the Secured Parties, the Liens, rights, powers and privileges purported to be created and granted under such Security Documents (including for the benefit of the First Priority Secured Parties a perfected first priority security interest in and Lien on all of the Collateral thereunder (except as otherwise expressly provided in this Agreement or such Security

Documents)) in favor of Collateral Agent, or shall be asserted by Borrower, any other Credit Party or anyone else not to be a valid, perfected, first priority (except as otherwise expressly provided in this Agreement or such Security Document) security interest in or Lien on the Collateral covered thereby;

(l) any Guarantee shall cease to be in full force and effect or any of the Subsidiary Guarantors repudiates, or attempts to repudiate, any of its obligations under any of the Guarantees (except to the extent such Guarantee ceases to be in effect in connection with (i) a merger of one Subsidiary Guarantor into another Subsidiary Guarantor permitted pursuant to Section 10.05(k)), (ii) the liquidation, winding up or dissolution of an Immaterial Subsidiary) or (iii) the sale of a Subsidiary Guarantor permitted hereunder;

(m) any Credit Document or any material provisions thereof shall at any time and for any reason be declared by a court of competent jurisdiction to be null and void, or a proceeding shall be commenced by any Credit Party or any other person, or by any Governmental Authority, seeking to establish the invalidity or unenforceability thereof (exclusive of questions of interpretation of any provision thereof), or any Credit Party shall repudiate or deny that it has any liability or obligation for the payment of principal or interest or other obligations purported to be created under any Credit Document;

(n) there shall have occurred a Change of Control; or

(o) there shall have occurred a License Revocation by any Gaming Authority in a jurisdiction in which Borrower or any of its Restricted Subsidiaries owns or operates a Gaming Facility which, individually or in the aggregate, could reasonably be expected to result in a reduction of more than 5% of the gross revenues of Borrower and its Restricted Subsidiaries on a consolidated basis; *provided* that such License Revocation continues for at least thirty (30) consecutive days;

then, and in every such event (other than an event described in paragraph (g) or (h) above with respect to Borrower), and at any time thereafter during the continuance of such event, Administrative Agent, at the request of the Majority Lenders, shall, by notice to Borrower, take either or both of the following actions, at the same or different times: (i) terminate forthwith the Commitments and (ii) declare the Loans then outstanding to be forthwith due and payable in whole or in part, whereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and any unpaid accrued fees and all other liabilities of Borrower accrued hereunder and under any other Credit Document, shall become forthwith due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by Borrower, anything contained herein or in any other Credit Document to the contrary notwithstanding; and in any event described in paragraph (g) or (h) above with respect to Borrower, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and any unpaid accrued fees and all other liabilities of Borrower accrued hereunder and under any other Credit Document, shall automatically become due and payable, without presentment, demand, protest or any other notice of any kind, all of which are hereby expressly waived by Borrower, anything contained herein or in any other Credit Document to the contrary notwithstanding.

ARTICLE XII

AGENTS

SECTION 12.01. General Provisions. Each of the Lenders, Agents, Swingline Lender and L/C Lender hereby irrevocably appoints Administrative Agent as its agent and authorizes Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to Administrative Agent by the terms hereof and the Security Documents, together with such actions and powers as are reasonably incidental thereto. Administrative Agent agrees to give promptly to each Lender a copy of

each notice or other document received by it pursuant to any Credit Document (other than any that are required to be delivered to the Lenders by any Credit Party). Notwithstanding any of the foregoing, the Majority Lenders may replace Administrative Agent at any time in the event of willful misconduct or gross negligence by Administrative Agent in the administration of the duties and obligations expressly authorized herein as determined by a court of competent jurisdiction.

The Lender or other financial institution serving as any Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not such Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with any Company or other Affiliate thereof as if it were not such Agent hereunder.

No Agent shall have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (a) no Agent shall be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) no Agent shall have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that such Agent is required to exercise in writing by the Majority Lenders (or such other number or percentage of the Lenders as shall be required by Section 13.04), and (c) except as expressly set forth herein, no Agent shall have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to any Company that is communicated to or obtained by the financial institution serving as such Agent or any of its Affiliates in any capacity. No Agent shall be liable for any action taken or not taken by it with the consent or at the request of the Majority Lenders (or such other number or percentage of the Lenders as shall be required by Section 13.04) or in the absence of its own gross negligence or willful misconduct. No Agent shall be deemed to have knowledge of any Default unless and until written notice thereof is given to Administrative Agent and such Agent by Borrower or a Lender, and no Agent shall be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Credit Document, (ii) the contents of any certificate, report or other document delivered hereunder or under any other Credit Document or in connection herewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein, (iv) the validity, enforceability, effectiveness or genuineness of any Credit Document or any other agreement, instrument or document, (v) the satisfaction of any condition set forth in Article VII or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to such Agent or (vi) making a determination that any condition precedent set forth in Article VII that is to be to such Agent's satisfaction is satisfied.

Each Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper person. Each Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper person, and shall not incur any liability for relying thereon. Each Agent may consult with legal counsel (who may be counsel for Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts. Each Agent may deem and treat the payee of any Note as the owner thereof for all purposes unless a written notice of assignment, negotiation or transfer thereof shall have been filed with such Agent. Each Agent shall be fully justified in

failing or refusing to take any action under any Credit Document unless it shall first receive such advice or concurrence of the Majority Lenders (or, if so specified by this Agreement, all Lenders or such other number or percentage of the Lenders as shall be required by Section 13.04) as it deems appropriate or it shall first be indemnified to its satisfaction by the Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action (it being understood that this provision shall not release Administrative Agent from performing any action with respect to Borrower expressly required to be

performed by it pursuant to the terms hereof) under this Agreement. Each Agent shall in all cases be fully protected in acting, or in refraining from acting, under any Credit Document in accordance with a request of the Majority Lenders *provided, however*, that any Agent shall be required to act or refrain from acting at the request of all of the Lenders, and such request and any action taken or failure to act pursuant thereto shall be binding upon all the Lenders and all future holders of the Loans.

Each Agent may perform any and all of its duties and exercise its rights and powers by or through any one or more sub-agents appointed by such Agent and reasonably acceptable to Borrower. Each Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers through their respective Affiliates, directors, officers, employees, agents and advisors ("**Agent Related Parties**"). The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Agent Related Parties of each Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities of such Agent.

Subject to the appointment and acceptance of a successor Agent as provided in this paragraph, any Agent may resign at any time by notifying the Lenders, L/C Lender (with respect to Administrative Agent only) and Borrower. Upon any such resignation, the Majority Lenders shall have the right to appoint a successor which, so long as no Event of Default is continuing, shall be reasonably acceptable to Borrower. If no successor shall have been so appointed by the Majority Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders and L/C Lender, appoint a successor Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank which, so long as no Event of Default is continuing, shall be reasonably acceptable to Borrower. Upon the acceptance of its appointment as Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. The fees payable by Borrower to a successor Agent shall be the same as those payable to its predecessor unless otherwise agreed between Borrower and such successor. After Agent's resignation hereunder, the provisions of this Article XII shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Agent Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as such Agent.

Subject to compliance with applicable Gaming Laws, Lead Arrangers may replace Collateral Agent at any time for any reason with another institution with the consent of Borrower (which will not be unreasonably withheld or delayed and shall not be required during the continuance of an Event of Default). The appointment of any successor Collateral Agent shall be effective upon the acceptance of such appointment.

The Lenders identified in this Agreement as the Sole Syndication Agent and the Documentation Agents shall not have any right, power, obligation, liability, responsibility or duty under this Agreement other than those applicable to all Lenders. Without limiting the foregoing, none of the Sole Syndication Agent or the Documentation Agents shall have or be deemed to have a fiduciary relationship with any Lender. Each Lender hereby makes the same acknowledgments with respect to the Sole Syndication Agent and the Documentation Agents as it makes with respect to the Administrative Agent or any other Lender in this Article XII.

Each Lender acknowledges that it has, independently and without reliance upon any Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon any Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any related agreement or

any document furnished hereunder or thereunder. No Agent shall be deemed a trustee or other fiduciary on behalf of any party.

SECTION 12.02. Indemnification. Each Lender agrees to indemnify and hold harmless each Agent (to the extent not reimbursed under Section 13.03, but without limiting the obligations of any Credit Party under Section 13.03), ratably in accordance with the aggregate principal amount of the respective Commitments of and/or Loans and Reimbursement Obligations held by the Lenders (or, if all of the Commitments shall have been terminated or expired, ratably in accordance with the aggregate outstanding amount of the Loans and Reimbursement Obligations held by the Lenders), for any and all liabilities (including pursuant to any Environmental Law), obligations, losses, damages, penalties, actions, judgments, deficiencies, suits, costs, expenses (including reasonable attorney's fees) or disbursements of any kind and nature whatsoever that may be imposed on, incurred by or asserted against such Agent (including by any Lender) arising out of or by reason of any investigation in or in any way relating to or arising out of any Credit Document or any other documents contemplated by or referred to therein for any action taken or omitted to be taken by such Agent under or in respect of any of the Credit Documents or other such documents or the transactions contemplated thereby (including the costs and expenses that the Credit Parties are obligated to pay under Section 13.03, and including also any payments under any indemnity granted pursuant to Section 12.04 of the Security Agreement, unless a Default has occurred and is continuing, normal administrative costs and expenses incident to the performance of its agency duties hereunder) or the enforcement of any of the terms hereof or thereof or of any such other documents; *provided, however,* that no Lender shall be liable for any of the foregoing to the extent resulting from the gross negligence, bad faith or willful misconduct of the party to be indemnified. The agreements set forth in this Section 12.02 shall survive the payment of all Loans and other obligations hereunder and shall be in addition to and not in lieu of any other indemnification agreements contained in any other Credit Document.

SECTION 12.03. Consents Under Other Credit Documents. Except as otherwise provided in the Credit Documents including, without limiting Section 13.04 hereof Administrative Agent may, with the prior consent of the Majority Lenders (but not otherwise), consent to any modification, supplement or waiver under any of the other Credit Documents.

SECTION 12.04. Collateral Sub-Agents. Each Lender by its execution and delivery of this Agreement agrees, as contemplated by Article VIII of the Security Agreement, that, in the event it shall hold any Cash Equivalents referred to therein, upon the written request of Administrative Agent following the occurrence of an Event of Default and the execution and delivery by Administrative Agent, such Lender and the applicable Credit Party of a mutually acceptable

control agreement with respect to such Cash Equivalent (it being understood that no Lender is obligated to enter into any such control agreement), such Cash Equivalents shall be held in the name and under the control of such Lender, and such Lender shall hold such Cash Equivalents as a collateral sub-agent for Administrative Agent thereunder. Each Credit Party by its execution and delivery of this Agreement hereby consents to the foregoing. In such event, such Lender acting in the capacity of a sub-agent shall be afforded all protections set forth in this Article XII as if acting as Administrative Agent with respect to such holdings. Notwithstanding anything in this Agreement or any other Credit Document to the contrary, except as set forth in Section 4.07 hereof, no Lender (other than Administrative Agent acting in such capacity) which is acting as a Financial Intermediary (as defined in the Security Agreement) with respect to any Securities Collateral (as defined in the Security Agreement) shall have any duty or obligation (whether express or implied) to the other Lenders in respect of such Securities Collateral or the disposition thereof unless such Lender, Administrative Agent and the applicable Credit Party have entered into a Financial Account Consent Agreement (as defined in the Security Agreement) or other control or similar agreement with respect to such Securities Collateral (it being understood that no Lender shall have any obligation to enter into any such agreement).

SECTION 12.05. Post Effective Date Authority. Collateral Agent and Administrative Agent are authorized (and Borrower and the Restricted Subsidiaries shall cooperate therewith) to take any and all actions to effectuate the intent and purposes of this amendment and restatement of the Original Credit Agreement to occur on the Effective Date (including, without limitation, to provide for all matters contemplated by Sections 7.01(i) and 9.13).

ARTICLE XIII

MISCELLANEOUS

SECTION 13.01. Waiver. No failure on the part of any Creditor to exercise and no delay in exercising, and no course of dealing with respect to, any right, power or privilege under any Credit Document shall operate as a waiver thereof, nor shall any single or partial exercise of any right, power or privilege under any Credit Document preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

SECTION 13.02. Notices. All notices, requests and other communications provided for herein and under the Security Documents (including any modifications of, or waivers, requests or consents under, this Agreement) shall be given or made in writing (including by facsimile) delivered to the intended recipient at the "Address for Notices" specified below its name on the signature pages hereof (or any Subsidiary Guarantor, as so specified for Borrower) or, as to any party, at such other address as shall be designated by such party in a notice to each other party. Except as otherwise provided in this Agreement, all such communications shall be deemed to have been duly given when transmitted by facsimile or personally delivered or, in the case of a mailed notice, upon receipt, in each case given or addressed as aforesaid. Any Notice of Borrowing or Notice of Continuation/Conversion shall be deemed to have been received when actually received.

SECTION 13.03. Expenses, Indemnification, Etc. (a) The Credit Parties, jointly and severally, agree to pay or reimburse:

(i) Agents and the Swingline Lender for all of their reasonable out-of-pocket costs and expenses (including the reasonable fees and expenses of Cahill Gordon & Reindel LLP(and one local counsel in each jurisdiction reasonably deemed necessary by Agents)) in connection with (1) the negotiation, preparation, execution and delivery of the Credit Documents and the extension and syndication of credit hereunder, (2) the negotiation, preparation, execution and delivery of any modification, supplement, amendment or waiver of any of the terms of any Credit Document (whether or not consummated or effective) requested by the Credit Parties, (3) following the occurrence and during the continuance of an Event of Default, the enforcement of any Credit Document, and (4) the syndication of the Loans and Commitments;

(ii) each Creditor for all reasonable out-of-pocket costs and expenses of such Creditor (including the reasonable fees and expenses of one legal counsel for Lenders and Agents) in connection with (1) any enforcement or collection proceedings resulting from any Default, including all manner of participation in or other involvement with (x) bankruptcy, insolvency, receivership, foreclosure, winding up or liquidation proceedings, (y) judicial or regulatory proceedings and (z) workout, restructuring or other negotiations or proceedings (whether or not the workout, restructuring or transaction contemplated thereby is consummated), (2) the enforcement of this Section 13.03 and (3) any documentary taxes; and

(iii) Administrative Agent for all reasonable costs, expenses, taxes, assessments and other charges (including reasonable fees and disbursements of counsel) incurred in connection with any filing, registration, recording or perfection of any security interest contemplated by any Credit Document or any other document referred to therein.

Without limiting the rights of any Lender under this Section 13.03(a), each Lender, upon request of Borrower from time to time, will advise Borrower of an estimate of any amount anticipated to be recovered under this Section 13.03(a).

(b) The Credit Parties, jointly and severally, hereby agree to indemnify each Creditor and their respective Affiliates, directors, trustees, officers, employees and agents (each, an "**Indemnitee**") from, and hold each of them harmless against, and that no Indemnitee will have any liability for, any and all Losses incurred by any of them (including any and all Losses incurred by any Agent, Swingline Lender or L/C Lender to any Lender, whether or not any Creditor is a party thereto) directly or indirectly arising out of or by reason of or relating to the negotiation, execution, delivery, performance, administration or enforcement of any Credit Document, any of the transactions contemplated by the Credit Documents (including the Transactions), any breach by any Company of any representation, warranty, covenant or other agreement contained in any Credit Document in connection with any of the Transactions, the use or proposed use of any of the Loans or Letters of Credit, the issuance of or performance under any Letter of Credit or the use of any collateral security for the Loans (including the exercise by any Creditor of the rights and remedies or any power of attorney with respect thereto and any action or inaction in respect thereof), including all amounts payable by any Lender pursuant to Section 12.02, but excluding any such Losses to the extent finally determined by a court of competent jurisdiction to have arisen solely from the gross negligence, bad faith or willful misconduct of the Indemnitee.

Without limiting the generality of the foregoing, the Credit Parties, jointly and severally, will indemnify each Creditor and each other Indemnitee from, and hold each Creditor and each other Indemnitee harmless against, any Losses described in the preceding sentence arising under any Environmental Law as a result of (i) the past, present or future operations of any Company (or any predecessor in interest to any Company), (ii) the past, present or future condition of any site or facility owned, operated, leased or used at any time by any Company (or any such predecessor in interest) to the extent such Losses arise from or relate to the parties relationship under the Credit Documents or to any Company's (or such predecessor in interest's) (A) ownership, operation, lease or use of such site or facility or (B) any aspect of the respective business or operations of such parties, and, in each case shall include, without limitation, any and all such Losses for which any Company could be found liable, or (iii) any Release or threatened Release of any Hazardous Materials at, on, under or from any such site or facility to the extent such Losses arise from or relate to the parties relationship under the Credit Documents or to any Company's (or such predecessor in interest's) (A) ownership, operation, lease or use of such site or facility or (B) any aspect of the respective business or operations of such parties, and, in each case shall include, without limitation, any and all such Losses for which any Company could be found liable, including any such Release or threatened Release that shall occur during any period when any Creditor shall be in possession of any such site or facility following the exercise by such Creditor of any of its rights and remedies hereunder or under any of the Security Documents; *provided, however,* that the indemnity hereunder shall be subject to the exclusions from indemnification set forth in the preceding sentence.

To the extent that the undertaking to indemnify and hold harmless set forth in this Section 13.03 or any other provision of any Credit Document providing for indemnification is unenforceable because it is violative of any law or public policy or otherwise, the Credit Parties, jointly and severally, shall contribute the maximum portion that each of them is permitted to pay and satisfy under applicable law to the payment and satisfaction of all indemnified liabilities incurred by any of the persons indemnified hereunder.

The Credit Parties also agree that no Indemnitee shall have any liability (whether direct or indirect, in contract or tort or otherwise) for any Losses to any Credit Party or any Credit Party's security holders or creditors resulting from, arising out of, in any way related to or by reason of any matter referred to in any indemnification or expense reimbursement provisions set forth in any Credit

Document, except to the extent that any Loss is determined by a court of competent jurisdiction in a final nonappealable judgment to have resulted from the gross negligence, bad faith or willful misconduct of such Indemnitee.

The Credit Parties agree that, without the prior written consent of Administrative Agent, Lead Arrangers and the Majority Lenders, which consent shall not be unreasonably withheld, no Credit Party will settle, compromise or consent to the entry of any judgment in any pending or threatened Proceeding in respect of which indemnification is reasonably likely to be sought under the indemnification provisions of this Section 13.03 (whether or not any Indemnitee is an actual or potential party to such Proceeding), unless such settlement, compromise or consent includes an unconditional written release of each Indemnitee from all liability arising out of such Proceeding and does not include any statement as to an admission of fault, culpability or failure to act by or on behalf of any Indemnitee and does not involve any payment of money or other value by any Indemnitee or any injunctive relief or factual findings or stipulations binding on any Indemnitee.

SECTION 13.04. Amendments, Etc. (i) No provision of any Credit Document may be amended, modified or supplemented except by an instrument in writing signed by the Credit Parties party thereto and the Majority Lenders, or by the Credit Parties party thereto and Administrative Agent acting with the written consent of the Majority Lenders, and no provision of any Credit Document may be waived except by an instrument in writing signed by the Credit Parties party thereto and the Majority Lenders, or by the Credit Parties party thereto and Administrative Agent acting with the written consent of the Majority Lenders; *provided, however,* that:

(a) no amendment, modification, supplement or waiver shall, unless by an instrument signed by each Lender or by Administrative Agent acting with the written consent of each Lender (with the consent of Lenders having Obligations directly affected thereby in the case of clauses (II) (it being understood that the consent of no other Lender or Agent is needed in each such case)): (I) extend the scheduled final maturity of any Loan or Note, or extend the expiration date of any Letter of Credit beyond the R/C Maturity Date, or reduce the rate of interest (other than any waiver of any increase in the interest rate applicable to any of the Loans pursuant to clause (b) of Section 3.02) or fees thereon, or extend the time of payment of interest or fees thereon (other than in connection with the extension of any scheduled payment hereunder otherwise permitted hereby), or reduce the principal amount thereof, or make any change to the definition of Applicable Margin or Applicable Fee Percentage (or Annex B) (it being understood that any increase in the rate of interest or fee applicable to the Loans only requires the consent of the Majority Lenders and any increase in a Lender's Commitment shall require the consent of such Lender), or, subject to Section 13.04(iv), make any change to the penultimate sentence of the first paragraph of Section 2.09, or reduce the Reimbursement Obligation in respect of any Letter of Credit, (II) extend the final maturity of any of the Commitments or amend Section 2.04(a), (III) change the currency in which any Obligation is payable, (IV) amend the terms of this Section 13.04 or clause (iv) of Section 13.06(b), Section 4.02, 4.07, Article V or 12.03, (V) reduce the percentages specified in the definition of the term "Majority Lenders" or amend any provision of any Credit Document requiring the consent of all the Lenders or reduce any other percentage of the Lenders required to make any determinations or waive any rights hereunder or to modify any provision hereof (it being understood, however, that only the consent of the Lenders included in such percentage need be obtained), (VI) release all or substantially all of the Subsidiary Guarantors from their obligations under Article VI (unless permitted by this Agreement), (VII) consent to the assignment or transfer by Borrower of any of its rights and obligations under any Credit Document (except that in a transaction permitted by Section 10.05 resulting in any Credit Party (except Borrower) assigning its rights and obligations under the Credit Documents to any other Credit Party no consent of any Lender or Agent need be obtained), (VIII) release all or substantially all the Collateral or terminate the Lien under any Credit Document in respect of all

or substantially all the Collateral (except as permitted by the Credit Documents) or agree to additional obligations (other than the Obligations and any other extensions of credit under this Agreement (or any other agreement) consented to by the Majority Lenders) being secured by the Collateral, (IX) amend Section 13.03 or any other indemnification and expense reimbursement provision set forth in any Credit Document in any manner adverse to any Creditor or (X) provide for Interest Periods with a longer period than the then longest available Interest Period;

(b) no such amendment or waiver shall increase the Commitments of any Lender over the amount thereof then in effect without the consent of such Lender (it being understood that amendments or waivers of conditions precedent, covenants or Defaults shall not constitute an increase of the Commitment of any Lender);

(c) any modification or supplement of or waiver with respect to Article XII which affects any Agent in its capacity as such shall require the consent of such Agent;

(d) no consent of any Lender need be obtained, and Administrative Agent is hereby authorized, to release any Lien securing the Obligations on Property which is the subject of any disposition permitted by the Credit Documents and to release any Guarantee of a Subsidiary upon the sale of a majority of the Equity Interests of such Subsidiary in accordance with the Credit Documents;

(e) subject to clause (a)(I) of the proviso to this Section 13.04(i), the consent of all of the Lenders of the affected Term Facility (but no other Lender or Agent) shall be required with respect to any extension of any scheduled Amortization Payment or any reduction in the amount of any scheduled Amortization Payment (except in accordance with Section 2.09 or Section 2.10);

(f) subject to Section 13.04(iv), no modification, supplement or waiver shall alter the provisions of the first paragraph of Section 2.10(b) in a manner that would reduce the proportion of any prepayment under Section 2.10(a) to be allocated to any Tranche or the order of application among the Tranches or the order of application to Loans within a Tranche or change the right of any Tranche to decline or to accept prepayments pursuant to Section 2.09(b) or 2.10(b), in each case without the consent of the Requisite Tranche Lenders of the Tranche proposed to be allocated a lesser prepayment or to have its order of priority changed or have the order of application within such Tranche changed as a result thereof (it being understood that the increase of any Tranche or the addition of a new tranche of credit that is afforded substantially the same rights under Section 2.10(b) as the Tranches of the same type are then treated under Section 2.10(b) shall only require the consent of the Majority Lenders); *provided* that no such consent is required in connection with the Incremental Loan Facility;

(g) no reduction of the percentage specified in the definition of "Majority Revolving Lenders" shall be made without the consent of each Revolving Lender (it being understood that no consent of any other Lender or Agent is needed);

(h) no reduction of the percentage specified in any subclause of the definition of "Requisite Tranche Lenders" shall be made without the consent of each Lender of the Tranche contemplated by such subclause (it being understood that no consent of any other Lender or Agent is needed);

(i) no amendment or waiver shall affect the rights or duties of L/C Lender in its capacity as such or alter the obligation of any Revolving Lender pursuant to Section 2.03(e) or 2.03(f) without the consent of L/C Lender;

(j) no amendment or waiver shall affect the rights or duties of the Swingline Lender in its capacity as such or alter the obligations of the Swingline Lender pursuant to Section 2.01(g) without the consent of the Swingline Lender;

(k) no consent of any Lender need be obtained to effect any amendment of any Credit Document necessary to comply with Section 9.09 or Section 9.12;

(l) no amendment, modification, supplement or waiver may be made to any condition precedent to any extension of credit under the Revolving Facility set forth in subsection 7.02 without the written consent of the Majority Revolving Lenders, it being understood that amendments to or waivers of any representation or warranty or any covenant contained in any Credit Document, or of any Default, shall be deemed to be effective for purposes of determining whether the conditions precedent set forth in subsection 7.02 to the making of any extension of credit under the Revolving Loans have been satisfied regardless of whether the Majority Revolving Lenders shall have consented to such amendment or waiver;

(m) so long as any Term A Facility Loans, Revolving Loans, Incremental Loans (to the extent they are revolving loans), Swingline Loans or L/C Liabilities are outstanding or any Revolving Commitments are in effect, the date then in effect for any scheduled Amortization Payment or the scheduled final maturity of any Term B Facility, Loans, Term C Facility Loans or Incremental Loans (if such Incremental Loan is a Term Loan) having the terms thereof may not be made earlier than the date then in effect and the then applicable amount of any such Amortization Payment (other than the last Amortization Payment thereon) may not be increased without the consent of the Lenders holding a majority of the sum of the Revolving Loans, L/C Liabilities, Swingline Exposure, Unutilized R/C Commitments then in effect and Term A Facility Loans (such Lenders holding such credit exposure, the "**Majority Pro Rata Lenders**") then outstanding;

(n) no material change shall be made to the definition of "Eligible Person" or to Section 2.11(b) if such change violates any Gaming Law or if any applicable Gaming Authority prohibits such change; and

(o) no amendment, modification, supplement or waiver may be made to any covenants set forth in Section 10.08(a), (b) and (c) (excluding any component definitions relating thereof) without the written consent of (i) the Revolving Majority Lenders (including such Incremental Loans that are Revolving Loans) and (ii) with respect to those Lenders having Term A Facility Loans and Term A Facility Commitments, Term B Facility Loans and Term B Facility Commitments, Term C Facility Loans and Term C Facility Commitments, and any Incremental Loans or Incremental Loan Facility Commitments that are term loans, Lenders having at least a majority of the aggregate sum of the Term A Facility Loans and Term A Facility Commitments, Term B Facility Loans and Term B Facility Commitments, Term C Facility Loans and Term C Facility Commitments then outstanding, and the Incremental Loans that are term loans and Incremental Loan Facility Commitments that are term loans then outstanding.

(ii) If, in connection with any proposed change, waiver, discharge or termination to any of the provisions of this Agreement as contemplated by Section 13.04(i)(a), the consent of the Majority Lenders is obtained but the consent of one or more of such other Lenders whose consent is required is not obtained, then Borrower shall have the right to replace one or more of such non-consenting Lender or Lenders with one or more Replacement Lenders pursuant to Section 2.11 so long as at the time of such replacement each such Replacement Lender consents to the proposed change, waiver, discharge or termination.

(iii) Notwithstanding anything herein to the contrary, (A) with the consent of the Majority Lenders, other additional extensions of credit pursuant to this Agreement may be included in the determination of the Majority Lenders, Majority Revolving Lenders and Requisite Tranche Lenders without notice to or consent of any other Lender or Agent on substantially the same basis as the Commitments (and related extensions of credit) are included on the Closing Date, and (B) it is agreed and understood that, subject to clauses (f), (m) and (n) of Section 13.04(i), any prepayment required by

Section 2.10 (and any corresponding reduction of the Revolving Commitments) may be modified, supplemented or waived by the Majority Lenders.

(iv) Notwithstanding anything herein to the contrary, upon any additional extensions of credit under this Agreement being approved by the written consent of the Majority Lenders, Lead Arrangers, Administrative Agent and the Credit Parties are hereby authorized to effect amendments (without notice to or the consent of any other Lender or Agent) to (i) Sections 1.01 and 1.03 for the purpose of including such appropriate defined terms as may be necessary and apply to such additional extensions of credit being incorporated into this Agreement to identify it as a separate Class of Loans (and within the definition of "Commitments," "Loans," etc.) hereunder (if necessary), and to include it in the various defined terms relating to required percentages of outstanding extensions of credit hereunder for purposes of amendments and waivers to the Credit Documents (e.g., "Majority Lenders," "Requisite Tranche Lenders") so long as treated on substantially the same terms as other Classes of Loans are then treated; (ii) Section 2.08 to effect conforming changes to reflect such new Class; (iii) Section 2.09 to treat any such new Class that is a term extension of credit on substantially the same terms as the Term Facilities are then treated (including, for any new Class held by lenders similar to the Lenders of the Term B Loan Facility and Incremental Loan Facilities having the terms thereof, the provisions of Section 2.09(b)) (it being understood that the order of application of optional prepayments to amortization payments for such new Class shall be as agreed between the Credit Parties and the lenders extending such new credit in their sole discretion) and to treat any such new Class that is a revolving facility on substantially the same terms as the Revolving Facility is then treated; (iv) Section 2.10(b) to treat any such new Class that is a term extension of credit on substantially the same terms as the Term Facilities are then treated (including, for any new Class held by lenders similar to the Lenders of the Term B Loan Facility and Incremental Loan Facilities having the terms thereof, the provisions of the last sentence of Section 2.10(b)(i)) (it being understood that the order of application of mandatory prepayments to amortization payments for such new Class shall be as agreed between the Credit Parties and the lenders extending such new credit in their sole discretion) and to treat any such new Class that is a revolving facility on substantially the same terms as the Revolving Facility is then treated; and (v) Section 3.01(b) to provide for the amortization for such new Class of Loans as provided for by the lenders thereof and the Credit Parties in their sole discretion so long as the Weighted Average Life to Maturity of any new term extension of credit is not less than that of the then existing Term B Facility Loans and the Weighted Average Life to Maturity of any revolving extension of credit is not less than that of the Revolving Commitments then in effect.

SECTION 13.05. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns.

SECTION 13.06. Assignments and Participations. (a) No Credit Party may assign its respective rights or obligations hereunder or under the Notes or any other Credit Document without the prior written consent of all of the Lenders.

(b) Each Lender may assign (which may be non-*pro rata* among Loans and Commitments) to any Eligible Person any of its Loans, its Notes, its L/C Interests and its Commitments, *provided* that (i) no such assignment to any such Eligible Person (other than any Lender, any Affiliate of any Lender or any Approved Fund) shall be in an aggregate principal amount of less than $1.0 million other than in the case of an assignment of all of a Lender's interests under this Agreement, unless otherwise agreed by Borrower and Administrative Agent, (ii) in the case of any assignment of Revolving Commitments (other than to a Lender or an Affiliate of a Lender) the consent of Borrower and Administrative Agent shall be required, (iii) no consent shall be required for any assignment by Administrative Agent or any of its Affiliates, (iv) in the case of any assignment of Term Loans the consent of Administrative Agent shall be required, (v) no consent of Borrower shall be required for an assignment by the Swingline Lender of the Swingline Loans, (vi) each assignment, other than to a Lender or any Lender's Affiliate or an Approved Fund of any Lender and other than any assignment effected by Lead

Arrangers or any of their respective Affiliates in connection with the syndication of the Commitments and/or Loans or otherwise, shall not reduce the assignor's Loans and Commitments to less than $1.0 million (unless reduced to $0 or otherwise agreed to by Administrative Agent and, in the case of Revolving Loans and Swingline Loans, Borrower) and (vii) in no event may any such assignment be made to any Credit Party or any of its Affiliates without consent of all Lenders unless the Assignee agrees in writing that its Loans or Notes shall not be deemed outstanding for any matter under Section 13.04 or any other vote or consent of the Lenders under the Credit Documents; and *provided*, *further* that any consent of Borrower otherwise required under this clause (b) shall not be required if a Default or Event of Default has occurred and is continuing. Any assignment of a Loan shall be effective only upon appropriate entries with respect thereto being made in the Register (and each Note shall expressly so provide). Any assignment or transfer of a Loan shall be registered on the Register only upon surrender for registration of assignment or transfer of the Note evidencing such Loan (if a Note was issued in respect thereof), accompanied by a Notice of Assignment, and upon consent thereto by Borrower and Administrative Agent to the extent required above (none of which consents to be unreasonably withheld, delayed or conditioned), one or more new Notes (if requested by the new Lender) in the same aggregate principal amount shall be issued to the designated assignee (or its nominee) and the old Notes shall be returned by Administrative Agent to Borrower marked "canceled". Upon execution and delivery by the assignee to Borrower and Lead Arrangers of a Notice of Assignment, and upon consent thereto by Borrower, Lead Arrangers and L/C Lender to the extent required above (none of which consents to be unreasonably withheld, delayed or conditioned), and in the case of a Loan, upon appropriate entries being made in the Register the assignee shall have, to the extent of such assignment (unless otherwise provided in such assignment with the consent of Administrative Agent), the obligations, rights and benefits of a Lender hereunder holding the Commitment(s), Loans (or portions thereof) and L/C Interests assigned to it (in addition to the Commitment(s), L/C Interests and Loans, if any, theretofore held by such assignee) and the assigning Lender shall, to the extent of such assignment, be released from the Commitment(s) (or portion(s) thereof) so assigned. Upon any such assignment, certain rights and obligations of the assigning Lender shall survive as set forth in Section 13.07. Each assignment shall be made pursuant to an agreement substantially in the form of *Exhibit N*.

(c) Within 45 days after the effective date of any assignment of Loans, Notes, L/C Interests or Commitments that required the consent of Borrower, Borrower shall give notice of such assignment to the West Virginia Lottery Commission and the West Virginia Racing Commission.

(d) A Lender (other than Swingline Lender) may sell or agree to sell without notice to or consent of Borrower and Administrative Agent to one or more other persons a participation in all or any part of any Loans and L/C Interests held by it, or in its Commitments, in which event each purchaser of a participation (a "**Participant**") shall be entitled to the rights and benefits of the provisions of Article V (*provided*, *however*, that no Participant shall be entitled to receive any greater amount pursuant to Article V than the transferor Lender would have been entitled to receive in respect of the participation effected by such transferor Lender had no participation occurred) with respect to its participation in such Loans, L/C Interests and Commitments as if such Participant were a "Lender" for purposes of said Section, but, except as otherwise provided in Section 4.07(c), shall not have any other rights or benefits under any Credit Document (the Participant's rights against such Lender in respect of such participation to be those set forth in the agreements executed by such Lender in favor of the Participant). All amounts payable by Borrower to any Lender under Article V in respect of Loans, L/C Interests and its Commitments shall be no greater than the amount that would have applied if such Lender had not sold or agreed to sell any participation in such Loans, L/C Interests and Commitments, and as if such Lender were funding each of such Loan, L/C Interests and Commitments in the same way that it is funding the portion of such Loan, L/C Interests and

Commitments in which no participations have been sold. In no event shall a Lender that sells a participation agree with the Participant to take or refrain from taking any action hereunder or under any other Credit Document,

except that such Lender may agree with the Participant that it will not, without the consent of the Participant, agree to any modification or amendment set forth in subclauses (I), (II), (III) or (VIII) of clause (a) of the proviso to Section 13.04(i) to the extent such Lender's consent is required therefor.

(e) In addition to the assignments and participations permitted under the foregoing provisions of this Section 13.06, any Lender may assign and pledge all or any portion of its Loans and its Notes to any United States Federal Reserve Bank as collateral security pursuant to Regulation A of the Board of Governors of the Federal Reserve System and any Operating Circular issued by such Federal Reserve Bank and, in the case of a Lender that is a fund that invests in bank loans, any such Lender may assign or pledge all or any portion of its Loans and its Notes to any holders of obligations owed, or securities issued, by such fund, as security for such obligations or securities, or to any trustee for, or any other representative of, such holders, in each case, without notice to or consent of Borrower, Administrative Agent, Lead Arrangers or L/C Lender. Any transfer as a result of the foreclosure on such pledge shall be subject to Section 13.06(b). No such assignment shall release the assigning Lender from its obligations hereunder.

(f) A Lender may furnish any information concerning any Company in the possession of such Lender from time to time to assignees and participants (including prospective assignees and participants) subject, however, to and so long as the recipient agrees to be bound by the provisions of Section 13.11. In addition, each Agent may furnish any information concerning any Credit Party or any of its Affiliates in such Agent's possession to any Affiliate of such Agent, subject, however, to the provisions of Section 13.11. To the extent the Loans are not fully syndicated prior to the Closing Date, the Credit Parties shall assist Lead Arrangers in the granting participations in, or selling assignments of all or a portion of, the commitments or the loans under the Credit Facilities pursuant to arrangements reasonably satisfactory to Lead Arrangers.

SECTION 13.07. Survival. The obligations of the Credit Parties under Sections 5.01, 5.05, 5.06 and 13.03, the obligations of each Subsidiary Guarantor under Section 6.03, and the obligations of the Lenders under Sections 5.06 and 12.02, shall survive the repayment of the Loans and Reimbursement Obligations and the termination of the Commitments and, in the case of any Lender that may assign any interest in its Commitments, Loans or L/C Interest hereunder, shall (to the extent relating to such time as it was a Lender) survive the making of such assignment, notwithstanding that such assigning Lender may cease to be a "Lender" hereunder. In addition, each representation and warranty made, or deemed to be made by a notice of any extension of credit, herein or pursuant hereto shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of this Agreement and the Notes and the making of any extension of credit hereunder, regardless of any investigation made by any such other party or on its behalf and notwithstanding that Administrative Agent or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty.

SECTION 13.08. Captions. The table of contents and captions and Section headings appearing herein are included solely for convenience of reference and are not intended to affect the interpretation of any provision of this Agreement.

SECTION 13.09. Counterparts; Interpretation; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the Original Fee Letter, the New Fee Letter and the Administrative Agent's Fee Letter constitute the entire contract among the parties thereto relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof, other than the Original Fee Letter and the provisions of Section 2 of the Commitment Letter, which are not superseded and survive solely as to the parties thereto. This Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns.

Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 13.10. Governing Law; Submission to Jurisdiction; Waivers; Etc. (a) Pursuant to Section 5-1401 of the General Obligations Laws of the State of New York, each Credit Document shall be governed by, and construed in accordance with, the law of the State of New York (except in the case of the other Credit Documents, to the extent otherwise expressly stated therein). Each Credit Party hereby irrevocably and unconditionally: (I) submits for itself and its Property in any Proceeding relating to any Credit Document to which it is a party, or for recognition and enforcement of any judgment in respect thereof, to the non-exclusive general jurisdiction of the Supreme Court of the State of New York sitting in New York County, the courts of the United States of America for the Southern District of New York, and appellate courts thereof; (II) consents that any such Proceeding may be brought in any such court; (III) agrees that service of process in any such Proceeding may be effected by mailing a copy thereof by registered or certified mail (or any substantially similar form of mail), postage prepaid, to Borrower at its address set forth on the signature page hereto or at such other address of which Administrative Agent shall have been notified pursuant thereto; and (IV) agrees that nothing herein shall affect the right to effect service of process in any other manner permitted by law or shall limit the right to sue in any other jurisdiction.

(b) EACH CREDIT PARTY, EACH AGENT AND EACH LENDER HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY AND ALL RIGHTS TO TRIAL BY JURY IN ANY LEGAL ACTION OR PROCEEDING ARISING OUT OF OR RELATING TO THIS AGREEMENT OR THE OTHER CREDIT DOCUMENTS OR THE TRANSACTIONS CONTEMPLATED HEREBY AND FOR ANY COUNTERCLAIM THEREIN.

SECTION 13.11. Confidentiality. Each Lender agrees to keep information obtained by it pursuant to the Credit Documents confidential in accordance with such Lender's customary practices and agrees that it will only use such information in connection with the transactions contemplated hereby and not disclose any of such information other than (a) to such Lender's employees, representatives, directors, attorneys, auditors, agents, professional advisors, trustees or affiliates who are advised of the confidential nature thereof or to any direct or indirect creditor or contractual counterparty in swap agreements or such creditor, contractual counterparty's professional advisor (so long as such contractual counterparty or professional advisor to such contractual counterparty agrees to be bound by the provision of this Section 13.11, such Lender being liable for any breach of confidentiality by any person described in this clause (a) and with respect to disclosures to Affiliates to the extent disclosed by such Lender to such Affiliate), (b) to the extent such information presently is or hereafter becomes available to such Lender on a non-confidential basis from a person not an Affiliate of such Lender not known to such Lender to be violating a confidentiality obligation by such disclosure, (c) to the extent disclosure is required by any Law, subpoena or judicial order or process (*provided* that notice of such requirement or order shall

be promptly furnished to Borrower unless such notice is legally prohibited) or requested or required by bank, securities, insurance or investment company regulations or auditors or any administrative body or commission (including the Securities Valuation Office of the NAIC) to whose jurisdiction such Lender is subject, (d) to any rating agency to the extent required in connection with any rating to be assigned to such Lender, *provided* that notice thereof is promptly furnished to Borrower, (e) to assignees or participants or prospective assignees or participants who agree in writing to be bound by the provisions of this Section 13.11, (f) to the extent required in connection with any litigation between any Credit Party and any Creditor with respect to the Loans or any Credit Document or (g) with Borrower's prior written consent. Notwithstanding the foregoing, the parties hereto (and each employee, representative, or other agent of the parties hereto) may disclose to any and all persons, without limitation of any kind, the tax treatment and any facts that may be relevant to the tax structure of the transaction, provided, however, that no party (and no employee,

representative, or other agent thereof) shall disclose any other information that is not relevant to understanding the tax treatment and tax structure of the transaction (including the identity of any party and any information that could lead another to determine the identity of any party), or any other information to the extent that such disclosure could result in a violation of any federal or state securities law.

SECTION 13.12. Independence of Representations, Warranties and Covenants. The representations, warranties and covenants contained herein shall be independent of each other and no exception to any representation, warranty or covenant shall be deemed to be an exception to any other representation, warranty or covenant contained herein unless expressly provided, nor shall any such exception be deemed to permit any action or omission that would be in contravention of applicable law.

SECTION 13.13. Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under applicable law, such provision shall be ineffective only to the extent of such prohibition or invalidity, without invalidating the remainder of such provisions or the remaining provisions of this Agreement.

SECTION 13.14. Gaming Laws. (a)This Agreement and the other Credit Documents are subject to the Gaming Laws and the laws involving the sale, distribution and possession of alcoholic beverages (the "**Liquor Laws**"). Without limiting the foregoing, each of Administrative Agent, Lead Arrangers, Syndication Agent, Documentation Agents, Lenders and Participants acknowledges that (i) it is the subject of being called forward by the Gaming Authority or Governmental Authority enforcing the Liquor Laws (the "**Liquor Authorities**"), in their discretion, for licensing or a finding of suitability or to file or provide other information, and (ii) all rights, remedies and powers under this Agreement and the other Credit Documents, including with respect to the entry into and ownership and operation of the Gaming Facilities, and the possession or control of gaming equipment, alcoholic beverages or a gaming or liquor license, may be exercised only to the extent that the exercise thereof does not violate any applicable provisions of the Gaming Laws and Liquor Laws and only to the extent that required approvals (including prior approvals) are obtained from the requisite Governmental Authorities.

(b) Each of Administrative Agent, Lead Arrangers, Syndication Agent and Documentation Agents and Lenders agrees to cooperate with the Gaming Authority (or to be subject to Section 2.11) in connection with the provisions of such documents or other information as may be requested by such Gaming Authority or Liquor Authorities relating to Borrower and its Subsidiaries or to the Credit Documents.

[Signature Pages Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered as of the Effective Date.

PENN NATIONAL GAMING, INC.

By: /s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: Chief Financial Officer and Senior Vice President, Finance

Address for Notices:

Penn National Gaming, Inc.
825 Berkshire Boulevard
Suite 200
Wyomissing, Pennsylvania 19610

Contact person: Robert S. Ippolito
Telecopier No.: (610) 376-2842
Telephone No.: (610) 378-8384

SUBSIDIARY GUARANTORS:

BACKSIDE, INC.

By: /s/ RICHARD E. ORBANN

Name: Richard E. Orbann
Title: President

HOLLYWOOD CASINO-AURORA, INC.

By: /s/ KEVIN DESANCTIS

Name: Kevin DeSanctis
Title: President

PNGI CHARLES TOWN GAMING LIMITED LIABILITY COMPANY

By: PENN NATIONAL GAMING OF WEST VIRGINIA, INC.,
Managing Member

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Secretary and Treasurer

PNGI CHARLES TOWN FOOD & BEVERAGE LIMITED LIABILITY COMPANY

By: /s/ RICHARD MOORE

Name: Richard Moore
Title: Manager

PENN NATIONAL GSFR, LLC

By: PENN NATIONAL GAMING, INC.,
Sole Member and Manager

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Vice President, Secretary and Treasurer

PENN NATIONAL SPEEDWAY, INC.

By: /s/ RICHARD J. CARLINO

Name: Richard J. Carlino
Title: Chief Executive Officer

W-B DOWNS, INC.

By: /s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: President

WILKES BARRE DOWNS, INC.

By: /s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: President

By: /s/ ROBERT S. IPPOLITO

Name: Robert S. Ippolito
Title: Treasurer

On behalf of the Subsidiary Guarantors listed below:

BSL, INC.
BTN, INC.
CHC CASINOS CORP.
CRC HOLDINGS, INC.
THE DOWNS RACING, 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.
MILL CREEK LAND, INC.
MOUNTAINVIEW THOROUGHBRED RACING ASSOCIATION
NORTHEAST CONCESSIONS, INC.
PNGI POCONO, INC.
PENN BULLPEN, INC.
PENN BULLWHACKERS, INC.
PENN MILLSITE, INC.
PENN NATIONAL GAMING OF WEST VIRGINIA, INC.
PENN NATIONAL HOLDING COMPANY
PENN SILVER HAWK, INC.
PENNSYLVANIA NATIONAL TURF CLUB, INC.
STERLING AVIATION, INC.

BEAR, STEARNS & CO. INC.,
as Original Joint Lead Arranger and Original Joint Bookrunner

By: /s/ KEITH C. BARNISH

Name: Keith C. Barnish
Title: Senior Managing Director

BEAR, STEARNS & CO. INC.,
as Sole Lead Arranger and Sole Bookrunner for the Term D Loan Facility and the Amendment and Restatement

By: /s/ KEITH C. BARNISH

Name: Keith C. Barnish
Title: Senior Managing Director

MERRILL LYNCH, PIERCE, FENNER & SMITH
INCORPORATED,
as Original Joint Lead Arranger, Original Joint Bookrunner and Syndication Agent

By: /s/ STEPHEN B. PARAS

Name: Stephen B. Paras
Title: Managing Director

Address for Notices:

Merrill Lynch, Pierce Fenner & Smith
Incorporated

4 World Financial Center
250 Vesey Street
New York, New York 10080
Attention: Michael O'Brien

Telecopier No.: (212) 449-4877
Telephone No.: (212) 449-0948

BEAR STEARNS CORPORATE LENDING INC.,
as Administrative Agent, Swingline Lender, and Collateral Agent

By: /s/ KEITH C. BARNISH

Name: Keith C. Barnish
Title: Executive Vice President

Address for Notices:

Bear Stearns Corporate Lending Inc.
383 Madison Avenue
New York, New York 10179
Attention: Stephen O'Keefe

Telecopier No.: (212) 272-9184
Telephone No.: (212) 272-9430

SOCIETE GENERALE,
as Joint Documentation Agent

By: /s/ CARINA T. HUYNH

Name: Carina T. Huynh
Title: Vice President

CREDIT LYONNAIS NEW YORK BRANCH,
as Joint Documentation Agent

By: /s/ F. FRANK HERRERA

Name: F. Frank Herrera
Title: Vice President

Annex A

COMMITMENTS

ON FILE WITH ADMINISTRATIVE AGENT

	Allocation		
Institution	**Revolving Commitments**	**Term D Facility Commitments**	**Total**
Total	$ 100,000,000	$ 399,700,000	$ 499,700,000

Annex B

Applicable Margin and Applicable Fee Percentage

	Revolving Loans		Term D Facility Loans		
Consolidated Total Leverage Ratio	**LIBOR+**	**ABR+**	**LIBOR+**	**ABR+**	**Applicable Fee Percentage(1)**
Level I >5.00x	3.50%	2.50%	2.50%	1.50%	0.750%
Level II >4.50x	3.25%	2.25%	2.50%	1.50%	0.625%
Level III >4.00x	3.25%	2.25%	2.50%	1.50%	0.500%
Level IV >3.50x	3.00%	2.00%	2.50%	1.50%	0.500%
Level V >3.00x	2.75%	1.75%	2.50%	1.50%	0.375%
Level VI >2.50x	2.50%	1.50%	2.50%	1.50%	0.375%
Level VII <2.50x	2.25%	1.25%	2.50%	1.50%	0.375%

(1) Applies to Revolving Facility.

Each change in the Applicable Margin or Applicable Fee Percentage resulting from a change in the Consolidated Total Leverage Ratio shall be effective with respect to all Loans and Letters of Credit outstanding on and after the date of delivery to Administrative Agent of the Interest Rate Certificate required by Section 9.04(e); *provided* that in the event Borrower or any of its Restricted Subsidiaries issues Permitted Subordinated Indebtedness, any change in the Consolidated Senior Leverage Ratio resulting therefrom shall be effective to adjust the Applicable Margin immediately upon delivery of an Interest Rate Certificate evidencing such change (which may be delivered upon of after giving effect to such issuance notwithstanding anything herein to the contrary), indicating such change until the date immediately preceding the next date of delivery of such Certificate indicating another such change. Any change in the Applicable Margin triggered by the occurrence of the conditions set forth in the second sentence of the definition of Applicable Margin shall be immediately effective with respect to all Loans and Letters of Credit then outstanding.

Annex C

AMORTIZATION PAYMENTS*

DATE**	TERM A FACILITY LOANS***	TERM D FACILITY LOANS***
June 2003	$ 5,000,000	$ N/A
September 2003	5,000,000	N/A
December 2003	5,000,000	N/A
March 2004	5,000,000	999,250
June 2004	5,000,000	999,250
September 2004	5,000,000	999,250
December 2004	5,000,000	999,250
March 2005	5,000,000	999,250
June 2005	5,000,000	999,250
September 2005	5,000,000	999,250
December 2005	5,000,000	999,250
March 2006	5,000,000	999,250
June 2006	5,000,000	999,250
September 2006	5,000,000	999,250
December 2006	5,000,000	999,250
March 2007	5,000,000	999,250
June 2007	5,000,000	999,250
September 2007	15,000,000	385,710,500
Total	$ 100,000,000	$ 399,700,000

* Does not give effect to payment of Term B Facility Loans prior to Effective Date.

** Unless otherwise indicated, such date is the first Business Day of the specified month.

*** Assumes that the maturity date is September 1, 2007.

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Exhibit 10.26

PENN NATIONAL GAMING, INC
NONQUALIFIED STOCK OPTION

This Nonqualified Stock Option ("Option") is granted as of the 6th day of February, 2003 by Penn National Gaming, Inc., a Pennsylvania corporation (the "Company") to Peter M. Carlino (the "Optionee").

B A C K G R O U N D:

The Optionee is an employee of the Company. The Company desires to grant to the Optionee, and the Optionee desires to accept from the Company, a Nonqualified Stock Option. This Agreement shall serve to memorialize the action taken by the Compensation Committee at its meeting on February 5, 2003. This Option is not granted pursuant to that certain Amended and Restated 1994 Stock Option Plan of the Company, as amended (the "Plan", a copy of which is attached hereto as Exhibit "A"). Notwithstanding the foregoing sentence, any capitalized terms used herein shall have the meanings ascribed to them in the Plan, unless the context requires otherwise, and the provisions of this Option shall be interpreted as if the Option were granted under the plan and in accordance with the terms and conditions of the Plan.

NOW THEREFORE, in consideration of the above premises and of the undertakings set forth herein, the parties hereto, intending to be legally bound, hereby agree as follows:

1. *Grant.* The Company hereby grants to the Optionee an Option to purchase on the terms hereinafter set forth all or any part of an aggregate of FORTY SEVEN THOUSAND AND FIVE HUNDRED (47,500) shares (the "Option Shares") of the Company's $.01 par value Common Stock ("Common Stock") at an exercise price of $15.9000 per share (the "Option Price") pursuant to the Plan.

2. *Term.* The Option granted hereunder shall be exercisable for a period of nine years commencing on the first anniversary of the date hereof, and in accordance with the following vesting schedule:

Date	Number of Vested Shares
February 6, 2004	11,875
February 6, 2005	11,875
February 6, 2006	11,875
February 6, 2007	11,875

Except as provided in Article 8 of the Plan (relating to termination of employment after vesting), the Option may be exercised only during the continuance of the Optionee's employment. Once any Option Shares become vested, the Option's exercisability is intended to be cumulative and is not to be affected by the subsequent vesting of other Option Shares.

3. *Method of Exercise and Payment.* The Option shall be exercised by written notice, specifying the number of Option Shares to be purchased and accompanied by payment in the amount of the Option Price multiplied by the number of shares of Common Stock designated in such election to purchase. The purchase price shall be paid in full, in cash or by certified or cashier's check payable to the order of the Company, upon the exercise of the Option; provided, however, that in lieu of cash or check, with the approval of the Committee appointed by the Board of Directors of the Company to administer the Plan at or prior to exercise, the Optionee may exercise the Option in the manner provided in Article 5.4 of the Plan relating to "Cashless Exercise," or by tendering to the Company shares of the Company's Common Stock owned by the Optionee and having a fair market value equal to the cash exercise price applicable to the Option (with the fair market value of such stock to be determined in the manner provided in Article 5 of the Plan) or by delivering such combination of cash and such shares as the Committee in its sole discretion may approve. The shares of Common Stock so

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purchased shall be issued to the Optionee as the record owner of such shares of Common Stock as of the close of business on the date on which the Option is exercised, in whole or in part, and the Option Price is paid. Certificates representing the shares of Common Stock so purchased shall be delivered to the Optionee promptly and in no event later than ten days after the Option shall have been so exercised.

4. *Transfers.* This Option is not transferable by the Optionee other than by will or pursuant to the laws of descent and distribution in the event of the Optionee's death, in which event the Option may be exercised by the heirs or legal representatives of the Optionee. Any attempt at assignment, transfer, pledge or disposition of the Option contrary to the provisions hereof, or the levy of any execution, attachment or similar process on the Option, shall be null and void and without effect.

5. *Adjustments on Changes in Common Stock.* The number of Option Shares covered by this Option and the Option Price shall be appropriately adjusted in the event of a stock dividend, stock split or other increase or decrease in the number of issued shares of Common Stock of the Company resulting from a subdivision or consolidation of such Common Stock or other capital adjustment (not including the issuance of Common Stock on the conversion of other securities of the Company which are convertible into Common Stock) effected without receipt of consideration by the Company.

6. *Rights of the Company.* Neither the Optionee nor his legal representative, legatees or distributes, as the case may be, will be or will be deemed to be a holder of any shares subject to this Option unless and until certificates for such shares are issued to him or them upon exercise of this Option. No dividends shall be payable on any stock subject to this Option prior to the issuance of such shares on exercise of this Option.

7. *Legal Requirements.* If the listing, registration or qualification of the Option Shares on any securities exchange or under any Federal or state law, or the consent or approval of any governmental regulatory body is necessary as a condition of or in connection with the purchase of such Option Shares, the Company shall not be obligated to issue or deliver the certificates representing the Option Shares as to which the Option has been exercised unless and until such listing,

registration, qualification, consent or approval shall have been effected or obtained. This Option does not hereby impose on the Company a duty so to list, register, qualify or effect or obtain consent or approval. If registration is considered unnecessary by the Company or its counsel, the Company shall cause a legend to be placed on the Option Shares being issued calling attention to the fact that they have been acquired for investment and have not been registered, and such other legends as maybe considered necessary by the Company or its counsel.

8. *Option Shares to Be Purchased for Investment.* Unless the Company has heretofore notified the Optionee that a registration statement covering the Option Shares has become effective under the Securities Act of 1933, as amended, and the Company has not hereafter notified the Optionee that such registration is no longer effective or that the prospectus contained therein is no longer current, it shall be a condition to any exercise of the Option that the Option Shares acquired upon such exercise be acquired for investment and not with a view to distribution, and the person effecting such exercise shall submit to the Company a certificate of such investment intent, together with such other evidence supporting the same as the Company may request. The Company shall be entitled to restrict the transferability of the Option Shares issued upon any such exercise to the extent necessary to avoid risk of violation of the Securities Act of 1933, as amended, or any other Federal or state securities laws or any rules or regulations promulgated thereunder. Such restrictions and any such other restrictions as may be deemed necessary by the Company or its counsel may, at the option of the Company, be noted or set forth in full on the share certificates.

9. *Withholding Taxes.* (a) As a condition of the exercise of the Option, subject to the provisions of Subsection 9(b), the Company requires that the Optionee pay or reimburse any taxes which the Company is required to withhold in connection with the exercise of the Option.

(b) The Optionee may satisfy the withholding obligation described in Subsection 9(a), in whole or in part, by electing to have the Company withhold shares of Common Stock (otherwise issuable upon the exercise of the Option) having a fair market value equal to the amount required to be withheld. An election by the Optionee to have shares withheld for this purpose shall be subject to the following restrictions:

(i) it must be made prior to the date on which the amount of tax to be withheld is determined;

(ii) it shall be irrevocable; and

(iii) it shall be subject to disapproval by the Committee.

10. *Notices.* Any notice to be given to the Company shall be addressed to the Treasurer of the Company at its principal executive office and any notice to be given to the Optionee shall be addressed to the Optionee at the address then appearing on the records of the Company or at such other address as either party hereafter may designate in writing to the other. Any such notice shall be deemed to have been duly given when deposited in the United States mail addressed as aforesaid, registered or certified mail and with proper postage and registration or certification fees prepaid.

11. *Relationship.* Nothing herein contained shall affect the rights of the Company or any subsidiary to terminate the Optionee's contractual relationship, services, responsibility, duties or authority to represent the Company or any subsidiary at any time for any reason whatsoever.

12. *Non-defined Terms.* Any initially capitalized term not defined herein shall have the meaning given to it in the Plan.

13. *Amendment.* This Option may not be amended except by an agreement in writing executed by the parties hereto, and approved by the Committee appointed by the Board of Directors of the Company to administer the Plan.

14. *Governing Law.* This Option shall be governed by and construed in accordance with the internal laws (without reference to the law of conflicts) of the Commonwealth of Pennsylvania.

IN WITNESS WHEREOF, the Company has granted this Option on the day and year first above written.

Attest:

/s/ Robert S. Ippolito

ROBERT S. IPPOLITO, SECRETARY
(Corporate Seal)

PENN NATIONAL GAMING, INC.

By: /s/ KEVIN DESANCTIS

KEVIN DESANCTIS, PRESIDENT AND CHIEF OPERATING OFFICER

Witness:
/s/ Susan M. Montgomery

ACCEPTED BY:
/s/ Peter M. Carlino

PETER M. CARLINO

QuickLinks

Exhibit 10.26

PENN NATIONAL GAMING, INC NONQUALIFIED STOCK OPTION

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Exhibit 14.1

Code of Business Conduct

INTRODUCTION

The reputation and integrity of Penn National Gaming, Inc. and its subsidiaries (the "Company") are valuable assets that are vital to the Company's success. This Code of Business Conduct ("Code") covers a wide range of business practices and procedures. It does not cover every issue that may arise, but it sets out basic principles to guide all employees, officers and directors of the Company (collectively referred to as "employees"). All of our employees, officers and directors are responsible for conducting the Company's business in a manner that demonstrates a commitment to the highest standards of integrity and, accordingly, we must all seek to avoid even the appearance of improper behavior.

No code of conduct can replace the thoughtful behavior of an ethical employee. The purpose of this Code is to

- focus employees on areas of ethical risk,
- provide guidance to help employees to recognize and deal with ethics issues,
- provide mechanisms for employees to report unethical conduct,
- foster among employees a culture of honesty and accountability, and
- ensure protection against retaliation for employees who engage in conduct encouraged by this Code.

Dishonest or illegal conduct will constitute a violation of this Code, regardless of whether the conduct is specifically addressed in the Conduct section of the Code.

The Company's Board of Directors and Company management have designated John deGrasse to be the Chief Compliance Officer (the "Chief Compliance Officer") for the implementation and administration of the Code. The Chief Compliance Officer can be reached at 610-373-2400. In addition, each property has a compliance officer (the "property compliance officer") who will assist the Chief Compliance Officer with the implementation and administration of this Code.

Questions regarding the application or interpretation of the Code of Conduct are inevitable. Employees should feel free to direct questions to the Chief Compliance Officer or their property compliance officer. The Chief Compliance Officer is also responsible for conducting or directing the investigation of alleged Code violations under procedures adopted by the Audit Committee of the Board. The Chief Compliance Officer will report to the Audit Committee of the Board on a quarterly basis on matters such as suspected violations of the Code, status of inquiries and investigations, requested waivers to the Code and enforcement of the Code.

REPORTING VIOLATIONS

A. Reporting Violations

The Company expects employees who observe, learn of, or, in good faith, suspect a violation of the Code, to immediately report the violation to the Chief Compliance Officer or the property compliance officer. All managers and supervisors are required to enforce this Code and are not permitted to condone violations. Reported violations will be investigated and addressed promptly. The investigation will be handled discreetly and appropriately, and the information will be disclosed to others only on a need to know basis and as required by law. An employee who violates the Code may be subject to disciplinary action, up to and including termination of employment depending on the severity of the

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violation. Except as described below, the investigations of the alleged Code violations shall be handled by the Chief Compliance Officer in conjunction with other Company personnel.

The Company recognizes the potentially serious impact of a false accusation. Employees are expected as part of the ethical standards required by this Code to act responsibly in reporting violations. Making a complaint without a good faith basis is itself a violation of the Code. Any employee who makes a complaint in bad faith will be subject to disciplinary action (refer to Policy #716—Progressive Discipline).

B. Special Procedures for Reporting/Investigating Complaints Regarding Accounting, Internal Accounting Controls and Auditing Matters

A special procedure exists for the good faith reporting of suspected violations of this Code arising out of questionable accounting, internal accounting controls or auditing matters. These topics include alleged violations concerning full and fair reporting of the Company's financial condition. In these cases, an employee has the right to submit a complaint in a confidential, anonymous manner or with his or her name to the Company's Audit Committee by way of the Chief Compliance Officer. The complaint should be made in written form and provide sufficient information so that a reasonable investigation can be conducted. The complaint should be addressed to the Chief Compliance Officer, Penn National Gaming, Inc., PO Box 7054, Wyomissing, PA 19610. Investigations involving this specific subject matter shall be handled by the Chief Compliance Officer and overseen by the Audit Committee of the Board of Directors pursuant to approved guidelines.

C. Prohibition on Retaliation

Employees who report violations or suspected violations in good faith, as well as those who participate in investigations, will not be subject to retaliation of any kind. If you believe a Company employee has retaliated against you resulting from your written report, you may file a written complaint against that Company employee.

Retaliation is defined as the use of authority or influence for the purpose of interfering with or discouraging a report of a violation of the Code or an investigation of an alleged Code violation. Types of retaliation include, but are not limited to, (1) carrying out or threatening to carry out any punishment; or (2) implementing or approving any adverse personnel action (including but not limited to, transfer assignment, performance evaluation, suspension, demotion, termination, or other disciplinary action).

A complaint of retaliation must be filed under the existing Company complaint resolution procedures (refer to Policy 718—Problem Resolution) or grievance procedures with a copy sent to the Chief Compliance Officer and the Corporate Vice President of Human Resources. If the retaliation complainant is an applicant for employment or any employee who does not have a complaint resolution procedure available for some other reason, the complainant may file the complaint with the Corporate Vice President of Human Resources.

D. Waivers

Requests for a waiver of a provision of the Code must be submitted in writing to the Compliance Officer. For conduct involving an executive officer, senior financial officer or Board member, only the Board of Directors has the authority to waive a provision of the Code. No waiver may be given if such a waiver would violate applicable law or stock exchange regulation.

In the event of an approved waiver involving the conduct of an executive officer or Board member, appropriate and prompt disclosure must be made to the Company's shareholders as required by applicable law or stock exchange regulation.

Statements in the Code of Conduct to the effect that certain actions may be taken only with "Company approval" mean that two executive officers or the Board must give prior approval before the proposed action may be taken.

E. Other Company Policies

This Code should be read in conjunction with the Company's other policy statements addressing dishonest, illegal or unethical conduct, such as the timekeeping, insider trading, harassment, and drug and alcohol policies. All employees will receive a copy of the Code. The Conduct section of the Code (below) describes certain improper conduct specifically prohibited by the Code. However, each employee must bear in mind that the conduct listed below is not intended to be a comprehensive list of such conduct.

CONDUCT

A. Violations of Law

A variety of government laws, rules and regulations apply to the Company and its operations, and some carry criminal penalties. These laws include, without limitation, gaming and pari-mutuel regulations, anti-trust laws, securities laws, workplace discrimination laws, workplace safety laws, drug laws and privacy laws. Examples of criminal violations of the law include: stealing, violence in the workplace, illegal trading of Company stock, bribes and kickbacks, embezzling, misapplying corporate or customer funds, using threats, physical force or other unauthorized means to collect money; making a payment for an expressed purpose on the Company's behalf to an individual who intends to use it for a different purpose; or making payments, whether corporate or personal, that is intended to improperly influence the judgment or actions of political candidates or government officials in connection with any of the Company's activities. In sum, employees must obey all applicable laws. The Company must and will report all suspected criminal violations to the appropriate authorities for possible prosecution, and will investigate and address as appropriate, non-criminal violations.

B. Conflicts of Interest

Generally, a conflict of interest occurs when an employee's or an employee's family or personal interest interferes with, has the potential to interfere with, or appears to interfere with the interests or business of the Company. A conflict of interest can occur or appear to occur in a wide variety of situations including those described below. Any conflict or potential conflict must be disclosed to the Company in advance of the transaction or situation involving the conflict.

1. Personal Interest in a Transaction

Employees have an obligation to conduct business within guidelines that prohibit actual or potential conflicts of interest. This policy establishes only the framework within which the Company wishes the business to operate. The purpose of these guidelines is to provide general direction so that employees can seek further clarification on issues related to the subject of acceptable standards of operation. Contact the Chief Compliance Officer for more information or questions about conflicts of interest.

An actual or potential conflict of interest occurs when an employee is in a position to influence a decision that may result in a personal gain for that employee or for a relative as a result of the Company's business dealings or in a situation making it difficult for the employee to perform their duties. For the purposes of this policy, a relative is any person who is related by blood or marriage, or whose relationship with the employee is similar to that of persons who are related by blood or marriage.

No "presumption of guilt" is created by the mere existence of a relationship with outside firms. However, if employees have any influence on transactions such as purchases, contracts, or leases, it is imperative that the employee discloses such actual or potential conflicts to the Chief Compliance Officer or the property compliance officer as soon as possible so that safeguards can be established to protect all parties.

Personal gain may result not only in cases where an employee or relative has a significant ownership in a firm with which the Company does business, but also when an employee or relative receives any kickback, bribe, substantial gift, or special consideration as a result of any transaction or business dealings involving the Company. The receipt of a gift in excess of $250 in value must be reported to the Chief Compliance Officer or a property compliance officer.

2. Outside Activities/Employment

An employee may hold a job with another organization as long as he or she satisfactorily performs his or her job responsibilities with the Company. All employees will be judged by the same performance standards and will be subject to the Company's scheduling demands, regardless of any existing outside work requirements.

If the Company determines that an employee's outside work interferes with performance or the ability to meet the requirements of the Company as they are modified from time to time, the employee may be asked to terminate the outside employment if he or she wishes to remain with the Company.

Any outside activity, including employment, should not reduce the time and attention employees devote to their corporate duties, should not adversely affect the quality or quantity of their work, and should not make use of Company equipment, facilities, or supplies, or imply (without the Company's approval) the Company's sponsorship or support. In addition, under no circumstances are employees permitted to compete with the Company or take for themselves or their family members business opportunities that belong to the Company that are discovered or made available by virtue of their positions at the Company. Outside employment will present a conflict of interest if it has any adverse impact on the Company.

3. Civic/Political Activities

Employees are encouraged to participate in civic, charitable or political activities so long as such participation does not reduce the time and attention they are expected to devote to their company-related duties. Such activities are to be conducted in a manner that does not involve the Company or its assets or facilities, and does not create an appearance of Company involvement or endorsement (except with written approval of the Company).

4. Loans to Employees

The Company will not make loans or extend credit to or for the personal benefit of officers or directors, except as permitted by law. Loans or guarantees may be extended to other employees only with Audit Committee approval. For clarity, the advancement of funds for approved Company business, such as travel advances, is permitted.

C. Proper Use of Company Assets

Company assets, such as information, materials, supplies, intellectual property, facilities, software, and other assets owned or leased by the Company, or that are otherwise in the Company's possession, may be used only for legitimate business purposes. The personal use of Company assets, without Company approval, is prohibited.

D. Delegation of Authority

Each employee, and particularly each of the Company's officers, must exercise due care to ensure that any delegation of authority is reasonable and appropriate in scope, and includes appropriate and continuous monitoring.

E. Handling Confidential Information and Public Communication

Employees should observe the confidentiality of information that they acquire by virtue of their positions at the Company, including information concerning customers, marketing strategy, technical information, suppliers, competitors, and other employees, except where the Company approves disclosure or the disclosure is otherwise legally mandated. Special sensitivity is accorded to financial information, which should be considered confidential except where the Company approves disclosure, or the disclosure is otherwise legally mandated. Some employees may be required to sign a non-disclosure agreement. Only designated employees may speak to third parties, such as the media, on behalf of the Company. The obligation to preserve the confidentiality of Company information continues even after employment or affiliation with the Company ends.

F. Employees Who Handle or Have Access to Financial Information

In addition to any other applicable laws dealing with financial information, financial reporting, internal accounting controls, auditing matters or public disclosure, the Company requires that any employees involved in financial reporting, internal accounting controls, auditing or public disclosure or with access to such information follow the highest ethical standards, including the following guidelines:

- Act with honesty and integrity and avoid violations of the Code, including actual or apparent conflicts of interest with the Company in personal and professional relationships.
- Disclose to the Chief Compliance Officer any material transaction or relationship that reasonably could be expected to give rise to any violations of the Code, including actual or apparent conflicts of interest with the Company.
- Provide the Company's other employees, consultants, and advisors with information that is accurate, complete, objective, relevant, timely, and understandable.
- Endeavor to ensure full, fair, timely, accurate, and understandable disclosure in the Company's periodic reports and in other public communications.
- Act in good faith, responsibly, and with due care, competence and diligence, without misrepresenting material facts.
- Respect the confidentiality of information acquired in the course of Company work. Confidential information acquired in the course of Company work must not be used for personal advantage.
-

Proactively promote ethical behavior among peers in your work environment.

- Achieve responsible use of and control over all assets and resources employed or entrusted to you.
- Record or participate in the recording of entries (such as expenses, billing information, and hours worked) in the Company's books and records information that is accurate to the best of your knowledge.
- Not fraudulently induce, coerce, manipulate, or mislead any independent auditor or accountant.
- Report to the Chief Compliance Officer any dishonest, unethical, or misleading conduct that could impact the accuracy of the Company's financial reporting.

G. Insider Trading

The stock of our Company is publicly traded. As a result, a number of laws regulate the purchase and sale of Company stock by employees, officers and directors. Employees who have access to confidential Company information are not permitted to use or share that information for stock trading purposes or for any other purpose except the conduct of our business and in strict conformance with all applicable laws and SEC regulations. All non-public information about the Company should be considered confidential information (especially financial projections and results, mergers and acquisitions discussions, marketing strategies, and legislative developments). To use non-public information for your own personal financial benefit or to "tip" others who might make an investment decision on the basis of this information is not only unethical but also a potential violation of civil and criminal law (which may include fines and imprisonment). If you have any questions concerning the purchase or sale of Company stock, please consult the General Counsel or the Treasurer.

H. Payments to Government Personnel

The U.S. Foreign Corrupt Practices Act prohibits giving anything of value, directly or indirectly, to officials of foreign governments or foreign political candidates in order to obtain or retain business. It is strictly prohibited to make illegal payments to government officials of any country. In addition, the U.S. government has a number of laws and regulations regarding business gratuities which may be accepted by U.S. government personnel. The promise, offer or delivery to an official or employee of the U.S. government of a gift, favor or other gratuity in violation of these rules would not only violate Company policy but could also be a criminal offense. State and local governments, as well as foreign governments, may have similar rules. The Company's General Counsel can provide guidance to you in this area.

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Exhibit 21.1

Subsidiaries of Penn National Gaming, Inc.

Name of Subsidiary	State or Other Jurisdiction of Incorporation
BSL, Inc.	MS
BTN, Inc.	MS
Backside, Inc.	PA
Bangor Acquisition Corp.	DE
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
The Downs Racing, Inc.	PA
eBetUSA.com, Inc.	DE
HCS I, Inc.	LA
HCS II, Inc.	LA
HCS Golf Course, LLC	DE
HWCC-Argentina, Inc.	TX
HWCC Development Corporation	TX
HWCC-Golf Course Partners, Inc.	DE
HWCC-Holdings, Inc.	TX
HWCC-Louisiana, Inc.	LA
HWCC-Shreveport, Inc.	LA
HWCC Transportation, Inc.	TX
HWCC-Tunica, Inc.	TX
Hollywood Casino-Aurora, Inc.	IL
Hollywood Casino Corporation	DE
Hollywood Management, Inc.	TX
Hollywood Casino Shreveport	LA
Louisiana Casino Cruises, Inc.	LA
Mill Creek Land, Inc.	PA
Mountainview Thoroughbred Racing Association	PA
Northeast Concessions, Inc.	PA
Onward Development, LLC	NH
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 Gaming of West Virginia, Inc.	WV
Penn National GSFR, Inc.	DE
Penn National Holding Company	DE
Penn National Illinois Merger Corp.	IL
Penn National Speedway, Inc.	PA
Penn Silver Hawk, Inc.	CO
Pennsylvania National Turf Club, Inc.	PA
Seaway Freezing Company, Inc.	MS
Shreveport Capital Corporation	LA
Sterling Aviation, Inc.	DE
Tennessee Downs, Inc.	TN
Tunica Golf Course, LLC	DE
W-B Downs, Inc.	PA
Wilkes Barre Downs, Inc.	PA

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Exhibit 21.1

Subsidiaries of Penn National Gaming, Inc.

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Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Penn National Gaming, Inc.
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 report dated January 30, 2004, except for Note 15, which is as of February 22, 2004, relating to the consolidated financial statements, which appear in this Form 10-K.

/s/ BDO Seidman, LLP

BDO Seidman, LLP
Philadelphia, Pennsylvania
March 12, 2004

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Exhibit 23.1

CONSENT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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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)) 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) 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

   (c) 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 12, 2004

/s/ PETER M. CARLINO

Name: Peter M. Carlino
Title: *Chief Executive Officer*

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Exhibit 31.1

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

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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)) 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) 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

   (c) 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 12, 2004

/s/ WILLIAM J. CLIFFORD

Name: William J. Clifford
Title: *Chief Financial Officer*

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Exhibit 31.2

CERTIFICATION PURSUANT TO RULE 13a-14(a) AND 15d-14(a) OF THE SECURITIES AND EXCHANGE ACT OF 1934

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EXHIBIT 32.1

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
18 U.S.C. SECTION 1350

In connection with the Annual Report of Penn National Gaming, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2003 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 12, 2004

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EXHIBIT 32.2

CERTIFICATION PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002,
18 U.S.C. SECTION 1350

In connection with the Annual Report of Penn National Gaming, Inc. (the "Company") on Form 10-K for the fiscal year ended December 31, 2003 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 12, 2004

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Exhibit 99.1

Description of Governmental Regulations

General

We are subject to federal, state, local and, in Canada, provincial regulations, related to our current live racing, pari-mutuel, gaming machine and casino operations. The following description of the regulatory environment in which we operate is only a summary and not a complete recitation of all applicable regulatory laws. Moreover, our current and proposed operations could be subjected at any time to additional or more restrictive regulations, or banned entirely.

Colorado Regulation

Our operations at Bullwhackers are subject to regulation by the Colorado Limited Gaming Control Commission (hereafter "Gaming Commission"), which was created by the Limited Gaming Amendment to the Colorado Constitution. Based upon that constitutional authority as well as the authority of the Colorado Limited Gaming Act, the Gaming Commission has a broad grant of power to ensure compliance with Colorado law and any regulations adopted thereunder (collectively, the "Colorado Regulations").

The Limited Gaming Act also established the Colorado Division of Gaming (hereafter "Division") within the Colorado Department of Revenue. The Division acts as staff for and under the direct supervision of the Gaming Commission for purposes of licensing, implementing, regulating and supervising the conduct of limited stakes gaming.

It is illegal to operate a gaming facility without a license issued by the Gaming Commission. The licenses are revocable and nontransferable. The failure or inability to obtain and maintain necessary gaming licenses would have a material adverse effect on the gaming operations of Penn Bullwhackers, Inc., Penn Bullpen, Inc., and Penn Silver Hawk, Inc. (hereafter "Colorado Casinos").

The Colorado Casinos were granted retail/operator licenses, the effective dates of which were concurrent with their openings. The licenses are subject to continued satisfaction of suitability requirements. The current licenses for our Colorado casinos must be annually renewed by express action of the Gaming Commission and, for the current year, must be renewed on or before April 18, 2004.

All persons employed by us and the Colorado Casinos who are involved, directly or indirectly, in gaming operations in Colorado also are required to obtain various forms of gaming licenses. Key licenses are issued to "key employees," who include any executive, employee or agent of a licensee having the power to exercise a significant influence over decisions concerning any part of the operations of a licensee. At least one key license holder must be on the premises of each Colorado casino at all times that a casino is open for business.

The Gaming Commission closely regulates the suitability of persons owning or seeking to renew an interest in a gaming license, and persons associated with the licensee can adversely affect the suitability of a licensee. Additionally, any person or entity having any direct interest in us or any casino directly or indirectly owned by us may be subject to administrative action, including personal history and background investigations. The actions of persons associated with us, such as our management or employees, could jeopardize any licenses held by the Colorado Casinos.

As a general rule, under the Colorado Regulations, it is a criminal violation for any person to have a legal, beneficial, voting or equitable interest, or right to receive profits, in more than three retail gaming licenses in Colorado. We have an interest in three such licenses. Any expansion opportunities that we may have in Colorado are prohibited unless one or more of the existing licenses are terminated or one or more of the Colorado Casinos is sold.

The Colorado Division of Gaming may require any person having an interest in a licensee or an applicant for a license to provide background information, information on sources of funding, and a sworn statement that the interested person or applicant is not holding that interest for another party. The Gaming Commission may, at its discretion, require any person having an interest in a licensee to undergo a full background investigation and to pay for that investigation in the same manner as an applicant for a license. A background investigation includes an examination of one's personal history, financial associations, character, record, and reputation, as well as the people with whom a person has associated.

The Gaming Commission has the right to request information from any person directly or indirectly interested in, or employed by, a licensee, and to investigate the moral character, honesty, integrity, prior activities, criminal record, reputation, habits and associations of: (i) all persons licensed pursuant to the Colorado Limited Gaming Act; (ii) all officers, directors and stockholders of a licensed privately held corporation; (iii) all officers, directors and stockholders holding either a 5% or greater interest or a controlling interest in a licensed publicly traded corporation; (iv) any person who as agent, consultant, advisor or otherwise, exercises a significant influence upon the management or affairs of a publicly traded corporation; (v) all general partners and all limited partners of a licensed partnership; (vi) all persons that have a relationship similar to that of an officer, director or stockholder of a corporation (such as members and managers of a limited liability company); (vii) all persons supplying financing or lending money to any licensee connected with the establishment or operation of limited gaming; and (viii) all persons having a contract, lease or ongoing financial or business arrangement with any licensee, if such contract, lease or arrangement relates to limited gaming operations, equipment, devices or premises.

If the Gaming Commission determines that a person or entity is not suitable to own a direct or indirect voting interest in us or any of its affiliates, the Colorado Casinos may be sanctioned unless the person or entity disposes of its voting interest. Sanctions may include the loss of the casino licenses and financial penalties. In addition, the Colorado Regulations prohibit a licensee or any affiliate of a licensee from paying dividends, interest or other remuneration to any person found to be unsuitable, or recognizing the exercise of any voting rights by any person found to be unsuitable.

The Gaming Commission also has the power to require us to suspend or dismiss our officers, directors and other key employees or sever relationships with other persons who refuse to file appropriate applications or who are found to be unsuitable to act in such capacities. The Commission or the Director of the Division of Gaming may review a licensee's gaming contracts, require changes in a contract before the licensee's application is approved or participation in the contract is allowed, and require a licensee to terminate its participation in any gaming contract.

The Division may inspect, without notice, premises where gaming is being conducted; may seize, impound or remove any gaming device; may examine and copy all of a licensee's records; may investigate the background and conduct of licensees and their employees; and may bring disciplinary actions against licensees and their employees. The Division may also conduct detailed background checks of persons who lend money to or invest money in a licensee and such persons may be required to be found suitable as a condition to such loan or investment.

The Gaming Commission has enacted Rule 4.5, which imposes requirements on publicly traded corporations holding gaming licenses in Colorado and on gaming licenses owned directly or indirectly by a publicly traded corporation, whether through a subsidiary or intermediary company. The term "publicly traded corporation" includes corporations, firms, limited liability companies, trusts, partnerships and other forms of business organizations. Such requirements automatically apply to any ownership interest held by a publicly traded corporation, holding company or intermediary company thereof, when the ownership interest directly or indirectly is, or will be upon approval of the Gaming Commission, 5% or more of the entire licensee. In any event, if the Gaming Commission determines

that a publicly traded corporation, or a subsidiary, intermediary company or holding company has the actual ability to exercise influence over a licensee, regardless of the percentage of ownership possessed by that entity, the Gaming Commission may require the entity to comply with the disclosure regulations contained in Rule 4.5.

Under Rule 4.5, gaming licensees, affiliated companies and controlling persons commencing a public offering of voting securities must notify the Gaming Commission no later than ten business days after the initial filing of a registration statement with the Securities and Exchange Commission. Licensed publicly traded corporations are also required to send proxy statements to the Division of Gaming within five days after their distribution.

Licensees to whom Rule 4.5 applies must include in their charter documents provisions that: restrict the rights of the licensees to issue voting interests or securities except in accordance with the Limited Gaming Act and the Colorado Regulations; void the transfer of voting securities or other voting interests issued in violation of the Limited Gaming Act and the Colorado Regulations until the issuer ceases to be subject to the jurisdiction of the Gaming Commission or until the Gaming Commission, by affirmative act, validates the transfer; and provide that holders of voting interests or securities of licensees found unsuitable by the Gaming Commission may, within 60 days of such finding of unsuitability, be required to sell their interests or securities back to the issuer at the lesser of the cash equivalent of the holders' investment or the market price as of the date of the finding of unsuitability. Alternatively, the holders may, within 60 days after the finding of unsuitability, transfer the voting interests or securities to a person suitable to the Gaming Commission. Until the voting interests or securities are held by suitable persons, the issuer may not pay dividends or interest, the securities may not be voted, they may not be included in the voting or securities of the issuer, and the issuer may not pay any remuneration in any form to the holders of the securities.

Notification must be given to the Division of Gaming of the acquisition of direct or indirect beneficial ownership of:

- 5% or more of any class of voting securities of a publicly traded corporation that is required to include in its articles of organization the Rule 4.5 charter language provisions; or

- 5% or more of the beneficial interest in a gaming licensee directly or indirectly through any class of voting securities of any holding company or intermediary company of a licensee.

Persons acquiring these interests must make notification to the Division. Such persons must submit all requested information, are subject to a finding of suitability as required by the Division or the Gaming Commission, and must be informed of these requirements by the licensee. A person other than an institutional investor whose interest equals 10% or more of a publicly traded corporation or a 10% beneficial interest in a gaming licensee, directly or indirectly, through any class of voting securities of any holding company or intermediary company of a licensee must apply to the Gaming Commission for a finding of suitability within 45 days after acquiring such securities.

An institutional investor who, individually or in association with others, acquires, directly or indirectly, the beneficial ownership of 15% or more of any class of voting securities or 15% of the beneficial interest in a gaming licensee, directly or indirectly, through any class of voting securities of any holding company or intermediary company of a licensee must apply to the Gaming Commission for a finding of suitability within 45 days after acquiring such interests

Licensees must also notify any qualifying persons of these requirements. Whether or not so notified, qualifying persons are responsible for complying with these requirements.

The Colorado Regulations also provide for exemption from the requirements for a finding of suitability when the Gaming Commission finds such action to be consistent with the purposes of the Limited Gaming Act. However, there are no express standards provided by law that would govern the

Commission's decision on whether to grant such an exemption, and it cannot be determined whether such exemption will in fact be granted if requested. The Gaming Commission may determine that anyone with a material relationship to, or material involvement with, a licensee or an affiliated company must apply for a finding of suitability or must apply for a key employee license. There are no deadlines for the Division to conduct such suitability reviews or for the Gaming Commission to consider and, in its sole discretion, act upon such reports.

Pursuant to Rule 4.5, persons found unsuitable by the Gaming Commission must be removed from any position as an officer, director, or employee of a licensee, or of a holding or intermediary company. Such unsuitable persons also are prohibited from any beneficial ownership of the voting securities of any such entities. Licensees, or affiliated entities of licensees, are subject to sanctions for paying dividends or distributions to persons found unsuitable by the Gaming Commission, or for recognizing voting rights of, or paying a salary or any remuneration for services to, unsuitable persons. Licensees or their affiliated entities also may be sanctioned for failing to pursue efforts to require unsuitable persons to relinquish their interests.

The Gaming Commission must provide prior approval of any sale, lease, purchase, conveyance, or acquisition of an interest in a casino licensee, except as provided in Rule 4.5 relating to publicly traded corporations.

Colorado casinos may operate only between 8:00 a.m. and 2:00 a.m., and may permit only individuals 21 years or older to gamble or consume alcohol in the casino. Slot machines (including video poker), blackjack, poker, and approved variations of those games are the only permitted games, with a maximum single wager of $5.00. Colorado casinos may not extend credit, directly or indirectly, to gaming patrons. The Colorado Constitution and Gaming Regulations restrict the percentage of space a casino may use for gaming to fifty percent (50%) of any floor and thirty-five percent (35%) of the overall square footage of the building in which the casino is located.

The Colorado Gaming Commission establishes, effective July 1 of each year, the gaming tax rates for the ensuing year. Under the Colorado Constitution and the Gaming Regulations, the rate can be increased to as much as forty percent (40%) of "adjusted gross proceeds," as that term is defined by the Gaming Regulations and Colorado case law. The Gaming Commission has both raised and lowered gaming tax rates since they were initially set in 1991. Currently, the Commission imposes gaming taxes based upon a graduated system of tax rates, with the lowest such rate being one-quarter of one percent (.25%) and the highest gaming tax rate being twenty percent (20%). However, in the future, the Commission may increase any of the existing rates up to forty percent (40%) of adjusted gross proceeds, or change the existing thresholds at which such rates become effective.

In addition, the Gaming Commission or the Colorado General Assembly may impose fees upon gaming devices. There are no limitations on the amounts of such fees, and no such state fees have been imposed at this time.

Currently, the City of Black Hawk imposes a $750 fee upon each gaming device, including slot machines, blackjack and poker tables, in the City. The City may increase or decrease this fee or impose any additional fee at any time. The City imposes various other fees upon casinos, including transportation fees, and such fees may be increased or decreased at the sole discretion of the City.

The Silver Dollar Metropolitan District, operating within the City of Black Hawk, may increase its indebtedness from $15 million to $150 million or more to provide certain infrastructure improvements, notably roadway improvements. Each of the casinos within the District, including but not limited to the Colorado Casinos, would be liable for its proportionate share of this indebtedness, which liability could adversely affect the economic returns realized by the casinos.

Illinois Regulation

Our operation of Hollywood Casino Aurora is subject to regulation by the State of Illinois, a summary of which is provided below. The Riverboat Gambling Act currently authorizes dockside riverboat gaming upon any water within the State of Illinois or any water other than Lake Michigan that constitutes a boundary of the State of Illinois. The Riverboat Gambling Act strictly regulates the facilities, persons, associations and practices related to gaming operations pursuant to the police powers of the State of Illinois, including comprehensive law enforcement supervision. The Riverboat Gambling Act grants the Illinois Gaming Board specific powers and duties, and all other powers necessary and proper to fully and effectively execute the Riverboat Gambling Act for the purpose of administering, regulating and enforcing the system of riverboat gaming. The Illinois Gaming Board's jurisdiction extends to every person, association, corporation, partnership and trust involved in riverboat gaming operations in the State of Illinois.

The Riverboat Gambling Act requires the owner of a riverboat gaming operation to hold an owner's license issued by the Illinois Gaming Board. The owner's license for the Hollywood Casino Aurora casino was renewed in December 2000 for a period of four years. The Illinois Gaming Board is authorized to issue ten owner's licenses statewide. Each owner's license permits up to two boats as a part of the riverboat gaming operation. In addition to the ten owner's licenses, which may be authorized under the Riverboat Gambling Act, the Illinois Gaming Board may issue special event licenses allowing persons who are not otherwise licensed to conduct riverboat gaming to conduct such gaming on a specified date or series of dates. Riverboat gaming under such a license may take place on a riverboat not normally used for riverboat gaming.

An owner's license is issued for an initial period of three years and may be renewed for successive periods of up to four years thereafter. An owner's license is eligible for renewal upon payment of the applicable fee and a determination by the Illinois Gaming Board that the licensee continues to meet all of the requirements of the Riverboat Gambling Act, the Illinois Gaming Board's rules and any conditions placed on a prior license renewal. The Illinois Gaming Board also requires that officers, directors and employees of a gaming operation and suppliers of gaming equipment, devices and supplies and certain other suppliers be licensed. Licenses issued by the Illinois Gaming Board may not be transferred to another person or entity without the Illinois Gaming Board's approval. All licensed persons and entities must maintain their suitability for licensure and have a continuing duty to disclose any material changes in information provided to the Illinois Gaming Board.

Applicants for and holders of an owner's license are required to obtain formal prior approval from the Illinois Gaming Board for changes proposed in the following areas: (i) key persons, (ii) type of entity, (iii) equity and debt capitalization of the entity, (iv) investors and/or debt holders, (v) source of funds, (vi) economic development plans or proposals, (vii) riverboat capacity or significant design change, (viii) gaming positions, (ix) anticipated economic impact, or (x) agreements, oral or written, relating to the acquisition or disposition of property (real or personal) of a value greater than $1 million.

A holder of an owner's license is allowed to make distributions to its partners, stockholders or itself only to the extent that such distribution would not impair the financial viability of the gaming operation or violate the Riverboat Gambling Act. Factors to be considered by the licensee include, but are not limited to, the following: (i) cash flow, casino cash and working capital requirements, (ii) debt service obligations and covenants associated with financial instruments, (iii) requirements for repairs, maintenance and capital improvements, (iv) employment or economic development requirements of the Riverboat Gambling Act and (v) a licensee's financial projections.

The Illinois Gaming Board will require a business entity or personal disclosure form and approval as a key person for any business entity or individual with an ownership interest or voting rights of more than 5% in a licensee, the trustee of any trust holding such ownership interest or voting rights, the

directors of the licensee and its chief executive officer, president and chief operating officer, as well as any other individual or entities deemed by the board to hold a position or a level of ownership, control or influence that is material to the regulatory concerns and obligations of the board. However, an institutional investor acquiring an ownership interest or voting rights of more than 5% in a licensee must notify the Illinois Gaming Board within ten days of acquiring the interest. An institutional investor acquiring an ownership interest or voting rights of 10% or more in a licensee must file an Institutional Investor Waiver Form

within 45 days of acquiring the interest. Each key person must file, on an annual basis, a disclosure affidavit, updated personal and background information, and updated tax and financial information. Key persons are required to promptly disclose to the board any material changes in status or information previously provided to the board and to maintain their suitability as key persons. In order for the board to identify potential key persons, each holder of an owner's license is required to file a table of organization, ownership and control with the Illinois Gaming Board to identify the individuals or entities that, through direct or indirect means, manage, own or control the interests and assets of the licensee. Based upon findings from an investigation into the character, reputation, experience, associations, business probity and financial integrity of a key person, the Illinois Gaming Board may enter an order upon the licensee to require economic disassociation of a key person. Each licensee is required to provide a means for the economic disassociation of a key person in the event such disassociation is required. On February 25, 2003, the Illinois Gaming Board granted key person licenses to us, Peter M. Carlino and Kevin G. DeSanctis in connection with their association with the Hollywood Casino Aurora casino. The Illinois Gaming Board imposed a condition on our key person license that we continue to exclude and block all Illinois residents from wagering through our internet pari-mutuel wagering websites.

An ownership interest in a holder of an owner's license may be transferred or pledged as collateral only with the consent of the Illinois Gaming Board.

The Riverboat Gambling Act does not limit the maximum bet or per patron loss and licensees may set any maximum or minimum bets or other limits on wagering. No person under the age of 21 is permitted to wager. Vessels must have the capacity to hold a minimum of 500 persons if operating on the Mississippi River or the Illinois River south of Marshall County, and a minimum of 400 persons on any other waterway. The number of gaming positions is limited to a maximum of 1,200 per license. The 1,200 positions are counted as follows: (i) positions for games utilizing electronic gaming devices (as defined in the Riverboat Gambling Act) are determined as 90% of the total number of such devices available for play; (ii) craps tables are counted as having ten gaming positions; and (iii) any gaming device other than an electronic gaming device or craps table is counted as having five gaming positions. With respect to electronic gaming devices, the payout percentage may not be less than 80% or more than 100%. A licensee may conduct riverboat gambling regardless of whether it conducts excursion cruises. A licensee may permit the continuous ingress and egress of passengers for the purpose of gambling.

In 1999, the Riverboat Gambling Act was amended by Illinois Public Act 91-40 to, among other things, allow dockside gaming. Subsequently, a lawsuit was filed in an Illinois circuit court challenging the constitutionality of certain aspects of the amendment unrelated to the dockside gaming provision. The lawsuit was dismissed on January 25, 2001 and the dismissal of the lawsuit is currently on appeal. The 1999 amendments contained a "non-severability clause," which meant that if any section was held to be unconstitutional, the entire amendment, including the section that allowed dockside gaming, would be held invalid. Such a finding could have had a material adverse effect on the operating results of the Hollywood Casino Aurora casino. However, in June of 2003, the Illinois legislature added a "severability clause" to the 1999 amendments which prevents the dockside gaming provision from being stricken simply because a separate provision of the 1999 amendment might be held to be unconstitutional.

A $4 per person admission tax is imposed on the owner of a riverboat operation. The host municipality or county of the riverboat casino receives $1 per person of such tax.

Additionally, a wagering tax is imposed on the adjusted gross receipts (generally defined as gross receipts less payments to customers as winnings) at the following graduated rates: 15% for up to $25 million; 27.5% for $25 million to $37.5 million; 32.5% for $37.5 million to $50 million; 37.5% for $50 million to $75 million; 45% for $75 million to $100 million; 50% for $100 million to $250 million; and 70% for amounts in excess of $250 million. The licensee is required to wire transfer all such gaming tax payments to the Illinois Gaming Board on a daily basis.

The tax rates set forth in the preceding paragraph became effective on July 1, 2003 pursuant to legislation enacted during 2003. That legislation contains a sunset provision that rolls back the wagering tax rates to those in effect prior to July 1, 2003 upon the earlier of (i) July 1, 2005, (ii) the first date after the effective date of the aforementioned legislation that riverboat gambling operations are conducted pursuant to the dormant tenth license, or (iii) the first day that riverboat gambling operations are conducted under the authority of an owners license that is in addition to the 10 owner's licenses authorized by the initial Riverboat Gambling Act.

All use, occupancy and excise taxes that apply to food and beverages and all taxes imposed on the sale or use of tangible property apply to sales aboard riverboats.

The Illinois Gaming Board is authorized to conduct investigations into the conduct of gaming employees and into alleged violations of the Riverboat Gambling Act and to take such disciplinary and enforcement action as it may deem necessary and proper. Employees and agents of the Illinois Gaming Board have access to and may inspect any facilities relating to the riverboat gaming operations at all times.

A holder of any license is subject to imposition of penalties and fines, suspension or revocation of the license, or other action for any act or failure to act by the holder or his or her agents or employees, that is injurious to the public health, safety, morals, good order and general welfare of the people of the State of Illinois, or that would discredit or tend to discredit the Illinois gaming industry or the State of Illinois. Any riverboat operation not conducted in compliance with the Riverboat Gambling Act may constitute an illegal gaming place and consequently may be subject to criminal penalties, which penalties include possible seizure, confiscation and destruction of illegal gaming devices and seizure and sale of riverboats and dock facilities to pay any unsatisfied judgment that may be recovered and any unsatisfied fine that may be levied. The Riverboat Gambling Act also provides for civil penalties equal to the amount of gross receipts derived from wagering on the gaming, whether unauthorized or authorized, conducted on the day of any violation. The Illinois Gaming Board may revoke or suspend licenses, as the board may see fit and in compliance with applicable laws of Illinois regarding administrative procedures, and may suspend an owner's license, without notice or hearing, upon a determination that the safety or health of patrons or employees is jeopardized by continuing a riverboat's operation. The suspension may remain in effect until the Illinois Gaming Board determines that the cause for suspension has been abated and it may revoke the owner's license upon a determination that the owner has not made satisfactory progress toward abating the hazard.

The Illinois Gaming Board may waive any licensing requirement or procedure provided by rule if it determines that such waiver is in the best interests of the public and the gaming industry.

Louisiana Regulation

We are subject to regulation by the State of Louisiana as a result of our ownership of LCCI, the operator of Casino Rouge, and the Hollywood Casino Shreveport general partnership, or HCS, the operator of Hollywood Casino Shreveport (collectively, HCS and LCCI are referred to herein as "Louisiana Licensees").

In July 1991, the Louisiana legislature adopted legislation permitting certain types of gaming activity on certain rivers and waterways in Louisiana. Since May 1, 1999, the Louisiana Gaming Control Board, or the Louisiana Board, has regulated such gaming activities.

The Louisiana Riverboat Economic Development and Gaming Control Act authorized the issuance of up to fifteen licenses to conduct gaming activities on a riverboat of new construction in accordance with applicable law. However, no more than six licenses may be granted to riverboats operating from any one parish. Of the fifteen available licenses, fourteen are currently in operation. The final license has been awarded to a subsidiary of Pinnacle Entertainment for Lake Charles, Louisiana.

Riverboat gaming licenses in Louisiana are issued for an initial five-year term with five-year renewals thereafter. In issuing or renewing a license, the Louisiana Board must find that the applicant is a person of good character, honesty and integrity and that the applicant is a person whose prior activities, criminal record, if any, reputation, habits and associations do not pose a threat to the public interest of the State of Louisiana or to the effective regulation and control of gaming, or create or enhance the dangers of unsuitable, unfair or illegal practices, methods and activities in the conduct of gaming or the carrying on of business and financial arrangements in connection therewith. The Louisiana Board will grant or renew a license if it finds that: (i) the applicant can demonstrate the capability, either through training, education, business experience, or a combination of the above, to operate a gaming casino; (ii) the proposed financing of the riverboat and the gaming operation is adequate for the nature of the proposed operation and from a source suitable and acceptable to the Louisiana Board; (iii) the applicant demonstrates a proven ability to operate a vessel of comparable size, capacity and complexity to a riverboat so as to ensure the safety of its passengers, with relevant employees being appropriately United States Coast Guard certified; (iv) the applicant submits a detailed plan of design of the riverboat in its application for a license; (v) the applicant designates the docking facilities to be used by the riverboat; (vi) the applicant shows adequate financial ability to construct and maintain a riverboat; and (vii) the applicant has a good faith plan to recruit, train and upgrade minorities in all employment classifications.

On September 21, 1999, the Louisiana Board renewed the license of HCS through October 2004, subject to several conditions. On March 29, 2001, in addition to approving the CRC acquisition, the Louisiana Board renewed LCCI's license through June 2005, subject to several conditions. In each case, the conditions imposed by the Louisiana Board have either already been complied with or are voluntary and standard compliance, procurement, and employment conditions routinely imposed on licensees in the state of Louisiana.

Other regulations imposed by the Louisiana Act or rules adopted pursuant thereto include, but are not limited to, the following: (i) we must periodically submit financial and operating reports to the Louisiana Board for ourselves and our subsidiaries; (ii) owners holding greater than a 5% interest or who are officers or directors of us or subsidiaries related to the Louisiana Licensees must be found suitable by the Louisiana Board; (iii) any individual who is found to have a material relationship to, or involvement with the Louisiana Licensees may be required to be investigated for suitability; (iv) if a director, officer, or key employee were found to be unsuitable, we and our subsidiaries would have to sever all relationships with that person; (v) the transfer of a license or permit or an interest in a license or permit is prohibited without prior approval; (vi) the Louisiana Licensees must notify the Louisiana Board of any withdrawals of capital, loans, advances, or distributions in excess of 5% of retained earnings upon completion of such transaction; and (vii) either of the Louisiana Licensees must give prior notification to the Louisiana Board if it applies or receives, accepts or modifies the terms of any loan or other financing transaction or if we receive, accept or modify the terms of a loan or other financing transaction on behalf of or for the benefit of either one of the Louisiana Licensees. In some cases, the Louisiana Board will be required to investigate the reported transaction and to either approve or disapprove the transaction.

The Louisiana Act or rules adopted pursuant thereto contain certain restrictions and conditions relating to the operation of riverboat gaming, including the following: (i) agents of the Louisiana Board are permitted on board at any time during gaming operations; (ii) gaming devices, equipment and supplies may only be purchased or leased from permitted suppliers; (iii) gaming may only take place in the designated gaming area while the riverboat is upon a designated river or waterway; (iv) gaming equipment may not be possessed, maintained or exhibited by any person on a riverboat except in the specifically designated gaming area, or a secure area used for inspection, repair or storage of such equipment; (v) wagers may be received only from a person present on a licensed riverboat; (vi) persons under 21 are not permitted on gaming vessels; (vii) except for slot machine play, wagers may be made only with tokens, chips or electronic cards purchased from the licensee aboard a riverboat; (viii) licensees may only use docking facilities for which they are licensed and may only board and discharge passengers at the riverboat's licensed berth; (ix) licensees must have adequate protection and indemnity insurance; (x) licensees must have all necessary federal and state licenses, certificates and other regulatory approvals prior to operating a riverboat; and (xi) gaming may only be conducted in accordance with the terms of the license, the Louisiana Act and the rules and regulations adopted by the Louisiana Board.

Fees for conducting gaming activities on a riverboat pursuant to the Louisiana Act include (i) $50,000 per riverboat for the first year of operation and $100,000 per year per riverboat thereafter plus (ii) a percentage of net gaming proceeds (gross revenue). In March 2001, Louisiana passed Act 3 of the 1st Extraordinary Legislative Session that allows riverboat gaming licensees to operate dockside. Prior to the legislation, LCCI was required to maintain up to eight cruises daily, subject to weather and other conditions. In consideration of this change, the tax on gaming revenues was increased from 18.5% to 21.5%, effective April 1, 2001 for LCCI and increased one percent per annum for HCS beginning in April 2001 and continuing until April 2003 to a total of 21.5%.

The Louisiana Act also authorizes the local governing body to assess a boarding fee up to $2.50 in the case of LCCI, and up to $3.00 in the case of HCS. The City/Parish governing body of East Baton Rouge has imposed an admission fee of $2.50 for each patron boarding the vessel. For the calendar year ended December 31, 2003, LCCI's boarding fee expense was $3.9 million. For competitive reasons, LCCI and its Baton Rouge competitor have elected not to collect boarding fees from patrons and instead pay those fees from their respective earnings. In lieu of the boarding fee in Shreveport, HCS negotiated a 3.76% tax on the net gaming proceeds (gross revenues) of the Hollywood Casino Shreveport riverboat to be paid to the Caddo Parish School Board.

Proposals to amend or supplement the Louisiana Act are frequently introduced in the Louisiana State legislature. In addition, the state legislature from time to time considers proposals to repeal the Louisiana Act, which would effectively prohibit riverboat gaming in the State of Louisiana. Although we do not believe that a prohibition of riverboat gaming in Louisiana is likely, no assurance can be given that changes in the Louisiana gaming law will not occur or that such changes will not have a material adverse affect on the business of the Louisiana Licensees.

Mississippi Regulation

Our operation of Casino Magic—Bay St. Louis, Boomtown Biloxi and Hollywood Casino Tunica is subject to Mississippi regulatory compliance, a summary of which is provided below.

The ownership and operation of casino gaming facilities in Mississippi are subject to extensive state and local regulation primarily through the licensing and regulatory control of the Mississippi Gaming Commission and the Mississippi State Tax Commission. We and certain of our subsidiaries must register and be licensed under the Mississippi Gaming Control Act, or the Mississippi Act, and our gaming operations are subject to the regulatory control of the Mississippi Gaming Commission, the Mississippi State Tax Commission and various local, city and county regulatory agencies. The

Mississippi Act, which legalized dockside casino gaming in Mississippi, was enacted on June 29, 1990 and the Mississippi Gaming Commission adopted regulations, effective October 29, 1991, in furtherance of the Mississippi Act.

The laws, regulations and supervisory procedures of Mississippi and the Mississippi Gaming Commission seek to: (i) prevent unsavory or unsuitable persons from having direct or indirect involvement with gaming at any time or in any capacity; (ii) establish and maintain responsible accounting practices and procedures; (iii) maintain effective control over the financial practices of licensees, including establishing minimum procedures for internal fiscal affairs and safeguarding assets and revenues, providing reliable record keeping and making periodic reports to the Mississippi Gaming Commission; (iv) prevent cheating and fraudulent practices; (v) provide a source of state and local revenues through taxation and licensing fees; and (vi) ensure that gaming licensees, to the extent practicable, employ Mississippi residents. The regulations are subject to amendment and interpretation by the Mississippi Gaming Commission.

The Mississippi Act provides for legalized dockside gaming in any of the 14 counties that border either the Gulf Coast or the Mississippi River, provided that the voters in an eligible county have not voted to prohibit gaming in that county. Voters have approved dockside gaming in nine of the 14 eligible counties in the state and gaming operations have commenced in Adams, Coahoma, Hancock, Harrison, Tunica, Warren and Washington counties. The law permits unlimited stakes gaming on a 24-hour basis and does not restrict the percentage of space that may be utilized for gaming. There are no limitations on the number of gaming licenses that may be issued in Mississippi. The legal age for gaming in Mississippi is 21.

We are required to submit detailed financial, operating and other reports to the Mississippi Gaming Commission and Mississippi State Tax Commission. Several of our transactions, such as loans and other financing transactions, leases and sales of securities require notice to and/or approval of the Mississippi Gaming Commission. On August 8, 2000, the Mississippi Gaming Commission issued us a gaming operator's license for Boomtown Biloxi and for Casino Magic—Bay St. Louis. The Mississippi Gaming Commission first issued an operator's license for Hollywood Casino Tunica in 1994, and most recently renewed an operator's license for Hollywood Casino Tunica effective October 20, 2001. On November 20, 2002, the Mississippi Gaming Commission granted certain approvals in connection with our acquisition of Hollywood Casino Corporation. In addition, the Mississippi Gaming Commission has found certain of our key principals suitable.

Each of the officers and directors of Casino Magic—Bay St. Louis, Boomtown Biloxi and Hollywood Casino Tunica must be found suitable or must be licensed by the Mississippi Gaming Commission. In addition, certain of our directors, officers and employees may be required to be found suitable or be licensed if they are engaged in the administration or supervision of, or any other significant involvement with, the activities of Casino Magic—Bay St. Louis, Boomtown Biloxi or Hollywood Casino Tunica. Both a finding of suitability and license require submission of detailed financial information followed by a thorough investigation. Key employees, controlling persons or others who exercise significant influence upon our management or affairs may be deemed to have a material relationship to, or material involvement with us and may be investigated in order to be found suitable or required to be licensed. There can be no assurance that such persons will be found suitable or licensed by, and maintain such a suitability finding or license from, the Mississippi Gaming Commission. The Mississippi Gaming Commission has full and absolute power and authority to deny any application or limit, condition, restrict, revoke or suspend any lien, registration, finding of suitability or approvals, or fine any person licensed, registered, found suitable or approved, for any cause it deems reasonable. Changes in certain officer, director or key employee positions must be reported to the Mississippi Gaming Commission. In addition to its authority to deny an application for a license, the Mississippi Gaming Commission has jurisdiction to disapprove a change in a corporate position. If the Mississippi Gaming Commission were to find a director, officer or employee unsuitable

for licensing or unsuitable to continue having a relationship with us, we would have to terminate such person's employment in any capacity in which such person is required to be found suitable or licensed and we would be prohibited from allowing such person to exercise a significant influence over the gaming establishment's operations. We would have similar obligations with regard to any person who refuses to file appropriate applications. No person may be employed as a gaming employee unless such person holds a work permit issued by the Mississippi Gaming Commission. An application for a work permit can be denied for any cause the Mississippi Gaming Commission deems reasonable, and the Mississippi Gaming Commission may summarily suspend or revoke a work permit upon the occurrence of certain specified events.

Mississippi statutes and regulations give the Mississippi Gaming Commission the discretion to require a suitability finding with respect to anyone who acquires any of our securities, regardless of the percentage of ownership. The current policy of the Mississippi Gaming Commission is to require anyone acquiring, directly or indirectly, 5% or more of any voting securities of a registered publicly traded holding company to be found suitable. However, the Mississippi Gaming Commission has adopted a regulation that may permit certain "institutional" investors to obtain a waiver that allows them to beneficially own, directly or indirectly, up to 15% (19% in certain specific instances) of the voting securities of a registered public company without a finding of suitability. If the owner of voting securities who is required to be found suitable is a corporation, partnership or trust, it must submit detailed business and financial information including a list of beneficial owners. The applicant is required to pay all costs of investigation.

Any owner of our voting securities found unsuitable and who holds, directly or indirectly, any beneficial ownership of our equity interests beyond such period of time as may be prescribed by the Mississippi Gaming Commission may be guilty of a misdemeanor. Any person who fails or refuses to apply for a finding of suitability or a license within 30 days of being ordered to do so by the Mississippi Gaming Commission may be found unsuitable. We are subject to disciplinary action if we, after receiving notice that a person is unsuitable to be an owner of or to have any other relationship with us, (i) pay the unsuitable person any dividends or interest upon any such security, (ii) recognize the exercise, directly or through any trustee or nominee of any voting rights conferred by such security, or (iii) pay the unsuitable person any remuneration in any form for services rendered or otherwise. In addition, if the Mississippi Gaming Commission

finds any owner of voting securities of certain of our subsidiaries unsuitable, such owner must immediately offer all securities to us, and we must purchase the securities so offered for cash at fair market value within 10 days.

We are required to maintain current ownership ledgers in the State of Mississippi that may be examined by the Mississippi Gaming Commission 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 the Mississippi Gaming Commission. A failure to make such disclosure may be grounds for finding the record holder unsuitable. We are also required to render maximum assistance in determining the identity of the beneficial owner. We may be required to disclose to the Mississippi Gaming Commission, the identities of the holders of certain of our indebtedness. In addition, the Mississippi Gaming Commission under the Mississippi Act may, in its discretion, (i) require holders of debt securities to file applications, (ii) investigate such holders, and (iii) require such holders to be found suitable to own such debt securities. Although the Mississippi Gaming Commission generally does not require the individual holders of obligations to be investigated and found suitable, the Mississippi Gaming Commission retains the discretion to do so for any reason, including but not limited to a default, or where the holder of the debt instrument exercises a material influence over the gaming operations of the entity in question. Any holder of the debt securities required to apply for a finding of suitability must pay all investigative fees and costs of the Mississippi Gaming Commission in connection with such an investigation.

The regulations provide that we may not engage in any transaction that would result in a change of our control without the prior approval of the Mississippi Gaming Commission. Mississippi law prohibits us and certain of our subsidiaries from making a public offering or private placement of our securities without the prior approval of the Mississippi Gaming Commission if any part of the proceeds of the offering is to be used to finance the construction, acquisition or operation of gaming facilities in Mississippi, or to retire or extend obligations incurred for one or more of such purposes. The Mississippi Gaming Commission has the authority to grant a continuous approval of securities offerings and has granted us such approval, subject to renewal.

Regulations of the Mississippi Gaming Commission prohibit certain repurchases of securities of publicly traded corporations registered with the Mississippi Gaming Commission without prior approval of the Mississippi Gaming Commission. Transactions covered by these regulations are generally aimed at discouraging repurchases of securities at a premium over market price from certain holders of greater than 3% of the outstanding securities of the registered publicly traded corporation. The regulations of the Mississippi Gaming Commission also require prior approval for a "plan of recapitalization" as defined in such regulations.

The Mississippi Act requires that certificates representing our securities bear a legend to the general effect that the securities are subject to the Mississippi Act and regulations of the Mississippi Gaming Commission. The Mississippi Gaming Commission, through the power to regulate licensees, has the power to impose additional restrictions on the holders of our securities at any time.

We may not engage in gaming activities in Mississippi while also conducting gaming operations outside of Mississippi without approval of the Mississippi Gaming Commission. The Mississippi Gaming Commission as part of the original licensure process initially granted such approvals to us, and additional approvals must be obtained on a jurisdiction-by-jurisdiction basis. The failure to obtain or retain any such approval could have a material adverse effect on us.

We may not transfer any of our licenses and we must renew each license every three years. There can be no assurance that any of our renewal applications will be approved. The Mississippi Gaming Commission may at any time dissolve, suspend, condition, limit or restrict a license or approval to own equity interests in us for any cause it deems reasonable. We may have substantial fines levied against us in Mississippi for each violation of gaming laws or regulations. A violation under any gaming license held by us may be deemed a violation of all of the Mississippi licenses held by us. Suspension or revocation of the Mississippi licenses or of the Mississippi Gaming Commission's approval of us would have a material adverse effect upon our business.

In October 1994, the Mississippi Gaming Commission adopted a regulation requiring, as a condition of licensure or license renewal, that a gaming establishment's site development plan include an approved 500-car parking facility in close proximity to the casino complex and infrastructure facilities that amount to at least 25% of the casino cost. Such facilities may include any of the following: a 250-room hotel of at least a two star rating, as defined by the current edition of the Mobil Travel Guide; a theme park; a golf course; marinas; a tennis complex; entertainment facilities; or any other such facility as approved by the Mississippi Gaming Commission as infrastructure. Parking facilities, roads, sewage and water systems or facilities normally provided by governmental entities are excluded. The Mississippi Gaming Commission may, in its discretion, reduce the number of hotel rooms required where it is shown, to the satisfaction of the Mississippi Gaming Commission, that sufficient rooms are available to accommodate the anticipated visitor load. Such reduction in the number of rooms does not affect the 25% investment requirement imposed by the regulation. Casino Magic—Bay St. Louis, Boomtown Biloxi and related facilities have complied with these requirements. In January 1999, the Mississippi Gaming Commission amended this infrastructure regulation by increasing the minimum level of infrastructure investment from 25% to 100% of the casino cost. However, the 100% infrastructure investment requirement applies only to new casino developments and

existing casino developments that are not in operation at the time of their acquisition or purchase, and therefore does not apply to Casino Magic—Bay St. Louis, Boomtown Biloxi and Hollywood Casino Tunica.

License fees and taxes are payable to the State of Mississippi and to the counties and cities in which our Mississippi subsidiaries operate. One of the license fees payable to the state of Mississippi is based upon gross revenue of the licensee (generally defined as gaming receipts less payout to customers as winnings) and equals 4% of the first $50,000 of monthly gross revenue, 6% of the next $84,000 of monthly gross revenue and 8% of all monthly gross revenue over $134,000. These license fees are allowed as a credit against the licensee's Mississippi income tax liability for the year paid. Additionally, a licensee must pay a $5,000 annual license fee and an annual fee based upon the number of games it operates. Mississippi communities and counties may impose fees on licensees equaling 0.4% the first $50,000 of monthly gross revenues, 0.6% of the next $84,000 of monthly gross revenue and 0.8% of all monthly gross revenues over $134,000. These fees have been imposed in, among other cities, Bay St. Louis, Gulfport, Biloxi, Natchez, Greenville and Vicksburg, and in among other counties, Coahoma County, Hancock County and Tunica County. Certain local and private laws of the State of Mississippi may impose fees or taxes on our Mississippi subsidiaries in addition to the fees described above.

The Mississippi Gaming Commission requires, as a condition of licensure or license renewal, that casino vessels on the Mississippi Gulf Coast that are not self-propelled be moored to withstand a Category 4 hurricane with 155 mile-per-hour winds and 15-foot tidal surge. We believe that all of our Mississippi gaming

operations currently meet this requirement. A 1996 Mississippi Gaming Commission regulation prescribes the hurricane emergency procedure to be used by the Mississippi Gulf Coast casinos.

The sale of alcoholic beverages, including beer and wine, at Casino Magic—Bay St. Louis, Boomtown Biloxi and Hollywood Casino Tunica is subject to permitting, control and regulation by the Mississippi State Tax Commission. The Miscellaneous Tax Division of the Mississippi State Tax Commission regulates the sale of beer and light wine. The Alcoholic Beverage Control Division of the Mississippi State Tax Commission, or ABC, regulates the sale of alcoholic beverages containing more than 5% alcohol by weight. ABC requires that all Casino Magic—Bay St. Louis and Boomtown Biloxi officers, directors, majority shareholders and ABC managers file personal record forms and fingerprint cards. In addition, owners of more than 5% of Casino Magic—Bay St. Louis, Boomtown Biloxi or Hollywood Casino Tunica equity must submit detailed financial information to ABC. All such permits are revocable and are non-transferable. The Mississippi State Tax Commission has full power to limit, condition, suspend or revoke any such permit, and any such disciplinary action could, and revocation would, have a material adverse effect on the operations of Casino Magic—Bay St. Louis, Boomtown Biloxi and Hollywood Casino Tunica.

New Jersey Regulation

Our joint venture's operations at Freehold Raceway in New Jersey are subject to regulation (i) by the New Jersey Racing Commission under the Racing Act of 1940, as amended and supplemented and the rules and regulations of the Racing Commission and (ii) by the New Jersey Casino Control Commission under the Casino Control Act and Casino Simulcasting Act.

Under the Racing Act, the Racing Commission must license all pari-mutuel employees and all others who are connected with the training of horses or the conduct of races. In addition, no person may hold or acquire, directly or indirectly, beneficial ownership of 5% or more of the voting securities of the joint venture without the prior approval of the Racing Commission.

At least 85% of the persons employed by the New Jersey joint venture at Freehold Raceway must be residents of New Jersey (excluding jockeys, drivers or apprentices, exercise boys, owners, trainers, clockers, governing and managing officials and heads of departments of the track). The Racing

Commission has the authority to require that the joint venture discharge any employee who: (i) fails or refuses for any reason to comply with the rules and regulations of the Racing Commission; (ii) in the opinion of the Racing Commission is guilty of fraud, dishonesty or incompetence; (iii) has been convicted of a crime involving moral turpitude; or (iv) fails or refuses for any reason to comply with any of the provisions of the Racing Act.

Additional restrictions and/or requirements imposed by the Racing Commission on the joint venture's racetrack operations include, but are not limited to, the setting of the admission price required to be charged by the joint venture, a requirement that the joint venture (and all other racetracks operating in New Jersey) must schedule at least one race per day limited to registered New Jersey-bred foals and the methods the joint venture may use to distribute pari-mutuel pools and "breaks" (the odd cents remaining after computing the amount due holders of winning pari-mutuel tickets). The Racing Commission also regulates the manner of keeping of certain of the joint venture's books and records.

The Racing Commission is also responsible for the allocation of racing dates based upon the annual application of the permit holder. The joint venture is entitled to race the same number of dates as in the preceding year, when it is in the public interest to do so, or for such other dates, not exceeding 100 days in the aggregate for harness racing and 75 days in the aggregate for thoroughbred racing, as the Racing Commission shall designate; provided, however that if another permit holder rejects any of the dates to which they may be entitled the Racing Commission may allot those dates among other permit holders. The Racing Commission has discretion to allot harness race permit holders an additional 200 days and thoroughbred race permit holders an additional 100 days.

The failure to comply with the Racing Act and the rules and regulations of the Racing Commission could result in monetary fines, operations restrictions or the loss of our license.

Because the joint venture simulcasts to Atlantic City casinos, the joint venture's simulcasting agreements were required to be filed with and approved by the Casino Control Commission and the New Jersey Racing Commission. In addition, the joint venture is required to be approved and licensed by the Casino Control Commission as a non-gaming casino service industry. Certain of the joint venture's employees and its directors and significant stockholders are also required to be approved by the Casino Control Commission. As of the date hereof, all of the joint venture's employees and directors required to be approved have been approved by the Casino Control Commission or have filed applications seeking such approval. There can be no assurance that all parties seeking Casino Control Commission approval will obtain such approval or the effect on the joint venture if such approvals are not obtained.

In August 2001, the Governor of New Jersey signed legislation that would legalize fifteen OTW facilities in New Jersey. We believe that these facilities will begin to open in 2005 and that it will take approximately five years to open all of the facilities. It is anticipated that the joint venture will receive four OTWs, including an OTW on the site of the former Garden State Park. We believe that the average OTW facility will cost $3-$5 million to construct and that each facility will have a payback period of approximately 18 months.

Ontario Regulation

Our gaming operations in Ontario at Casino Rama are subject to the regulatory control of the Alcohol and Gaming Commission of Ontario pursuant to the Gaming Control Act and the contractual provisions in the Development and Operating Agreement among CRC, CHC Casinos, the Ontario Lottery and Gaming Corporation, the Mnjikaning First Nation and certain other parties.

Our wholly-owned subsidiary, CHC Casinos, is required under the Gaming Control Act to be registered as a casino operator with the Alcohol and Gaming Commission of Ontario and must operate

in accordance with the terms and conditions of its registration. In addition, we, as a registered gaming related supplier under the Gaming Control Act, have our own set of terms and conditions for registration which must be complied with.

Pursuant to the Gaming Control Act and the terms of CHC Casinos' registration, the Registrar of Alcohol and Gaming must approve any change in the directors or officers of CHC Casinos. The Alcohol and Gaming Commission of Ontario may require the submission of information or material from any person who has an interest in CHC Casinos. This includes us, as the parent company, and our directors and officers.

The Registrar of Alcohol and Gaming has the power, subject to the Gaming Control Act, to grant, renew, suspend or revoke registrations. The Registrar is entitled to make such inquiries and conduct such investigations as are necessary to determine that applicants for registration meet the requirements of the Gaming Control Act and to require information or material from any person who has an interest in an applicant for registration. Under the Gaming Control Act, a person shall be deemed to be "interested" in another person if: (i) the first person has, or may have, in the opinion of the Registrar based on reasonable grounds, a beneficial interest in the other person's business; (ii) the first person exercises, or may exercise, in the opinion of the Registrar based on reasonable grounds, control either directly or indirectly over the other person's business; or (iii) the first person has provided, or may have provided, in the opinion of the Registrar based on reasonable grounds, financing either directly or indirectly to the other person's business. The criteria to be considered in connection with registration under the Gaming Control Act include the financial responsibility, integrity and honesty of the applicant, and the public interest. The Registrar may, at any time, revoke, suspend or refuse to renew CHC Casinos' or our registration for any reason that would have disentitled it to registration.

In addition, any person who supplies a casino with goods and services must be registered with the Alcohol and Gaming Commission of Ontario. Key employees who engage in the administration or supervision of gaming or the operation of gaming premises must also be registered with this agency.

The Development and Operating Agreement imposes certain obligations on CHC Casinos relating to the operation of Casino Rama including obtaining all necessary government consents required to operate various components of the casino in accordance with applicable law and ensuring that all persons retained by it for the provision of goods and services to the various components of the casino are also registered as required by law.

Pennsylvania Racing Regulations

Our horse racing operations at Penn National Race Course and Pocono Downs are subject to extensive regulation under the Pennsylvania Racing Act, which established the Pennsylvania State Horse Racing Commission and the Pennsylvania State Harness Racing Commission, or collectively referred to herein as the Pennsylvania Racing Commissions, which are responsible for, among other things, granting permission annually to maintain racing licenses and schedule races; approving, after a public hearing, the opening of additional OTWs and racetracks; 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 OTW operations.

As in most states, the regulations and oversight applicable to our operations in Pennsylvania are intended primarily to safeguard the legitimacy of the sport and its freedom from inappropriate or criminal influences. The Pennsylvania Racing Commissions have broad authority to regulate in the best interests of racing and may, to that end, disapprove the involvement of certain personnel in our operations, deny approval of certain acquisitions following their consummation or withhold permission for a proposed OTW site for a variety of reasons, including community opposition. The Pennsylvania legislature also has reserved the right to revoke the power of the Pennsylvania Racing Commissions to

approve additional OTWs and could, at any time, terminate pari-mutuel wagering as a form of legalized gaming in Pennsylvania or subject such wagering to additional restrictive regulation or taxation; such termination would, and any further restrictions could, have a material adverse effect upon our business, financial condition and results of operations.

We may not be able to obtain or maintain all necessary approvals for the continued operation of our business. We have had continued permission from the Pennsylvania State Horse Racing Commission to conduct live racing at the Penn National Race Course since we commenced operations in 1972, and have obtained permission from the Pennsylvania State Harness Racing Commission to conduct live racing at Pocono Downs since our acquisition in 1996. Currently, we have approval from the Pennsylvania Racing Commissions to operate the eleven OTWs that are open. A Commission may refuse to grant permission to continue to operate existing facilities. The failure to obtain or maintain required regulatory approvals could have a material adverse effect upon our business, financial condition and results of operations.

The Pennsylvania Racing Act requires that any shareholder proposing to transfer beneficial ownership of 5% or more of our shares file an affidavit with us setting forth certain information about the proposed transfer and transferee, a copy of which we are required to furnish to the Pennsylvania Racing Commissions. The certificates representing our shares owned by 5% beneficial shareholders are required to bear certain legends prescribed by the Pennsylvania Racing Act. In addition, under the Pennsylvania Racing Act, the Pennsylvania Racing Commissions have the authority to order a 5% beneficial shareholder of a company to dispose of his common stock of such company if it determines that continued ownership would be inconsistent with the public interest, convenience or necessity or the best interest of racing generally.

West Virginia Racing and Gaming Regulation

Our operations at the Charles Town Entertainment Complex are subject to regulation by the West Virginia Racing Commission under the West Virginia Horse and Dog Racing Act, and by the West Virginia Lottery Commission under the West Virginia Racetrack Video Lottery Act. The powers and responsibilities of the West Virginia Racing Commission under the West Virginia Horse and Dog Racing Act extend to the approval and/or oversight of all aspects of racing and pari-mutuel wagering operations. We have obtained from the West Virginia Racing Commission a license to conduct racing and pari-mutuel wagering at the Charles Town Entertainment Complex. Pursuant to the West Virginia Racetrack Video Lottery Act, we have obtained approval for and currently operate 3,500 gaming machines and video lottery terminals at the Charles Town Entertainment Complex. In addition to licensing, in West Virginia, the legality of gaming machine operation in a particular county is determined by local option election in the county where the racetrack is located. The West Virginia Racetrack Video Lottery Act further provides that 5% of the qualified voters in the county where gaming machines have been permitted by local option election can petition for another election that may be held no sooner than five years after the first election.

The West Virginia Racetrack Video Lottery Act provides that the transfer of more than 5% of the voting stock of a corporation that holds a gaming machine license, or that controls another entity that holds such a license, or the transfer of the assets of a license holder, may only be to persons who have met the licensing requirements of the West Virginia Racetrack Video Lottery Act or which transfer has been pre-approved by the West Virginia Lottery Commission. Any transfer that does not comply with this requirement voids the license.

State and Federal Simulcast Regulation

The Federal Interstate Horseracing Act, the Pennsylvania Racing Act, the West Virginia Racing Act and the New Jersey Simulcasting Racing Act require that we have a written agreement with each

applicable horsemen's organization in order to simulcast races. We have entered into the horsemen agreements, and in accordance therewith have agreed on the allocations of our revenues from import simulcast wagering to the purse funds for the Penn National Race Course, Charles Town Races, Pocono Downs and Freehold Raceway.

Taxation

Gaming companies are typically subject to significant taxes and fees in addition to normal federal, state, local and, in Canada, 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. It is not possible to determine with certainty the likelihood of changes in tax laws or in the administration of such laws.

IRS Regulations, Currency Transaction Reporting and Suspicious Activity Reporting

The Internal Revenue Service, or IRS, requires operators of casinos located in the U.S. to file information returns for U.S. citizens, including names and addresses of winners, for all winnings in excess of stipulated amounts. The IRS also requires operators to withhold taxes on certain winnings.

Regulations adopted by the Financial Crimes Enforcement Network of the Treasury Department and the gaming regulatory authorities in certain domestic jurisdictions in which we operate casinos require the reporting of currency transactions in excess of $10,000 occurring within a gaming day, including identification of the patron by name and social security number. This reporting obligation commenced in May 1985 and may have resulted in the loss of casino revenues to jurisdictions outside the U.S. that are exempt from the ambit of such regulations. The operation of Casino Rama is subject to similar requirements under Canadian federal law and provincial gaming legislation.

Regulations adopted by the Financial Crimes Enforcement Network of the Treasury Department require the filing of suspicious activity reports by casinos on all transactions of at least $5,000 that the casino knows, suspects, or has reason to suspect fall into specific categories that are deemed to be suspicious. This reporting obligation commenced on March 25, 2003 and may result in the loss of casino revenues to jurisdictions outside the U.S. that are exempt from the ambit of such regulations.

Compliance with Other Laws

Our operations 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. We derive a significant portion of our non-racing revenues from the sale of alcoholic beverages to patrons of our facilities.

QuickLinks

Exhibit 99.1

Description of Governmental Regulations